

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
WEDNESDAY, AUGUST 18, 2010**

A meeting of the City of Kalamazoo Retirement Investment Committee was held on Wednesday, August 18, 2010 in Room 207-A of the Kalamazoo County Administration Building. Board Chair Bob Salisbury called the meeting to order.

Members Present: Chair Robert Salisbury, Jan Van Der Kley, Dan DeMent, Tom Ponto, and LaJune Montgomery-Tabron

A motion was made and seconded to excuse Member Randy Eberts. The motion passed by voice vote.

Others present: Tom Skrobola, Jenny Spears, Chris Ruppel, Commissioner Barbara Miller, Randy Schau, Kathy Nelson and Dean Bergy

A motion was made and seconded to approve the minutes of the May 19, 2010 meeting and Due Diligence Reports: BlackRock of May 20, 2010 and Jennison of May 19, 2010.

Motion to approve and support. Motion passed by voice vote.

Dean Bergy reminded the Board that in the May 20 BlackRock report Chair Bob Salisbury requested ability to invest in an equity index fund that does not perform securities lending. Chair Bob Salisbury suggested for the November 2010 meeting that Chris Ruppel report the performance data and cost for BGI (with and without lending) and State Street (with and without) lending to help the board formulate a position on this matter.

Chair Bob Salisbury announced that the Board will ask Jennison to report about concerns regarding long bonds/intermediate bonds. The Due Diligence meeting with Jennison is scheduled in Boston for September 23, 2010.

Investment Portfolio

Tom Skrobola reported with regard to assets as of June 30, 2010: Net assets were \$298,661,901. Total equities were 68.44% and fixed income \$124,484,312 or 28.53% of the total portfolio. Real estate is \$12,900,381 or 2.96% of the total portfolio and short term investments of \$320,706 representing 0.07% for a total fund of \$436,367,300.

With agreement from the Board, the Portfolio Cost column will be eliminated from the spreadsheet.

Investment Performance Review

Chris Ruppel reported that the market value of portfolio assets decreased from \$469.6 million to \$436.4 million during the second quarter of 2010, a decrease of \$33.2 million or 7.1%.

The weighted average return of the portfolio for the quarter, net of manager fees, was -6.3%. The annualized return since October 1982, net of manager fees, through the end of the quarter is 11.2%.

Equities comprised 68.4% of the City portfolio at the end of the quarter. The equity portion of the City portfolio returned -11.4% for the quarter and 19.2% year-on-year.

Fixed income comprised 28.5% of the City portfolio at the end of the quarter. Total fixed income returned 7.9% for the quarter and 13.2% year-on-year.

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Investment Performance Review (cont)

Real estate comprised 3.0% of the City portfolio at the end of the quarter. Total real estate returned -0.5% for the quarter, with the public REIT losing 3.9% and the private REIT gaining 1.1%. The one year return on total real estate has been 13.4%.

The inflation-adjusted or real return, for the quarter was a -6.6% as quarterly inflation was 0.3%. Since 1982 the return on the portfolio, net of manager fees, has been 11.2% nominal and 8.2% real.

Cash Flow/Expenses

Tom Skrobola reported that in the second quarter PROJECTED 2010 Total Disbursements \$4,212,698 against Total Receipts of \$426,200. Net Revenue \$ -3,786,498 against Beginning Balance of \$1,855,677. Liquidations of \$3,750,000. ACTUAL 2010 Total Disbursement \$4,389,570 against Total Receipts of \$858,724. Net Revenue \$ -3,530,846 against Beginning Balance of \$351,552. Liquidations of \$3,500,000. Ending balance second quarter \$320,706.

Tom reported on Cash Forecast/Liquidation needs. No comments.

Motion to accept made and seconded. Roll call vote:

**Ayes: Board Chair Bob Salisbury, Jan Van Der Kley, Dan DeMent, Tom Ponto,
LaJune Montgomery-Tabron**

Nays: None

Due Diligence Visits 2010:

<u>Manager/Trustee</u>	<u>System</u>	<u>In Kalamazoo</u>	<u>At Manager</u>
Dimensional Fund State Street Jennison Associates		September 15, 2010	Sept 23, Boston, MA Sept 23, Waltham, MA

Audit

The audit firm of Abraham and Gaffney, P.C., has provided excellent auditing services for the City. The City had a clean audit. A special thank you was given to Jan Van Der Kley for her assistance in the audit.

Communications

Derivatives reports were distributed.

Old/New Business

Tom Skrobola presented to the Committee a City Commission Agenda Report recommending a resolution to establish the City of Kalamazoo OPEB Trust Fund for the accumulation of assets for the payment of future retiree health care costs. Tom Skrobola has been named the Trustee of the new OPEB Trust Fund. Also recommended was the authorization from the City Manager and/or his designee to execute the necessary documents to file for a Private Letter Ruling from the Internal Revenue Service (IRS) establishing the federal tax-exempt status of the new Trust Fund.

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The CFO presented a proposal to have the RIC assume the Trustee duties for the new OPEB trust Fund. After some discussion, the consensus was that the RIC would not assume the role of Trustee, but would advise as to investment practices. The Committee requested that the City Attorney look into ways to go forward with the IRS Private Letter Ruling to validate the tax exempt nature of the OPEB Trust Fund and indicate that the CFO will remain the Trustee.

A motion was made to go forward combining the OPEB Trust Pension funds and Perpetual Care Trust Fund together. The RIC furthermore will not become trustee for the new OPEB Trust Fund.

Motion to accept made and seconded. Roll call vote:

**Ayes: Board Chair Bob Salisbury, Jan Van Der Kley, Dan Dement, Tom Ponto,
LaJune Montgomery-Tabron**
Nays: None

The Board took up discussion on allocating 5% in Private equity and will look into alternatives for an allocation split. Comments were made that the split may not be an even split. It could depend on how REEF is doing with their market strategy. Chair Bob Salisbury asked that the Board to direct their suggestions to Chris Ruppel.

Committee reaffirms 5% of portfolio in private equity real estate—accepting the illiquidity associated with private equity real estate. Committee favors 2.5% in US core private equity real estate (RREEF RAI), and 2.5% in global core private equity real estate at a firm other than RREEF for manager diversification.

**Ayes: Board Chair Bob Salisbury, Jan Van Der Kley, Dan Dement, Tom Ponto,
LaJune Montgomery-Tabron**
Nays: None

There being no further business, Board Chair Bob Salisbury adjourned the meeting.

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

Wednesday, November 17, 2010	8:00 a.m.
Wednesday, February 16, 2011	10:00 a.m.
Wednesday, May 18, 2011	8:00 a.m.
Wednesday August 17, 2011	10:00 a.m.

Respectfully submitted,



Thomas C. Skrobola
Secretary