CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
WEDNESDAY, FEBRUARY 21, 2007

A meeting of the City of Kalamazoo Retirement Investment Committee was held on Wednesday, February 21, in Room 207-A of the Kalamazoo County Administration Building. Chair Chuck Elliott called the meeting to order.

Members Present: Chuck Elliott, Randy Eberts, Jan Van Der Kley, Ed Edwards, and Dan DeMent

Others Present: Len Batts, Al Sarquiz, Frank Murray, Randy Schau, City Commissioner Barb Miller, Patsy Moore, Jeanette Meyer and Chris Ruppel.

A motion was made and seconded to excuse Bob Salisbury. Motion passed by voice vote.

Jeanette Meyer introduced Patsy Moore, Acting Management Services Director and CFO, who will serve as secretary to the Investment Committee.

Approval of Minutes

A motion was made and seconded to approve the minutes of the November 8, 2006 meeting. Motion passed by voice vote.

Investment Portfolio

Jeanette Meyer reported that equities were $369 million as of December 31. Fixed income was at $128 million and real estate at $26 million. Total at year end was $523,303,673.

Investment Performance Review

Chris Ruppel stated that the market value of the portfolio increased from $495.5 million to $523.3 million during the fourth quarter of 2006, an increase of $27.8 million or 5.6%. The market value is net of approximately $3.6 million in benefit payments and $6 thousand in participant withdrawals. Employee contributions for the quarter were about $433 thousand. The City made no contribution in the quarter.

The weighted average return for the quarter on portfolio assets was a positive 6.3%. The portfolio returned 14.2% for the year 2006. The annualized return since October 1982, net of manager fees, through the end of the quarter has been 13.2%.

Equities comprised 70.5% of the City portfolio at the end of the quarter. The equity portion of the City portfolio gained 8.4% for the period. Total fixed income essentially broke even with a gain of 0.4% for the quarter. The returns for calendar year 2006 were 18.0% for equities and 2.2% for fixed income.

Real estate returned 6.4% for the quarter and 24.6% for the year.

The strong fourth quarter pushed all equity and real estate managers into double digit calendar year returns. Four of the seven equity/real estate managers had annual returns above 20%. For

the year small cap international returned 25.1%, and the DFA REIT product returned 35.2%. Intermediate fixed income returned 3.5% for the year, and the long portfolio returned only 0.9%. The inflation-adjusted, or real return, for the quarter was 7.3% as the inflation rate for the quarter was a negative 1.0%. Since 1982 the return on the portfolio, net of manager fees, has been 13.2% nominal and 11.0% real.

The plan remains fully funded from an actuarial and a market basis.

Chuck Elliott recommended that the methodology be changed with regard to liquidations by delegating this task to the City and to be reviewed by consultant Chris Ruppel. At future meetings, this will be a reporting item rather than an action item.

A motion was made and seconded to approve the change in methodology. Motion passed by voice vote.

After some discussion, Chris Ruppel stated that he will follow up with DFA and Jennison on being under benchmark.

Reconciliation

Jeanette Meyer stated that there is a new spreadsheet designed by the City's internal auditor. All the equities, cash, benefit payments and contributions are shown to be in balance.

Cash Flow

Jeanette Meyer stated that there were two items to mention – 2006 employee contributions were slightly higher than anticipated and there have been periodic deposits of income which comes from Denver Investment Advisors and is for quite small amounts.

Expenses

Jeanette Meyer discussed the expenses for the quarter. Participant withdrawals were down considerably. Benefit payments were higher than anticipated and will be yet higher in 2007. Other expenses were slightly lower than anticipated. Projected expenses for 2007 were reviewed and discussed.

A motion was made and seconded to approve the expenses.

Roll call vote:

Yes: Chuck Elliott, Randy Eberts, Jan Van Der Kley, Ed Edwards, Dan DeMent
No: None, **motion carried**

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Due Diligence Visits and Client conferences

The schedule for 2007 was discussed.

Audit

Jeanette Meyer reported that the books are in balance and ready for the audit.

Communications

Chris Ruppel briefly discussed the derivative reports.

Old/New Business

Jeanette Meyer stated the Summary Annual Report will be produced as soon as the valuation is done. The normal time frame is completion by June 30.

Jeanette Meyer discussed budget overview.

Chuck Elliott talked about the retiree health care benefit and stated that he and Bob Salisbury will meet with the City Manager with regard to this issue. Chuck and Bob are meeting independently of the Investment Committee.

Jeanette Meyer introduced a resolution authorizing persons to act on behalf of the City of Kalamazoo Retirement System Investment Committee. This document needs to be sent to each of the managers naming Patsy Moore the new Acting Finance Director and CFO.

A motion was made and seconded to approve the change. Motion passed by voice vote.

Closing Items

Future Meetings (all room 207A Kalamazoo County Administration Building)

Wednesday, May 16, 2007	8:00 a.m.
Wednesday, August 15, 2007	9:00 a.m.
Wednesday, November 14, 2007	8:00 a.m.
Wednesday, February 20, 2008	9:00 a.m.

Around the Table

Al Sarquiz from URGE stated that they met with the City Manager on December 18 to discuss improvement in the 13th check program. The Investment Committee made no comment.

Mr. Sarquiz also raised a question in regard to the change in the Pension Ordinance and why the change was being effected. Jeanette Meyer stated that the reason for the change was to ensure

compliance with IRS regulation 401(a) but none of the changes make any changes to the pension benefits or the use of pension surplus.

There being no further business, Chairman Elliott adjourned the meeting.

Respectfully submitted,

Patsy Moore
Acting Secretary