

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT COMMITTEE MINUTES  
WEDNESDAY, NOVEMBER 19, 2008**

A meeting of the City of Kalamazoo Retirement Investment Committee was held on Wednesday, November 19, 2008, in Room 207-A of the Kalamazoo County Administration Building. Chair Bob Salisbury called the meeting to order.

Members Present: Bob Salisbury, Jan Van Der Kley, Dan DeMent, Ed Edwards, Chuck Elliott and Randy Eberts (Mr. Salisbury and Mr. Elliott attended via telephone)

Others present: Jeanette Meyer, Tom Skrobola, Chris Ruppel, Kathy Nelson, Vice Mayor Hannah McKinney, Jeff Bye, Nick Lam, LaJune Montgomery Talley, Randy Schau, Commissioner Barb Miller

Approval of Minutes

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

**Due Diligence Reports**

Chris Ruppel discussed State Street Policy and procedures with regards to money market balances. A legal opinion from State Street was included in the packet.

No other questions or comments were made in regard to the reports.

**Investment Portfolio**

Tom Skrobola reported with regard to assets as of September 30, 2008: Equities were at \$287,433,075 or 66.633% and fixed income \$117,866,861 or 27.324% of the total portfolio. Real estate is \$25,345,629 or 5.876% of the total portfolio. Cash of \$716,950 is .166% of the portfolio. Total fund amount is \$431,362,516.

**Investment Performance Review**

Chris Ruppel reported that the market value of portfolio assets decreased from \$473.1 million to \$431 million during the third quarter of 2008, a decrease of \$41.7 million or 8.8%.

The weighted average return of the portfolio for the quarter, net of manager fees, was a negative 8.1%. The portfolio year-on-year return was -17.4%. The annualized return since October 1982, net of manager fees, through the end of the quarter has been 11.6%.

Equities comprised 66.6% of the City portfolio at the end of the quarter. The equity portion of the City portfolio lost 11.1% for the period while total fixed income lost 1.5%. The year-on-year return for equities was -25.5% and a positive 4.8% for fixed income.

Real estate returned a negative 0.2% for the quarter and 4.7% return year-on-year.

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT COMMITTEE MINUTES  
WEDNESDAY, NOVEMBER 19, 2008**

The inflation-adjusted or real return, for the quarter was a negative 8.3% as quarterly inflation was 0.2%. Since 1982 the return on the portfolio, net of manager fees, has been 11.6% nominal and 8.5% real.

It was decided that special reports would be requested for the fund balance at October 31 and November 30. Chris Ruppel is handling this. The plan remains fully funded from an actuarial and market basis.

It was noted that DFA small cap value and Jennison long have not met their respective five year benchmarks.

For DFA the issue of apparent under-performance was due to the annual reconstitution of the benchmark at June 20 in which five of the large finance companies were purged from the benchmark.

Ed Edwards asked in regard to Jennison if the benchmark is measuring what the committee wants. Chris Ruppel said that the long-bond portfolio at Jennison was begun as a treasury only portfolio measured against a treasury only benchmark. Jennison is now about 31% in high grade U.S. corporates. He said the question is whether or not a strict treasury portfolio is desired by the committee, or if a long portfolio of high-grade corporates and U.S. Treasuries is desired. Chris distributed a comparison of the Jennison long-bond portfolio against the Lehman Government/Credit benchmark.

Bob Salisbury would like Jennison to comment on whether the long-bond portfolio should be more than just a treasury portfolio to allow the committee to decide whether or not it is in agreement and to make a conscious decision. It was agreed that Jennison should be contacted so the committee can discuss the matter at the February 2009 meeting. Chris Ruppel will contact Jennison to get information and perhaps have them come to Kalamazoo for the February meeting.

**Cash Flow/Expenses**

Jeanette Meyer stated that in the third quarter there was \$6,187 in income on the cash account and \$11,000 in income from residuals from Denver Investment. Employee contributions were \$377,923. Disbursements were \$3.9 in pension payments and \$164,000 in participant withdrawals.

General fund administration charge of \$27,000 was deducted and other expenses of \$76,000. Cash balance is \$716,000.

It is anticipated that withdrawals will be a total of \$3.8 million for the fourth quarter.

Expenses were presented.

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

**Roll call:**

**Ayes: Bob Salisbury, Jan Van Der Kley, Ed Edwards, Dan DeMent, Chuck Elliott,  
Randy Eberts**

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT COMMITTEE MINUTES  
WEDNESDAY, NOVEMBER 19, 2008**

**Nays: None**

**The Motion carried.**

**Due Diligence Visits 2008**

Dates will be supplied.

**Audit**

**A motion was made and seconded to give Jan Van der Kley authority to meet with the auditors on behalf of the Committee.**

**Motion passed by voice vote.**

**Communications**

Derivatives reports – Chris Ruppel reported that the City has about \$7 million short and \$5.2 million long. The result is to bring the yield curve down about 8 months. The broker is now Merrill Lynch instead of Lehmann.

**Old/New Business**

OPEB – there was nothing to report due to the market.

**KCTA Spin-off Update**

Tom Skrobola stated that since the millage didn't pass there is discussion about how to proceed. There should be nothing for the Committee to do in regard to the spin-off by the end of the year.

**Closing Items**

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

|                              |            |
|------------------------------|------------|
| Wednesday, February 18, 2009 | 9:15 a.m.  |
| Wednesday, May 20, 2009      | 10:15 a.m. |
| Wednesday, August 19, 2009   | 8:15 a.m.  |
| Wednesday, November 18, 2009 | 9:15 a.m.  |

**Real Estate Manager Search**

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT COMMITTEE MINUTES  
WEDNESDAY, NOVEMBER 19, 2008**

Chris Ruppel has researched global real estate and stated that he didn't find a private equity global real estate manager. He suggests that we consider two managers – one for the United States and one for non-U.S. presence. Bob Salisbury requested one or two possible candidates with international real estate be presented at the February meeting and also an alternative to RREEF for U.S. real estate.

**A motion to receive dividends from RREEF rather than having the funds reinvested was made and seconded.**

**The motion passed by voice vote.**

**State Street pricing**

Jeanette Meyer stated that prices for some of the DFA assets that should have been changing on a daily basis were not changing prior to the end of October when this was discovered and researched. After discussion with Eric Bittner of State Street it appears that the issues have been resolved. However, Chris Ruppel stated that he felt more assurance was needed that the numbers received from State Street are correct. He is uncomfortable with their practice of using the statements from the fund managers for the pricing without further means of verification.

**Rebalancing Policy**

Bob Salisbury stated that Chris Ruppel had sent an email with a proposed procedure for rebalancing. Mr. Ruppel reviewed the proposed procedure.

**A motion was made and seconded to use the operational procedure with a 5% threshold.**

**Roll call:**

**Ayes: Bob Salisbury, Jan Van Der Kley, Ed Edwards, Dan DeMent, Chuck Elliott,  
Randy Eberts  
Nays: None**

**The Motion carries.**

**Projected Expenses**

Jeanette Meyer and Tom Skrobola discussed the increase in expenses. Dan DeMent and Jan van Der Kley will meet with Tom and Jeanette to examine the methodology which was used in reaching the increase.

**A motion was made and seconded to allow Dan DeMent, Jan Van Der Kley, Bob Salisbury**

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT COMMITTEE MINUTES  
WEDNESDAY, NOVEMBER 19, 2008**

and Randy Eberts to approve the increase.

**Roll call:**

**Ayes: Bob Salisbury, Jan Van Der Kley, Ed Edwards, Dan DeMent, Chuck Elliott,  
Randy Eberts  
Nays: None**

**The Motion carried.**

**Around The Table**

The Committee thanked Ed Edwards for his service on the Committee.

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

Respectfully submitted,

Thomas C. Skrobola, Secretary