

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
WEDNESDAY, MAY 21, 2008**

A meeting of the City of Kalamazoo Retirement Investment Committee was held on Wednesday, May 21, 2008, in Room 207-A of the Kalamazoo County Administration Building. Chair Bob Salisbury called the meeting to order.

Members Present: Randy Eberts, Ed Edwards, Bob Salisbury, Dan DeMent and Chuck Elliott.

A motion was made and seconded to excuse Jan Van der Kley. Motion passed by voice vote.

Others Present: Curt Powell, Jim Koss, Kathy Nelson, Randy Schau, Tom Skrobola, Chris Ruppel, Commissioner Barb Miller and Jeanette Meyer.

Approval of Minutes

A motion was made and seconded to approve the minutes of the February 20, 2008 meeting. Motion passed by voice vote.

Ibbotson Trip Report, March 12-14

Chris Ruppel reported that the Ibbotson conference was much better this year. It is a valuable resource for academic discussion and practical implementation of investment theory.

RREEF Trip Report, May 6-8

The conference was well run and informative, contrasting real estate investment to fixed income, and introducing alternative hard-asset investments.

Investment Portfolio

Tom Skrobola reported with regard to assets as of March 31, 2008: Equities were at \$340,599,786 or 69.4% and fixed income \$123,049,627 or 25.09% of the total portfolio. Real estate is \$25,872,218 or 5.28% of the total portfolio. Short-term investments were \$905,389 or 0.18% of the portfolio. Total fund amount is \$490,427,471.

Investment Performance Review

Chris Ruppel reported that the market value of portfolio assets decreased from \$519.1 million to \$490,427,471 million during the first quarter of 2008, a decrease of \$28.7 million or 5.5%. The market value is net of approximately \$3.9 million in benefit payments and \$67 thousand in withdrawals. Employee contributions for the quarter were about \$448 thousand. The City made no contribution in the quarter.

The weighted average return of the portfolio for the quarter, net of manager fees, was a negative 4.8%. The portfolio year-on-year return was -4.7%. The annualized return since October 1982, net of manager fees, through the end of the quarter has been 12.4%.

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
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Equities comprised 69.4% of the City portfolio at the end of the quarter. The equity portion of the City portfolio lost 8.0 % for the period while total fixed income gained 2.4%. The year-on-year return for equities was -10.3% and 10.6% for fixed income.

Real estate returned a negative 1.3% for the quarter and -6.0% return year-on-year.

The inflation-adjusted, or real return, for the quarter was a negative 6.0% as quarterly inflation was 1.2%. Since 1982 the return on the portfolio, net of manager fees, has been 12.4% nominal and 9.3% real.

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

Mr. Elliott noted that the "Market Assets" line on page 4 of 10 dipped below the "Actuarial Assets" line. It was noted in the County meeting that their graph did not show similar movements. Mr. Ruppel is going to review and respond.

Mr. Salisbury commented that the year-on-year returns for equities and fixed income, namely -10.3% and +10.6%, respectively, demonstrated the power of diversification in the portfolio.

(The following discussion concerning Real Estate took place at the Kalamazoo County Retirement Investment meeting, but is relevant to the portfolio of the City as well so it is being included in the minutes.)

Mr. Salisbury began a discussion on the special asset allocation meeting which was held on February 20, 2008. The item which Mr. Salisbury felt needed to be discussed further was the role of real estate in the portfolio and where the Public REIT versus the Private REIT fits into the asset allocation. Mr. Salisbury asked Mr. Ruppel what the role of real estate should be in the portfolio. Mr. Ruppel stated that generally the reason for real estate is used as a diversifier as a means of decreasing the standard deviation in the portfolio and so the question becomes if you consider the purposes of real estate in the portfolio what kind of real estate should you invest in. The two asset managers up for discussion are DFA Equity REITS and Private Equity RREEF. A discussion ensued.

Mr. Salisbury asked each committee member if they feel the committee should maintain 5% in real estate. Mr. Eberts questioned the validity of the reported correlation between private equity real estate and other asset classes due to the lack of liquidity in private equity real estate. Mr. DeMent, Mr. Elliott, and Mr. Ruppel all feel the committee should keep 5% in Private Equity REITS. Ms. VanderKley stated that she feels 5% should be kept in private equity but not all with the same manager. Dr. Edwards stated he would like the current 5% split. Mr. Salisbury remarked that a rule of the committee has always been that every decision should be unanimous and he does not feel that all committee members are 100% certain on this decision. He feels more work should be done and that another discussion should occur before anything is changed.

Cash Flow/Expenses

Jeanette Meyer commented on employee contributions, which were considerably large than projected, and employee withdrawals which continue to be below projections. Small amounts

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
WEDNESDAY, MAY 21, 2008**

of miscellaneous income continue to come in from Denver Investments. The committee had their first opportunity to see projected detail of other expenses that will occur throughout the year. It was noted that the City reimbursed the Pension Fund for the fees from Ice Miller which were related to the KCTA spin-off.

Approximately \$3.6 million will need to be liquidated each quarter. Jeanette Meyer will work with Chris Ruppel to determine which assets should be liquidated.

The master trust and fund manager expenses were reviewed. In future quarters RREEF fees will be reported here instead of the income being reported as net of fees. This change was made to make fee comparison easier. Mr. DeMent raised a question about the relationship between the expenses on the cashflow spreadsheet and those shown in the master trust expenses. Jeanette Meyer will provide Mr. DeMent with information on this.

A motion was made and seconded to approve the first quarter expenses.

Roll call:

Ayes: Bob Salisbury, Randy Eberts, Chuck Elliott, Ed Edwards, Dan DeMent

Nays: None

The Motion carries.

Document of Liquidation

Jeanette Meyer brought the Committee's attention to the spreadsheets which showed the liquidations that were done in the quarter. In March the exposure to International was increased which necessitated quite a bit of rebalancing. The Chicago offices of DFA coordinate all the trades at DFA, which was extremely helpful.

Due Diligence Visits 2008

There was some discussion of the visits which were outlined in the agenda. There will be no West Coast trip this year as DFA will be here and we were there for their conference in January. A trip to Chicago to visit RREEF is also going to be planned.

Audit

The audit is on track and after review by Jan Van Der Kley will be presented at the August meeting.

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
WEDNESDAY, MAY 21, 2008**

Communications

Derivative reports were discussed.

Old/New Business

2007 Valuation Review

Curt Powell and Jim Koss of Gabriel, Roeder Smith reviewed highlights of the valuation and answered questions from the Committee..

Closing Items

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

Wednesday, August 20, 2008	9:15 a.m.
Wednesday, November 19, 2008	8:15 a.m.
Wednesday, February 18, 2009	9:15 a.m.
Wednesday, May 20, 2009	8:15 a.m.

Around the Table

A motion to adjourn was made and supported and passed by voice vote.

Respectfully submitted,

Thomas C. Skrobola, Secretary