

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
WEDNESDAY, AUGUST 17, 2011**

A meeting of the City of Kalamazoo Retirement Investment Committee was held on Wednesday, August 17, 2011 in Room 207-A of the Kalamazoo County Administration Building. Chair Robert Salisbury called the meeting to order at 10:03.

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

A motion was made and seconded to excuse Member LaJune Montgomery-Tabron. The motion passed by voice vote.

Others present: Tom Skrobola, Jenny Spears, Chris Ruppel, Commissioners Barbara Miller and David Anderson, Randy Schau, and guest Ed Chappa from Mental Health & Substance Abuse Services.

A motion was made and seconded to approve the minutes of the May 18, 2011 meeting with the correction to Mr. Salisbury's name under Old/New business. Trip reports from Jennison, BlackRock, DFA, PIMCO, and Templeton were reviewed and approved.

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

Investment Portfolio

Assets as of June 30, 2011: total Equities were \$372,072,197, or 71.08%, and fixed income was \$133,737,217 or 25.55% of the total portfolio. Real estate was \$18,672,857 or 3.57% of the total portfolio and short term investments of \$(1,019,319) representing -0.20% for a total fund of \$523,462,951.

Investment Performance Review

The market value of portfolio assets decreased from \$529.0 million to \$523.5 million during the second quarter of 2011, a decrease of \$5.5 million or -1.04%.

The weighted average return for the quarter net of manager fees was -0.3%. The 1-year annualized return was 24.0% and the return since October 1982, net of manager fees, through the end of the quarter has been 11.6%.

Equities comprised 71.1% of the City portfolio at the end of the quarter. The equity portion of the City portfolio returned -1.3% for the quarter and 33.6% year-on-year.

Fixed income comprised 25.5% of the City portfolio at the end of the quarter. Total fixed income returned 1.9% for the quarter and 1.1% year-on-year.

For the quarter real estate investments were 3.6% of the portfolio and returned 4.5%. The 1-year return on real estate was 27.9%.

The inflation-adjusted or real return, for the quarter was -1.4% as the inflation rate for the quarter was 1.1%. The 1-year nominal return was 24.0%. With inflation of 3.7%, the one year nominal has been 20.3%. Since 1982 the return on the portfolio, net of manager fees, has been 11.6% nominal and 8.7% real.

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Cash Flow/Expenses

Cash Flow reports were reviewed with no outstanding issues to report. After discussion, the Committee wishes to continue approving the expenses.

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**

Nays: None

Due Diligence Visits 2011:

There will be a due diligence meeting with Jennison at the end of August regarding investment policy, fixed income, U.S. debt rating. A DFA conference will be held in late January or February 2012. Chair Robert Salisbury encouraged the Committee to attend the DFA conference, DFA is our largest portfolio manager, and the meetings are very informative. Mr. Ruppel will notify the Committee of the future dates.

Audit

Abraham & Gaffney, P.C. has audited the financial statements of the City of Kalamazoo Employees' Retirement System and Perpetual Care Fund. The two reports were distributed among the Committee. There were no outstanding issues presented.

Chair Robert Salisbury and Mr. Skrobola acknowledged and thanked Ms. Van Der Kley for her work on the audit MD&A statement.

Communications

Derivatives reports were distributed.

Old/New Business

PCIC

The Perpetual Care Investment Committee discussion opened with a question to Deputy City Attorney Randy Schau, "Does the Public Act of Limitations on Foreign Investments apply to the Perpetual Care Fund?" Mr. Schau will report back to the Committee at the next meeting.

Core Real Estate

Working discussions have been held in regard to the core real estate allocation. The Committee confirms they want to maintain 5% in total allocations to real estate; with one-half allocation in a Private Real Estate Equity fund with RREEF and the other half with a Public Real Estate Equity fund. Mr. Ruppel provided research and has suggested a 2.5% allocation in a Vanguard REIT index fund to enhance manager diversification sought by committee.

Motion was made and seconded to approve of a manager change of assets to reach the 5% allocation with one-half of 5% in RREEF Private Equity fund and the other half in Vanguard REIT. Roll call was made and the motion accepted.

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

Nays: None

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International Fixed Income

Mr. Ruppel will study the alternative of altering the current 10%/10% mix between international fixed income and international equities, as well as other alternatives within the state's statutory limitation, specifically that the portfolio holdings in international cannot exceed 20% of the total portfolio value.

Future Meeting Time

It was suggested that the quarterly regular meeting times for the Foundation, City and County Investment Committees be changed.

The Committee would have a start time for the Foundation to always be 8 am, with one of the City/County meetings to begin at 9:00 am, and the remaining meeting scheduled to begin at 9:30 am.

Deputy Attorney Schau indicated that the County and City meetings should each have their own specific starting points indicated on the public meeting notifications, but that the actual meetings could start a little later than published (but should never start before the published starting time).

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

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

Wednesday, November 16, 2011	9:00 a.m.
Wednesday, February 15, 2012	9:30 a.m.
Wednesday, May, 17, 2012	9:00 a.m.
Wednesday, August 15, 2012	9:30 a.m.

Respectfully submitted,



Thomas C. Skrobola
Secretary