

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
WEDNESDAY, MAY 18, 2011**

A meeting of the City of Kalamazoo Retirement Investment Committee was held on Wednesday, May 18, 2011 in Room 207-A of the Kalamazoo County Administration Building. Chair Robert Salisbury called the meeting to order at 8:02 a.m.

Members Present: Chair Robert Salisbury, Randy Eberts, Jan Van Der Kley, Dan DeMent, Tom Ponto, Dean Bergy, LaJune Montgomery-Tabron

A motion was made and seconded to excuse Member LaJune Montgomery-Tabron. The motion passed by voice vote. Ms. Montgomery-Tabron arrived at 8:13 a.m.

Others present: Tom Skrobola, Jenny Spears, Chris Ruppel, Commissioner David Anderson, Randy Schau, Jeff Bye

A motion was made and seconded to approve the minutes of the February 16, 2011 regular business meeting as well as the Morningstar/Ibbotson, Singular Guff, RREEF America II Due Diligence, RREEF America II Investor Meeting, and BlackRock Due Diligence reports.

Mr. Ruppel commented on the reports/meetings:

1. Morningstar/Ibbotson. As Morningstar absorbs Ibbotson, they may produce a new software format that may come at an increased cost to clients.
2. Singular Guff. This "multi-strategy private equity investment firm" pursues opportunistic real estate strategies. Very good, informative meeting, but beyond the scope of what the Committee is after, since the Committee is looking for core real estate.
3. City/County/Foundation are to reinstate dividend reinvestment and capital reinvestments at RREEF RAIL. Consultant to contact RREEF for proper documentation.
4. Consultant to vote RREEF RAIL proxy when issued:
 - a. Proposal to add one more outside director to BOD at RREEF RAIL—Yes
 - b. Proposal to pay future performance awards in cash rather than in shares as is the current practice—Yes
5. Committee members want to receive copies of rebalancing actions each month. Include copies in quarterly reports
6. City/County have securities lending in BlackRock S&P 500 Index Fund A. Securities lending can continue. Closely monitor the process. Foundation account does not do securities lending—no change.

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

Investment Portfolio

Mr. Skrobola reported with regard to assets as of March 31, 2011: total Equities were \$379,454,594, or 71.73%, and fixed income was \$131,283,376 or 24.82% of the total portfolio. Real estate was \$18,145,876 or 3.43% of the total portfolio and short term investments of \$101,614 representing 0.02% for a total fund of \$528,985,460.

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Investment Performance Review

Mr. Ruppel reported that the market value of portfolio assets increased from \$511.3 million to \$529.0 million during the first quarter of 2011, an increase of \$17.7 million or 3.5%.

The weighted average return of the portfolio for the quarter, net of manager fees, was 4.4%. The annualized return since October 1982, net of manager fees, through the end of the quarter is 11.7%.

Equities comprised 71.7% of the City portfolio at the end of the quarter. The equity portion of the City portfolio returned 6.0% for the quarter and 19.8% year-on-year.

Fixed income comprised 24.8% of the City portfolio at the end of the quarter. Total fixed income returned 0.0% for the quarter and 5.2% year-on-year.

Real estate comprised 3.4% of the City portfolio at the end of the quarter. Total real estate returned 4.0% for the quarter, with the public REIT gaining 6.6% and the private REIT gaining 2.9%. The one year return on total real estate has been 21.6%.

The inflation-adjusted or real return, for the quarter was 2.3% as quarterly inflation was 2.0%. Since 1982 the return on the portfolio, net of manager fees, has been 11.7% nominal and 8.8% real.

Cash Flow/Expenses

Mr. Skrobola reported that the trend is above normal for participant pension/retirement withdrawals. Mr. Ponto raised the question regarding the variance in benefits payments. Mr. Skrobola explained that it is not unusual to have a \$100,000 variance in a particular quarter. Taking the comments from the Committee into consideration, Mr. Skrobola will review the projection of the cash flow report for benefit payments and participant withdrawal disbursements and report at the next meeting.

Expense Report:

Mr. Skrobola reported that the first 2 quarter expenses of Merion were paid in the 1st quarter. This process is not uncommon.

Mr. Skrobola will change the name of the common stock BGI to BlackRock on the liquidations spreadsheet, henceforth.

Motion to accept Quarterly Expenses made and seconded. Roll call vote:

**Ayes: Chair Robert Salisbury, Randy Eberts, Jan Van Der Kley, , Dan DeMent, Tom Ponto,
Dean Bergy, LaJune Montgomery-Tabron**

Nays: None

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Due Diligence Visits 2010:

<u>Manager/Trustee</u>	<u>System</u>	<u>In Chicago</u>	<u>In Kalamazoo</u>	<u>In Waltham</u>
DFA		June 7, 2011		
Mr. Ruppel will distribute the agenda and offer invitations to staff				
Morningstar Investment Conference			June 8 - 10, 2011	
State Street			June 22, 2011	
BlackRock			July 13, 2011	
RREEF			Tentative	
DFA			Tentative	
PNC Bank			August 15, 2011	
RIC/FIC			August 17, 2011	
Jennison				August 28 - 29, 2011
Foundation/Endowment				

Audit

Mr. Skrobola stated that the on-site work from Abraham-Gaffney has been completed, and the statements should be forthcoming. Committee member Jan Van Der Kley will assist in the audit process. Comments from the auditors will be included in the single audit. The auditors focus on questions regarding fraud by issuing questionnaires and conducting intense interviews.

Communications

Derivatives reports were distributed.

Old/New Business

The PCIC portfolio report was distributed. Mr. Ruppel will provide Mr. Salisbury and the Committee a copy of the report if they had not received one.

Mr. Ruppel and Mrs. Salisbury opened the discussion by summarizing the committee's decision to invest in a global core product for the 2.5% real estate.

The purpose of real estate in the portfolio is as a diversifier relative to equities and fixed income. Therefore, when equities and/or fixed income go down, the diversified asset, real estate, should be available to fund the cash flow needs of the sponsor. If the diversifying asset, real estate, is not liquid, then asset cannot satisfy the liquidity needs of the sponsor at the time the sponsor needs liquidity.

Mr. Ruppel summarized that the investment committee wanted to pursue U.S. private core global real estate investments, but after extensive search found there is not a core global private equity product. The International area had made looking into separately managed accounts operationally difficult to do. Does the Committee want to go into international real estate and move through the complicated process of time and cost? The portfolio has adequate international exposure in other portions in the portfolio. It was suggested since money has not been lost in the volatile U.S. equity RREEF market, that it should remain as is.

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Mr. Salisbury recapped that the Committee felt that the public REIT investment was causing too much volatility, causing the need to look for a private equity alternative; whether domestic or foreign. There are not many choices available in the private equity REIT area, and that accessing these funds involves a long lead-time on waiting lists. It has been recommended that Investment Committee stay with a public REIT and rule out private REIT equities. Should the public REIT be domestic, foreign or both.

The Committee will broaden the discussion at the August 17, 2011 regarding public REIT alternatives.

Around the Table:

The City actuary review, presented by Gabriel Roeder Smith & Company, showed funding at year 2010 to be 141.1% vs. 142% for the previous year. Mr. Skrobola will share this information with the Pension Board.

Mr. Skrobola noted to the Committee that he is looking for ways to make the investment of funds more efficient. The City is working with Pension trust custodian State Street to see about creating a Master Trust with State Street, under which the current Pension trust dollars can reside in one bucket alongside new OPEB retiree health care trust dollars.

The City Commission authorized a Trust Agreement for the new OPEB Fund in June 2010, which was submitted to the IRS for approval as part of a new Private Letter Ruling Application. In order to place the OPEB trust dollars in with the Pension trust dollars as indicated above, the Trust Agreement and Private Letter Ruling Application with the IRS would have to be revised. This proposed revision will have to be drafted with assistance of Ice Miller, PLC, the City's IRS legal experts, and approved by the City Commission before any refilling with the IRS can take place.

Publications available to the Committee:

- Kalamazoo County Employees' Retirement System Audit Wrap Up, December 31, 2010
- GRS Kalamazoo County Employees' Retirement System Fifty-First Annual Actuarial Valuation, December 31, 2010
- Kalamazoo County Employees' Retirement Financial Statements and Supplementary Information YE December 31, 2010 and 2009

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

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

Wednesday, May 18, 2011	8:00 a.m.
Wednesday, August 17, 2011	10:00 a.m.
Wednesday, November 16, 2011	8:00 a.m.
Wednesday, February 15, 2012	10:00 a.m.

Respectfully submitted,



Thomas C. Skrobola
Secretary