

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
WEDNESDAY, May 28, 2014**

A meeting of the City of Kalamazoo Retirement Investment Committee was held on Wednesday, May 28, 2014 in Room 207-A of the Kalamazoo County Administration Building. Chairman Salisbury called the meeting to order at 9:30 a.m.

Members Present: Chair Robert Salisbury, Vice-Chair Randy Eberts, Dean Bergy, Dan DeMent and Jan Van Der Kley.

Others present: Chris Ruppel, Consultant; Barb Miller, City Commissioner; Clyde Robinson, City Attorney; Tom Skrobola, Chief Financial Officer; and Patricia Vargas, recording secretary.

2014 1st Quarter Meeting Minutes

Dan DeMent motioned and Dean Bergy supported approval of the February 26, 2014 meeting minutes with applicable corrections. The motion passed by voice vote.

Trip Reports

Comment: Chris Ruppel recommended year on year attendance to the Morning Star Conference.

Investment Portfolio

Assets

Tom Skrobola noted that the assets in the group trust, pension's portion and OPEB are close to target. Committee members confirmed that the revised presentation of the assets report exceeded expectations.

Investment Performance Review

Mr. Ruppel presented. The market value of portfolio assets increased from \$617.6 million to \$624.4 million during the first quarter of 2014, an increase of \$6.8 million or 1.1%.

The weighted average return for the quarter net of manager fees was 2.2%. The 1-year return was 15.2%. The return since October 1982, net of manager fees, through the end of the quarter has been 11.5%.

Equities comprised 69.9% of the City portfolio at the end of the quarter. The equity portion of the City portfolio returned 1.9% for the quarter and 20.9% year-on-year.

Fixed income comprised 24.7% of the City portfolio at the end of the quarter. Total fixed income returned 2.4% for the quarter and 0.1% year-on-year.

At the end of the quarter real estate investments were 5.3% of the portfolio. Real estate returned 6.2% for the quarter and 10.1% for the year.

The portfolio assets finished the quarter with 69.9% in equities, 24.7% in fixed income, 5.3% 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 0.8% as the inflation rate for the quarter was 1.4%. With a year-on-year inflation rate of 1.5% the one year real return was 13.7%. Since October 1982 the return on the portfolio, net of manager fees, has been 11.5% nominal and 8.7% real.

Comment: Chris Ruppel concluded that the interpretations of the international small cap values percentage at the Majors conference appear to be a difference in view on verbiage of law PA314 (revised, allowed municipalities to go as high as 50% international) vs factual basis. City Attorney instruction will be followed vs loose interpretations from other attorneys, however Clyde Robinson will follow-up on the PA314 revision.

Per committee member consensus, the flash report information will no longer be included in future RIC packets.

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Account Update

2014 1st Quarter Cash Flow Report

Tom Skrobola presented, summarizing first quarter movement, including benefit payments, management fees and receipt information.

2014 1st Quarter Expense Report

No Discussion

Dan DeMent motioned and Jan Van Der Kley supported to accept the 2014 1st Quarter expense report by roll vote.

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

2014 1st Quarter Liquidations

Chris Ruppel indicated a process will be put in place to ensure a draw from REEF.

Audit

The audit field work is complete and a draft audit report is expected in late June. Tom Skrobola will provide the initial review, followed with an editorial control executed by Jan Van Der Kley.

Communications

Derivatives Report

Mr. Ruppel indicated that the difference in derivatives between the City of Kalamazoo and Kalamazoo County is due to the relative sizes of the portfolios.

Articles of Interest

The 1st Quarter articles of interest were acknowledged. No Discussion.

PCIC Report

Chris Ruppel indicated City of Kalamazoo Perpetual Care Fund report corrections as follows:

1. Summary – Page 76, paragraph 6, second sentence should read: For the first quarter of 2014 the three month return pattern flipped with non-US equities returning at 2.8% and US equities returning 1.3%)
2. 2013 Withdrawals – Page 86, fourth line item should be a negative entry: (173,416)

Chris Ruppel proposed the elimination of PIMCO, due to specific concerns with PIMCO Total Return Funds (fund specific and the amount of derivatives used) and replacing it with two Vanguard fund accounts. RIC members committed to studying the proposal and all its implications prior to taking action.

New Business

Tom Skrobola provided an update to the OPEB/Legacy Task Force proceedings at Chairman Salisbury's request.

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

Comment: Due to committee member's conflicting schedules on August 27, 2014, a revised date will be determined and posted.

Wednesday, August 27, 2014 @ 8:45 a.m. (Reschedule – TBD)

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

Wednesday, February 25, 2015 @ 8:45 a.m.

Wednesday, May 27, 2015 @ 9:30 a.m.

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Around the Table

Adjourn

There being no further business, Chair Salsbury adjourned the meeting at 10:50 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas Skrobola". The signature is written in a cursive style with a large, prominent initial "T".

Thomas C. Skrobola,
Secretary