

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT COMMITTEE MINUTES  
WEDNESDAY, FEBRUARY 18, 2004**

A meeting of the Investment Committee was held on Wednesday, February 18, 2004, in the third floor conference room of City Hall. Chair John Nelson called the meeting to order at 9:00 a.m.

Members Present: John Nelson, Chris Ruppel, Charles Elliott, Randy Eberts and Jan Van der Kley

Others Present: Kim Fink, Mark Stuhldreher, Steve Smith and Fay Dorr

A motion to excuse Ed Edwards was made by Jan Van der Kley, seconded by Chris Ruppel and was approved by voice vote.

Kim Fink introduced Fay Dorr who has replaced Kris Martin on the Pension Board of Trustees.

**Approval of Minutes**

A motion was made by Chuck Elliott, and seconded by Jan Van der Kley, to approve the minutes of the November 19, 2003 quarterly meeting, minutes of the December 16, 2003 asset allocation meeting, and accept the minutes of the Pension Board of Trustees meeting of December 3, 2003, and Due Diligence meeting with Morgan Stanley and the Ibbotson conference report. The motion passed by voice vote.

**Assets at December 31, 2003**

Mark Stuhldreher reported on assets as of December 31, 2003. There was a rebalancing at the end of the year. Equities were at 70.4% versus the policy of 70%. The fixed income was at 23.9% versus the 25% policy and real estate was at 4.9% versus 5%. Cash is a little higher than normal at 2.9 million, .7%, but will be used for 1<sup>st</sup> quarter distributions and a possible 13<sup>th</sup> check.

**Investment Portfolio**

Chris Ruppel reviewed the portfolio. Assets were increased from \$370.8 million to about \$406.6 million in the fourth quarter – an increase of almost \$36 million or 9.7%. The City made no contribution for this quarter with withdrawals of about \$3 million. Equities at the end of 2003 comprised 70.4% The equity portion of the portfolio gained 14.4% for the period. Fixed income had a negative quarter losing .06%. Small caps returned 60%, mid-caps returned almost 42% and the total portfolio equity was almost 40% for the year.

The portfolio assets at \$406.6 million are \$12 million higher than the previous high of \$394.6 million, which occurred as of the second quarter of 2000. The portfolio low in the intervening four years was \$313.8 million in the third quarter of 2002. System outflows from 2000 through the end of 2003 have been \$45 million. Inflows from participant contributions have been \$5.8 million. The City made no contributions during the period. Therefore, the portfolio has not only recovered from a low of \$313.8 million to the \$406.6 million, a gain of \$92.8 million, but since 2000 the portfolio and the participants have also covered net withdrawals of \$39.2 million.

The Dow was up 13.4% for the third quarter and NASDAQ was up 12.3%. Since 1982 the return on

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the portfolio, net of manager fees, has been 13.4% nominal and 10.4% real, which is double the goal of 5% real.

**Reconciliation**

The items are due to accruing expenses back to 2003.

**Cash Flow**

Kim Fink stated that \$3.3 needs to be liquidated in addition to the cash left in the account. John Nelson asked if this was to cover a possible 13<sup>th</sup> check and Ms. Fink stated that it was. There was some discussion about where to obtain the money. It was decided that the money should come from bonds – half from long and half from intermediate. A motion to approve was made by Chuck Elliott and seconded by Jan Van der Kley. A roll call vote was taken.

Yes: John Nelson, Chris Ruppel, Chuck Elliott, Randy Eberts, Jan Van der Kley

No: None

Motion carried.

**Due Diligence/Conferences**

Mr. Nelson said that the DFA client conference would be the end of October so the BGI and DFA trip will be tied in with that conference. State Street and Jennison will be the week of June 7. DIA will be done the week of September 13. Mr. Nelson recommended that the meeting with Morgan Stanley should be in Atlanta rather than New York.

**Expenses**

Chris Ruppel moved to accept the expenses; Randy Eberts seconded. A roll call vote was taken:

Yes: John Nelson, Chris Ruppel, Chuck Elliott, Randy Eberts, Jan Van der Kley

No: None, motion carried

**Audit**

The scope will remain the same for the 2003 audit. Jan Van der Kley should be advised of any changes.

**Actuarial**

Status of the valuation as of December 31, 2003 - Kim Fink stated that all the data has been submitted.

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**Summary Annual Report**

Everything is up to date.

**Committee Membership**

There have been no recommendations for new members.

**REIT Status**

Chris Ruppel stated that there were two questions to consider: How is this going to change and should real estate continue to be part of the portfolio? He stated that the legal documents were beyond the scope of the Committee and recommended that outside council be approached. The Committee will choose the attorney, but Morgan Stanley will be asked to pay the charges. Mr. Ruppel asked the Committee to approve his contacting various attorneys. Some discussion was held.

Randy Eberts moved to allow Mr. Ruppel to contact attorneys on the Committee's behalf, Chuck Elliott seconded. The motion passed by voice vote.

**Perpetual Care**

A short discussion was held about the fund. Chris Ruppel suggested that some alternatives be examined with regard to the investing of the Perpetual Care fund. The Committee will see what DFA wants to do with regard to the fund.

**General Closing Items**

The next regular meeting is Wednesday, May 19, 2004 at 9:00 a.m. The actuary will attend this meeting.

With no further business, Chairman Nelson adjourned the meeting at 9:55 a.m.

Respectfully submitted,

Mark D. Stuhldreher  
Secretary