

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
WEDNESDAY, FEBRUARY 16, 2005**

A meeting of the Investment Committee was held on Wednesday, February 16, 2005, in the third floor conference room of City Hall. Chair John Nelson called the meeting to order at 9:15 a.m.

Members Present: John Nelson, Chris Ruppel, Ed Edwards, Randy Eberts, and Jan Van der Kley

Others Present: Kim Fink, Mary Balkema, Patsy Moore, Chuck Dahlinger and Randy Schau

A motion to excuse Chuck Elliott was made by Jan Van der Kley, seconded by Chris Ruppel and approved by voice vote. Guests and newly elected board member, Chuck Dahlinger, were introduced.

Approval of Minutes

A motion was made by Chris Ruppel and seconded by Randy Eberts, to approve the minutes of the November 17, 2004 meeting and the December 9, 2004 Asset Allocation meeting and accept the minutes of the Pension Board of Trustees meeting of December 1, 2004, and trip reports of BGI, DFA and the Ibbotson conference. The motion passed by voice vote.

Assets at December 31, 2004

Kim Fink reported that total equities were 70.3%, which is slightly over the policy maximum. Total fixed income was 24.4%. Real estate was 5% and short-term investment was at .04%.

Investment Portfolio

Chris Ruppel reviewed the portfolio. Market value increased from \$412.0 million to \$450.7 million, an increase of \$38.7 million or 9.4%. The market value is net of approximately \$3.2 million in net benefit payments and \$39,000 in withdrawals. The City made no contribution for this quarter. Employees contributed about \$427,000. The weighted average return for the quarter was 10.12%. The annualized return since 1982, net of manager fees, is 13.4%. Equities comprised 70.3%. The City portfolio through the equities gained 12.7% for the quarter. Fixed income increased by 1.6%. The Intermediate bond portfolio gained 1.2% for the fourth quarter and the long bond portfolio gained 2.1%.

All equity managers posted double-digit equity returns for the quarter with the exception of BGI S&P 500 which returned 9.2%. Small and mid cap equities returned over 15% for the quarter. Large cap equities were at 9.9%.

The inflation-adjusted or real return, for the quarter was a 9.3%. Since 1982 the return on the portfolio, net of manager fees, has been 13.4% nominal and 10.4% real.

Reconciliation

The only reconciling items were expenses accrued back to 2004.

Outlook

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Discussion regarding the crisis in healthcare and Social Security.

Cash Flow

Kim Fink stated that \$2,500,000 would need to be liquidated for the second quarter of 2005. John Nelson stated that it should be taken from fixed assets; 50% from Jennison and 50% from Inter-Long. Motion to approve was made by Chris Ruppel and seconded by Randy Eberts. Roll call vote:

Yes: John Nelson, Chris Ruppel, Jan Van der Kley, Randy Eberts, Ed Edwards

No: None, motion carried

Due Diligence/Conferences

John Nelson stated that Bill Dundon of the County would schedule due diligence visits for both the east and west coast trips.

Expenses

Kim Fink stated that there were no expenses out of the ordinary.

Ed Edwards moved to approve expenses; motion seconded by Chris Ruppel.

Yes: John Nelson, Chris Ruppel, Jan Van der Kley, Randy Eberts, Ed Edwards

No: None, motion carried

Audit

John Nelson said the audit scope would remain the same.

Actuarial Valuation

John Nelson stated that it was agreed that the non-economic assumptions will be changed to reflect the experience and economic assumptions and methods will remain the same in 2004. Motion to approve was made by Chris Ruppel and seconded by Ed Edwards. Roll call vote:

Yes: John Nelson, Chris Ruppel, Jan Van der Kley, Randy Eberts, Ed Edwards

No: None, motion carried

Kim Fink will send a letter with this information to the Actuary.

Mr. Nelson said that he would like to request that the actuary do a 10-year cash flow projection as part of the 25-year projections.

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Communications

Derivative reports received.

Old/New Business

Real Estate Managers – Mr. Nelson stated that Mr. Ruppel was trying to set up a meeting. Mr. Ruppel stated that the funds that will be invested in RREEF are still doing very well at DFA so there is no economic loss. It will probably be the middle of April before the funds are moved to RREEF.

Committee membership – Mr. Nelson stated that it was necessary to start looking for new members. Mr. Ruppel said he asked Mr. Schau to attend the meeting to advise whether or not committee members would be able to participate by telephone. Mr. Schau said that in the past, teleconferencing was not allowed, however the law is beginning to catch up to technology. There are two issues: one focuses on the word “open”, the other on “attendance”. Is a person who is on the speakerphone in attendance? They are in attendance if they can fully participate. Regarding “openness” – if a citizen is attendance, it is allowable as long as the citizen can hear what the person participating by phone has to say.

Mr. Nelson suggested that Darryl Jones, Jake Miller and Don Mollhagen be made honorary members of the Investment Committee and, additionally, send them packets for each meeting. A motion was made by Ed Edwards and seconded by Chris Ruppel. Motion passed by voice vote. Kim Fink will send letters to the 3 honorary members.

Discussion about new members. The criteria for members are (1) cannot be an elected official; (2) cannot be a participant in the plan; (3) must demonstrate knowledge and experience in the industry and (4) cannot be a full-time employee of a financial services company to eliminate conflict of interest.

Chris Ruppel presented an invoice for Ibbotson software to add two additions that would cost approximately \$2,000, bringing the total to \$18,000 for the year. A motion to approve the purchase was made by Randy Eberts and seconded by Ed Edwards.

Yes: John Nelson, Chris Ruppel, Jan Van der Kley, Ed Edwards, Randy Eberts

No: None, motion carried

Closing Items

The next meeting is May 18, 2005 at 7:30 a.m.

Around the Table

With no further business, Chairman Nelson adjourned the meeting.

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Respectfully submitted,

Mark D. Stuhldreher
Secretary