

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
WEDNESDAY, FEBRUARY 26, 2014**

A meeting of the City of Kalamazoo Retirement Investment Committee was held on Wednesday, February 26, 2014 in Room 207-A of the Kalamazoo County Administration Building. Chairman Salisbury called the meeting to order at 8:45 a.m.

Members Present: Chair Robert Salisbury (via phone), Acting Chair Randy Eberts, Dan DeMent and Jan Van Der Kley.

Jan Van Der Kley motioned and Dan DeMent supported excusing Member Dean Bergy. The motion passed by voice vote.

Others present: Chris Ruppel, Consultant; Barb Miller, City Commissioner; Clyde Robinson, City Attorney; Dan Welker from JP Morgan Asset Management; Tom Skrobola, Chief Financial Officer; and Patricia Vargas, recording secretary.

2013 4th Quarter Meeting Minutes

Dan DeMent motioned and Jan Van Der Kley supported approval of the November 25, 2013 meeting minutes.

The motion passed by voice vote.

Trip Reports

Comment: Chris Ruppel noted Noble Prize Winner Bob Merton's presentation; a copy of the video presentation was requested and will be available to board members. He also recommended that as many committee members that are able to, should attend the conference as it does retain academic perspective.

Investment Portfolio

Assets

Tom Skrobola called attention to the change to a one page report format, indicating the total of Group Trust assets, with a single breakout column for pension assets and a single breakout column for total OPEB assets. Committee members confirmed that this revised report met expectations.

Investment Performance Review

Mr. Ruppel presented. The market value of portfolio assets increased from \$582.7 million to \$617.6 million during the fourth quarter of 2013, an increase of \$34.9 million or 6.0%.

The weighted average return for the quarter net of manager fees was 6.5%. The 1-year return was 20.2%. The return since October 1982, net of manager fees, through the end of the quarter has been 11.6%.

Equities comprised 70.5% of the City portfolio at the end of the quarter. The equity portion of the City portfolio returned 9.1% for the quarter and 29.7% year-on-year.

Fixed income comprised 24.4% of the City portfolio at the end of the quarter. Total fixed income returned -0.2% for the quarter and -2.6% year-on-year.

At the end of the quarter real estate investments were 5.1% of the portfolio. Real estate returned 0.8% for the quarter and 9.4% for the year.

The portfolio assets finished the quarter with 70.5% in equities, 24.4% in fixed income, 5.1% in real estate, and 0.1% in cash. The portfolio target allocation is 70% equities, 25% fixed income, and 5% real estate.

The inflation-adjusted or real return, for the quarter was 7.0% as the inflation rate for the quarter was -0.5%, a deflationary quarter. With a year-on-year inflation rate of 1.5% the one year real return was 18.7%. Since October 1982 the return on the portfolio, net of manager fees, has been 11.6% nominal and 8.7% real.

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Account Update

2013 4th Quarter Cash Flow Report

Tom Skrobola called attention to the new Group Trust account setup. In order to provide a clear picture of the Pension, Pool and OPEB accounts the following diagram was presented:



Comment: Tom responded to Dan DeMent's inquiry regarding participant withdrawals being significantly less than budgeted. Withdrawals were budgeted based on the historical experience (prior to 2012-2013) of employees leaving employment without pension benefits. During 2012-2013, however, very few people left the City's employment without a retirement benefit, so withdrawals were lower than usual.

2013 4th Quarter Expense Report

No Discussion.

Tom Skrobola confirmed collaborative efforts with Kalamazoo County to ensure a more user-friendly reimbursement cost report for committee members.

Jan Van Der Kley motioned and Dan DeMent supported to accept the 2013 4th Quarter expense report by roll vote.

Bob Salisbury, Randy Eberts, Dan DeMent, Jan Van Der Kley, in favor. MOTION PASSED.

2013 4th Quarter Liquidations

Tom Skrobola applauded staff efforts on the heavy lifting of the December/Annual Hard Rebalance Report. Chris Ruppel confirmed the Real Estate liquidation will be executed this quarter.

Due Diligence

Tom Skrobola suggested and Chris Ruppel agreed that from an operational perspective, a trip down to Kansas City for committee members, consultant and City staff is recommended.

Audit

The City's trial balance is underway and audit field work completion expected in mid-May, with a draft MD&A for review ready in early June.

Communications

Articles of Interest

The 4th Quarter articles of interest were acknowledged and some background information provided.

Derivatives Report

No discussion.

PCIC Report

Chris Ruppel called attention to PIMCO's change in organizational structure, moving into a more non-fixed income house and therefore will be looking for a more suitable replacement, keeping committee members apprised of the process.

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New Business

Tom Skrobola talked about the Legacy Task Force Committee and summarized the committee goals and actions taken to date.

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

Wednesday, May 28, 2014 @ 9:30 a.m.

Wednesday, August 27, 2014 @ 8:45 a.m.

Monday, November 24, 2014 @ 4:00 p.m.

Around the Table

Adjourn

There being no further business, Vice-Chair Eberts adjourned the meeting at 9:23 a.m.

Respectfully submitted,



Thomas C. Skrobola,
Secretary