

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT COMMITTEE MINUTES  
WEDNESDAY, NOVEMBER 19, 2003**

A meeting of the Investment Committee was held on Wednesday, November 19, 2003, in the third floor conference room of City Hall. Chair John Nelson called the meeting to order at 8:00 a.m.

Members Present: John Nelson, Chris Ruppel, Ed Edwards, Charles Elliott and Jan VanDerKley

Others Present: Kim Fink, Mark Stuhldreher, Kris Martin, Steve Smith and Pat DiGiovanni

A motion to excuse Randy Eberts was made by Chuck Elliott and seconded by Jan VanDerKley and was approved by voice vote.

**Approval of Minutes**

A motion was made by Chris Ruppel, and seconded by Ed Edwards, to approve and/or accept the minutes of the August 20, 2003 quarterly meeting, the minutes of the Pension Board of Trustees meeting of August 27, 2003, Due Diligence minutes with Lend Lease, August 21 and 25, DIA Due Diligence meeting September 8, BGI Due Diligence meeting September 9, DFA Due Diligence meeting October 8 and DFA Symposium trip report. The motion passed by voice vote.

**Assets at September 30, 2003**

Mark Stuhldreher reported on assets as of November 30, 2003. Equities were at 72.2% versus the policy of 70%. The fixed income was at 23.6% versus the 25% policy target and real estate was at 5%.

John Nelson stated that a reallocation meeting needed to be scheduled. After some discussion it was decided to hold the meeting on Tuesday, December 16, 2003 at 5:00 p.m. at the County Building.

**Investment Portfolio**

Chris Ruppel reviewed the portfolio. Assets increased from \$360 million to approximately \$371 million in the third quarter – an increase of almost \$11 million or approximately 3% - net of a withdrawal from the employees of approximately \$3.1. The City did not have to make a contribution for this quarter. The weighted average return for the portfolio was 3.8% and the annualized return since 1982, net of manager fees, is 13%. Equities comprised 72.2%, which is over the legal limit and this will be rectified at the asset allocation meeting. The equity portion of the portfolio gained 5.8% for the period. Total fixed income had a negative quarter losing 1.6%. The intermediate bond portfolio lost 0.3% for the third quarter and the long bond portfolio lost 2.8%. Real estate returned a positive 2.0% for the quarter and 9% year-on-year.

All equities had positive returns for year-to-date 2003. Small cap equities returned 34.9%, mid-cap returned 28.7%, large and large value returned 14.9% for a year-to-date portfolio equity return of 22.3%.

The Dow was up 3.8% for the third quarter and NASDAQ was up 10.2%. Lehman Brothers

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Aggregate Bond Index lost 0.1% for the quarter and the 91 day T-bill gained 0.25%. Inflation for the quarter was 0.8% and 2.3% year-to-date. The portfolio, net of manager fees, had a nominal return of 3.8% for the quarter and the inflation-adjusted or real return was 3.0%. Since 1982 the return on the portfolio, net of manager fees, has been 13.0% nominal and 9.9% real. Chris Ruppel briefly discussed the charts in the packet. He stated the portfolio had a small value tilt which is what the Committee wants to see.

**Reconciliation**

Kim Fink stated the reconciliation showed two outstanding audit items that cleared. These items dated back several years and were written off to clean up the audit for future years.

**Outlook**

John Nelson stated that it was interesting that there is household more interest income than interest expenses. He also noted that changes in the market and changes in the interest rates have a significant impact on defined benefit plans.

**Cash Flow**

Kim Fink stated that the quarterly liquidations have been \$400,000 more than projected so \$500,000 is needed by the end of November to pay the November distributions. The cash flow for 2004 has taken this into consideration. John Nelson stated that the liquidation should be split between the Jennison intermediate and long bond accounts. Motion to approve was made by Chris Ruppel and seconded by Ed Edwards. A roll call vote was taken.

Yes: John Nelson, Chuck Elliott, Jan VanDerKley, Chris Ruppel, Ed Edwards

No: None

Motion carried.

**Due Diligence/Conferences**

John Nelson said that visits scheduled for this year are completed except for the meeting that John Nelson and Chris Ruppel will attend in December with Morgan Stanley to discuss Lend Lease. As of today's date, they now own Lend Lease.

2004 visits are tentatively scheduled as follows: East Coast the week of June 7 and the West Coast the week of September 13.

**Expenses**

Chris Ruppel moved to approve the expenses; Jan VanDerKley seconded. A roll call vote was taken:

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Yes: John Nelson, Chuck Elliott, Jan VanDerKley, Chris Ruppel, Ed Edwards

No: None, motion carried

**Audit**

The scope will remain the same for the 2003 audit.

**Valuation**

A motion was made by Ed Edwards and seconded by Jan VanDerKley to use the same methods and assumptions that were used in 2002 for the 2003 annual valuation. A roll call vote was taken.

Yes: John Nelson, Chuck Elliott, Jan VanDerKley, Chris Ruppel, Ed Edwards

No: None

Motion carried.

Kim Fink would notify Gabriel, Roeder, Smith & Co by letter. She would also check to see when the last Experience study and the last 25-year projections study were completed to determine if a study should be completed in 2004.

**Derivatives**

There was discussion on the amount of derivatives in the Jennison account. Chris Ruppel stated they would discuss this with Jennison, although he thought it was mainly a timing issue.

**Perpetual Care**

A short discussion was held about the fund and how DFA manages the reallocation of the assets.

**General Closing Items**

The asset reallocation meeting is scheduled for Tuesday, December 16, 2003 at 5:00 p.m.

The next regular meeting is February 18, 2004 at 9:00 a.m.

With no further business, Chairman Nelson adjourned the meeting at 8:55 a.m.

Respectfully submitted,

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Mark D. Stuhldreher  
Secretary