

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
WEDNESDAY, NOVEMBER 17, 2010**

A meeting of the City of Kalamazoo Retirement Investment Committee was held on Wednesday, November 17, 2010 in Room 207-A of the Kalamazoo County Administration Building. Acting Chair Randy Eberts called the meeting to order.

Members Present: Acting Chair Randy Eberts, Bob Salisbury (conference phone), Dan DeMent, Dean Bergy, Tom Ponto and LaJune Montgomery-Tabron

A motion was made and seconded to excuse Member Jan Van Der Kley. The motion passed by voice vote.

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

A motion was made and seconded to approve the minutes of the Perpetual Care Investment Committee/Retirement Investment Committee meetings of August 18, 2010 and Due Diligence Reports: Morningstar of September 13-15, 2010, State Street of September 22 and 23, 2010 and Jennison of September 23, 2010 with the following changes to the Retirement Investment Committee minutes:

- to correct the spelling of cemeteries and Dean Bergy's last name;
- Net assets as of June 30, 2010 was \$436,367,300.

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

Investment Portfolio

Mr. Skrobola reported with regard to assets as of September 30, 2010: Total equities were \$338,621,041 or 70.86%, and fixed income \$126,319,705 or 26.43% of the total portfolio. Real estate was \$12,686,252 or 2.66% of the total portfolio and short term investments of \$279,704 representing 0.06% for a Total Fund of \$477,906,701.

Mr. Ruppel noted to the Committee that the Total Fund amount should be \$478,751,781 according to the State Street Statement he receives. Mr. Skrobola commented that the Total Fund amount reported was generated from the State Street Report and that in the future he will check and balance the assets before presenting to the Committee.

The Portfolio Cost column will be eliminated from the spreadsheet.

Investment Performance Review

Mr. Ruppel reported that the market value of portfolio assets increased from \$436.4 million to \$478.8 million during the third quarter of 2010, an increase of \$42.4 million or 9.7%.

The weighted average return of the portfolio for the quarter, net of manager fees, was 10.7%. The annualized return since October 1982, net of manager fees, through the end of the quarter is 11.5%.

Equities comprised 70.7% of the City portfolio at the end of the quarter. The equity portion of the City portfolio returned 13.4% for the quarter and 11.9% year-on-year.

Fixed income comprised 26.4% of the City portfolio at the end of the quarter. Total fixed income returned 4.2% for the quarter and 11.6% year-on-year.

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Investment Performance Review (cont)

Mr. Ruppel distributed a memo and discussed the recent underperformance of DFA Intl Small Cap Value I relative to the benchmark.

Real estate comprised 2.8% of the City portfolio at the end of the quarter. Total real estate returned 12.4% for the quarter, with the public REIT gaining 13.2% and the private REIT gaining 11.9%. The one year return on total real estate was 16.8%.

The inflation-adjusted or real return, for the quarter was 10.5% as quarterly inflation was 0.2%. Since 1982 the return on the portfolio, net of manager fees, has been 11.5% nominal and 8.6% real.

Cash Flow/Expenses

Mr. Skrobola reported that in the third quarter PROJECTED 2010 Total Disbursements \$4,201,898 against Total Receipts of \$426,200. Net Revenue was negative \$3,775,698 against a Beginning Balance of \$1,819,179. Liquidations of \$3,750,000. ACTUAL 2010 Total Disbursement \$4,443,077 against Total Receipts of \$1,241,661. Net Revenue of negative \$3,201,416 against a Beginning Balance of \$320,706. Liquidations of \$3,300,000. Ending balance second quarter \$419,290.

Relating to the 2010 Operating Statement, under RECEIPTS, 'Other' pertains to Distributions of Real Estate dividends into the cash flow; under DISBURSEMENTS, 'Gen. Fund Admin. Charge' pertains to the Administrative Fee charged by the City for the agreed-upon percentage of time spent on Pension Administration by select employees in Management Services, Attorney and Human Resources.

Mrs. Montgomery-Tabron asked whether employees can withdraw amounts on loan from the Pension System. Mr. Skrobola replied that an employee can not take out a loan from the Retirement System, as there are no individual accounts (such as would be the case with a 401(k) or 457 plan). The Retirement System assets are owned by the City for the sole purpose of paying retirement benefits to members of the Retirement System.

Mr. Bergy mentioned that there was discussion in the last meeting to make each Operating Statement include a full 4 quarters of future projections. Mr. Skrobola replied that this would be the approach beginning with the next report distributed in February 2011 (for year-end 2010 figures).

Mr. Bergy asked whether the City has bid out actuarial services. There was no particular recollection as to whether this had been bid in the past or not. Mr. Skrobola promised to check with City Purchasing Director Nick Lam to review the history and make a recommendation to the RIC in February 2011.

Motion to accept made and seconded. Roll call vote:

Ayes: Acting Chair Randy Eberts, Bob Salisbury (conference phone), Dan DeMent, Dean Bergy Tom Ponto and LaJune Montgomery-Tabron

Nays: None

Due Diligence Visits 2010:

No Due Diligence visits through the end of the year.

Audit

The audit firm of Abraham and Gaffney, P.C. will start their field work in April-May 2011. The report will be available for the RIC in the August 2011 meeting packet.

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Communications

Derivatives reports were distributed.

Old/New Business

PCIC: No discussion. No comments.

Actuarial Assumptions:

Mr. Skrobola stated to the Committee that prior to the 2009 Actuary Report the City presented assets and liabilities in "buckets" according to the different bargaining/non-bargaining units. The 2009 report collapsed the presentation into one column to show Pension Trusts (assets and liabilities) as a unified whole. Administration costs will not be built into the model for determining the net rate of return on assets; however it will be included in the Actuarial Report (page B-2 in the 2009 Report) as an adjustment to the Normal Cost computation.

Real Estate:

Mr. Ruppel reported that relative to the motion passed at the August 2010 meeting, he has been unable to find a core global private equity real estate fund for manager diversification. Mr. Ruppel advised that he will write an RFP draft and present to the Committee expanding search parameters to include managers who may provide regional private equity funds which may hold some non-core real estate assets.

Fixed Income:

Mr. Ruppel discussed that one half of the fixed income position is in Long Term Treasuries, whose yield is trending negative, with expectations of near zero percent returns for current 15 year instruments. It would be advisable to take all or part of Long Term Treasury portfolio and reinvest in intermediate-term bonds.

MOTION made to take Long Term Treasury position at Jennison and transfer all of it into the Intermediate portfolio at Jennison as an interim step in an orderly market efficient timeframe, as long-term options are reviewed by the Committee.

Motion to accept made and seconded. Roll call vote:

Ayes: Acting Chair Randy Eberts, Bob Salisbury (conference phone), Dan DeMent, Dean Bergy Tom Ponto and LaJune Montgomery-Tabron

Nayes: None

There being no further business, Acting Chair Randy Eberts adjourned the meeting.

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

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

Respectfully submitted,



Thomas C. Skrobola
Secretary