

EMPLOYEES, RETIREES, AND BENEFICIARIES OF THE CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM

The Summary Annual Report of the City of Kalamazoo Employees' Retirement System for the year ended December 31, 2021 is presented for your information. The material presented in this report is based on financial statements as audited by Maner Costerisan, and the 2021 Actuarial Valuation prepared by Gabriel, Roeder, Smith & Company.

The City Charter requires that the City maintain an employees' retirement system. The City of Kalamazoo Employees' Retirement System was established as a defined benefit plan on July 1, 1942. Its purpose is to provide long-term benefit payments to its members. Benefits are calculated using a formula based on age, years of service, and salary, and are guaranteed upon retirement. Membership includes all full time and some part time employees (as allowed by certain bargaining units). Assets of the System must be held and used for the exclusive benefit of members and their beneficiaries.

A Pension plan is well funded when it has sufficient assets to meet expected future obligations to participants. On December 31, 2021, the Employees' Retirement System held investments of \$805.9 million, an increase of \$101.3 million from 2020. The stock market delivered a strong performance due to a robust economic recovery, resulting in the investment portfolio reporting a net return of 19.32%, net of fees. The plan continues to be in an overfunded position, as the current ratio of actuarial assets to accrued liabilities is 136.0%. The System is in sound financial condition and the fiduciaries remain committed to meet the obligations of the defined benefit plan in a prudent manner.

Respectfully submitted,

Steve Vicenzi
Director, Management Services

INVESTMENT POLICY

The financial objective of the Retirement System is to accumulate a pool of assets that will be sufficient to pay the benefits promised by the System, at the lowest possible cost, and to do so solely in the interest of the participants and beneficiaries. Within this objective, the System's assets are to be invested to achieve the maximum long term (3-4 market cycles) cumulative annual rate of return possible in relation to risk, under the laws and regulations which the assets can be invested. The Investment Committee has established an investment policy which provides that the maximum amount permitted under the laws and regulations will be targeted for investment in common stocks, with the balance invested in bonds, short-term securities, and real estate.

MONEY MANAGERS AND PHILOSOPHY

The Employees' Retirement System has five investment managers who are responsible for the investment of the System's assets in accordance with the Investment Committee's policies. Two of the money managers are common stock managers, one is a bond manager and two are real estate managers. There have been no changes in fund managers this year.

The assets of the System are invested in various asset classes (common stocks, bonds, etc.) and in different investment styles within the classes to mitigate volatility. Managers are hired for their management style and strategy within these classes of assets. If a manager deviates from the style and strategy for which that firm was hired and the new style and strategy conflicts with the investment policies, the manager is terminated.

BlackRock

BlackRock, New York, NY, has over \$10 trillion in assets under management. The System's assets are invested in Blackrock's Equity Index Fund A, which replicates the S&P 500 Stock Index.

Dimensional Fund Advisors

Dimensional Fund Advisors, Austin, TX, has over \$679 billion in assets under management. DFA manages the System's Large Cap Value, Small Cap Value, Micro Cap, International Small Cap Value, and Emerging Markets Value portfolios.

Jennison Associates LLC

Jennison Associates, New York, NY, manages over \$245.6 billion in assets and serves as the System's intermediate fixed income manager.

RREEF Real Estate

RREEF Real Estate, Chicago, IL, has over \$82 billion in assets under management. The System's assets are invested in RREEF's flagship core fund, RREEF America REIT II.

Vanguard Group, Inc.

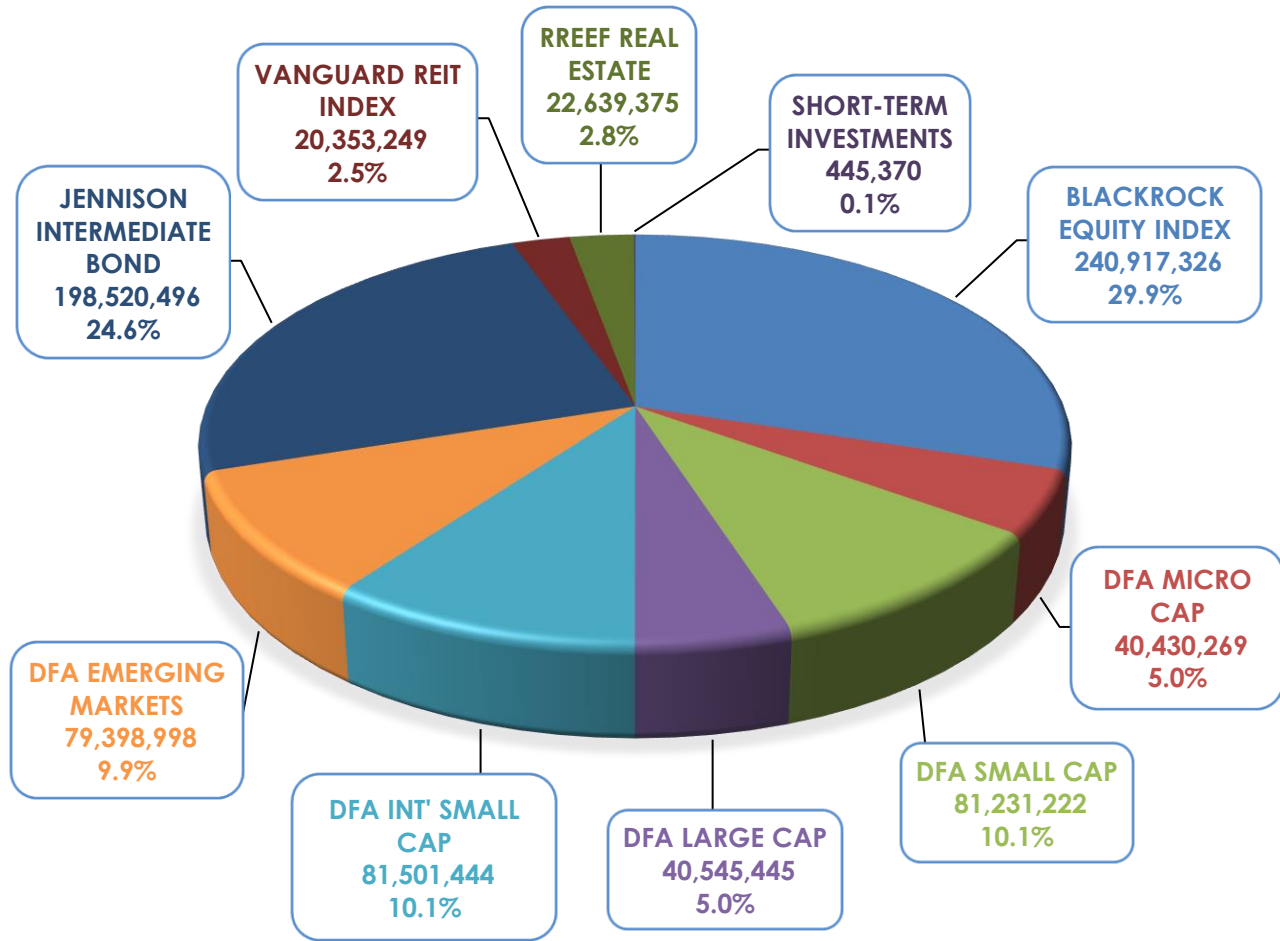
The Vanguard Group, Malvern, PA, has over \$7.2 trillion in assets under management. The System's assets are invested in Vanguard's Real Estate Investment Trust (REIT).

State Street Bank

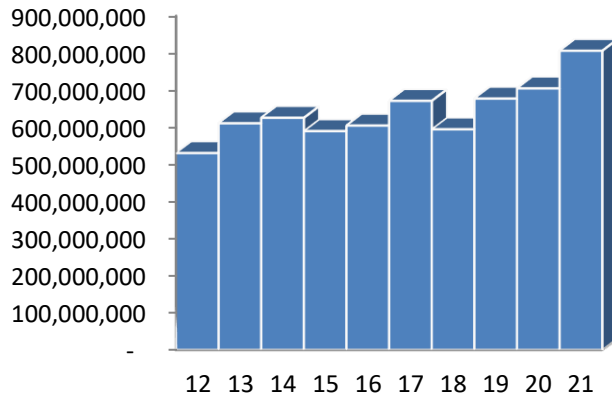
State Street Bank & Trust, Boston, MA, has over \$4.14 trillion in assets under management and serves as the System's Custodian and Trustee. The balance of the System's assets is held in cash equivalents to meet monthly benefit payments and administrative expenses. State Street Bank safeguards the System's assets and serves as the control and monitoring point for the performance and procedures of our investment managers.

INVESTMENT SUMMARY

Asset Allocation



Asset History



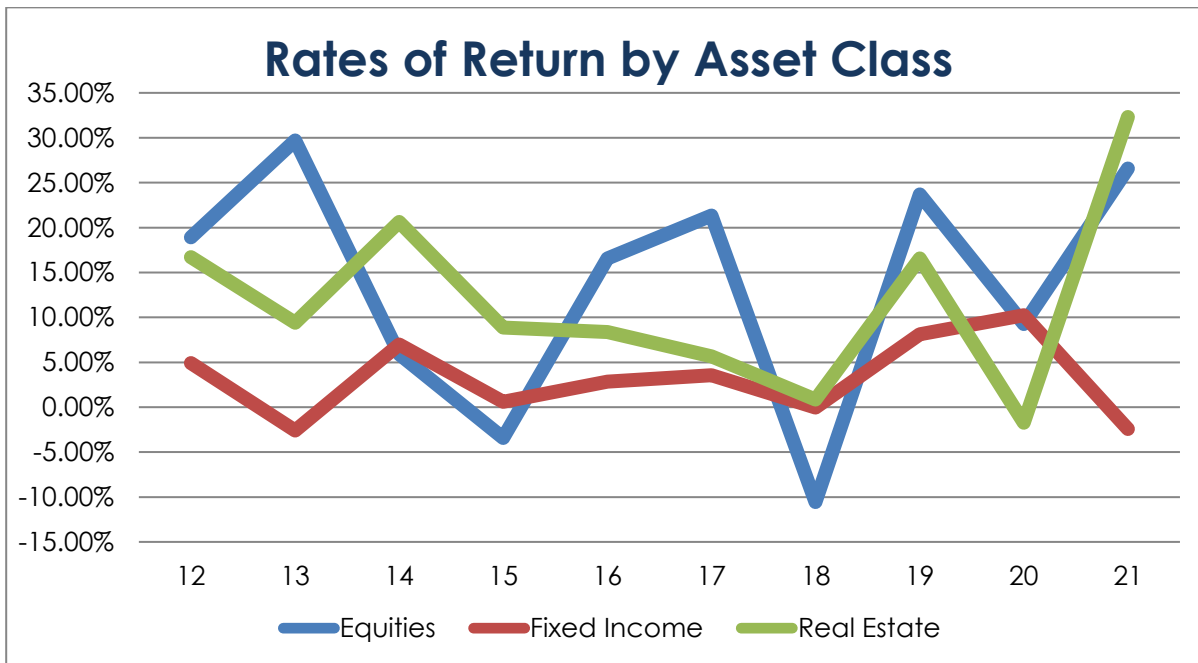
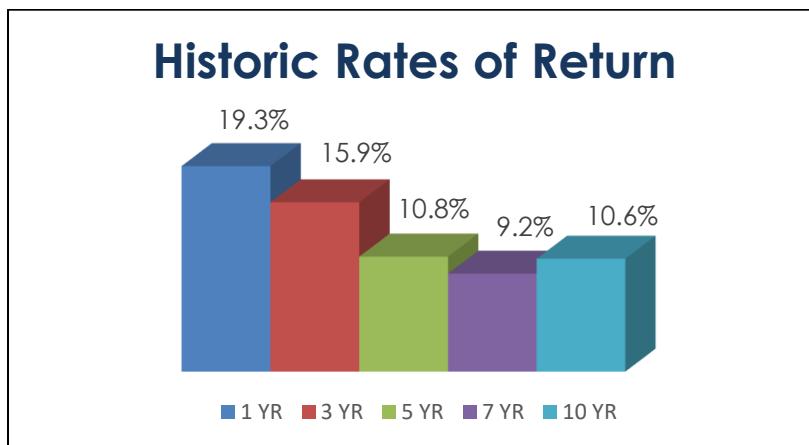
Investments by Asset Class	
Equities	564,024,705
Fixed Income	198,520,496
Real Estate	42,992,624
Short-Term	445,370
Total	805,983,195

*2016 reflects 30.3M CCTA split.

INVESTMENT SUMMARY

The investment objective is to achieve a “real” rate of return (nominal rate less inflation) of 5% over time. This objective has been achieved since the inception of the current organization in 1982.

	2021 1 Year	2017-2021 5 Year	Since 1982
Nominal Rate of Return	19.32%	10.78%	11.01%
Inflation	7.04%	2.94%	2.70%
Real Rate of Return	12.28%	7.84%	8.31%



FINANCIAL SUMMARY

The City of Kalamazoo Employees' Retirement System total fiduciary net position held in trust for benefits on December 31, 2021 was \$805.9 million, a 14.39% increase from \$704.5 million on December 31, 2020. The return received on investments was 19.32%. Favorable market conditions resulted in gains across all portfolios except for Fixed Income, which showed a modest loss. (Numbers may not add up precisely to totals due to rounding.)

STATEMENT OF PLAN NET POSITION

	2021	2020
Assets		
Cash and Cash Equivalents	\$ 445,370	\$ 258,457
Receivables	3,246,165	4,377,988
Investments	802,291,660	699,982,257
Total Assets	805,983,195	704,618,702
Liabilities		
Accounts Payable	58,400	41,919
Total Liabilities	58,400	41,919
Net Position Restricted for Pension Benefits	\$ 805,924,795	\$ 704,576,783

The City of Kalamazoo Employees' Retirement System continues to be managed very cost effectively. All fees and expenses are reviewed and approved in open committee meetings. Total expenses for the plan in 2021 were \$2.7 million, which is 0.47% of market assets. Our low expense ratio is a substantial cost savings to the System.

	EXPENSE	% OF MARKET ASSETS
Investment Management fees	\$ 1,981,792	0.33%
Custodial fees	\$ 232,538	0.04%
Administrative fees	\$ 570,009	0.10%
Total	\$ 2,784,340	0.47%

FINANCIAL SUMMARY

Revenue sources include employer contributions, employee contributions, and earnings on investments. Plan expenses consist of pension benefits to members and beneficiaries, contribution refunds to those who exit the System, fund management fees, and general administrative costs.

SUMMARY OF CHANGES IN PLAN NET POSITION

	2021	2020
Additions		
Investment Income		
Change in fair value of investments	\$ 111,649,407	\$ 48,623,967
Interest	2,643,486	3,510,852
Dividends	21,558,645	7,742,102
Investment expense	(2,214,331)	(2,078,006)
Net investment income	133,637,208	57,798,914
Contributions		
Plan Members	1,345,658	1,285,845
Total additions to net position	134,982,866	59,084,759
Deductions		
Benefit Payments	33,005,277	31,065,811
Refunds of Contributions	59,568	46,733
Administrative Expenses	570,009	534,700
Total deductions from net position	33,634,854	31,647,244
Net Change	101,348,012	27,437,515
Net position beginning of year	704,576,783	677,139,268
Net position end of year	<u>\$ 805,924,795</u>	<u>\$ 704,576,783</u>

FINANCIAL SUMMARY

BUDGET AND EXPENSES

	2021 BUDGET	2021 ACTUAL
Actuary Fees	\$ 90,000	\$ 116,100
Admin Fees	236,148	236,148
Attorney Fees	10,000	-
Audit Fees	5,500	5,500
Benefit Payments	32,330,000	33,005,277
Consulting Fees	155,000	155,171
Custodial Fees	245,000	232,538
Disability Physical Exams	1,000	-
Due Diligence/Conferences	10,000	-
Liability Insurance	18,000	20,096
Management Fees	2,100,000	1,981,792
Miscellaneous Expense	3,500	-
Refunds of Contributions	75,000	59,568
Retiree Services Fees	26,000	36,995
	<u>\$ 35,305,148</u>	<u>\$ 35,849,185</u>

ACTUARIAL SUMMARY

MEMBERSHIP DATA

	2021	2020
Retirees and Beneficiaries	918	913
Active Members	622	592
Inactive Members	70	66
Total Members	1,610	1,571

Average annual retirement allowance	\$ 36,176
Total annual retirement allowances	\$ 33,209,296

ACTUARIAL SUMMARY

Employer contributions, if applicable, are made in accordance with funding levels recommended by Gabriel, Roeder, Smith & Company in the annual Actuarial Valuation Report. Funding level calculations are based on a smoothed (actuarial) value of assets rather than the market value in order to moderate annual fluctuations caused by market conditions. By policy, annual asset gain or loss will be recognized over five years (smoothed), however, actuarial assets may not be less than 80% of the market value of assets.

According to the 2021 valuation, City contributions are not currently needed, as the System's assets are in excess of the accrued liability. The current ratio of assets to liabilities is 136.0%.

Employee contributions are made in accordance with union contracts or provisions within the code of ordinances.

ACTUARIAL FUNDING (\$000)

Year Ended	Actuarial Assets	Actuarial Liabilities	Funded Ratio
1970	\$ 6,782	\$ 10,921	62.1%
1980	\$ 28,151	\$ 42,848	65.7%
1990	\$ 99,014	\$ 100,981	98.1%
2000	\$ 331,443	\$ 208,070	159.3%
2010	\$ 518,339	\$ 367,423	141.1%
2020	\$ 684,053	\$ 522,936	130.8%
2021	\$ 723,763	\$ 532,360	136.0%

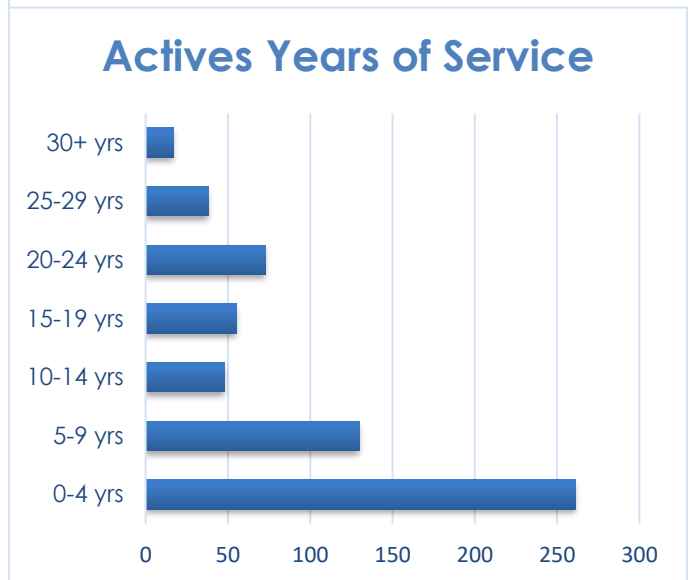
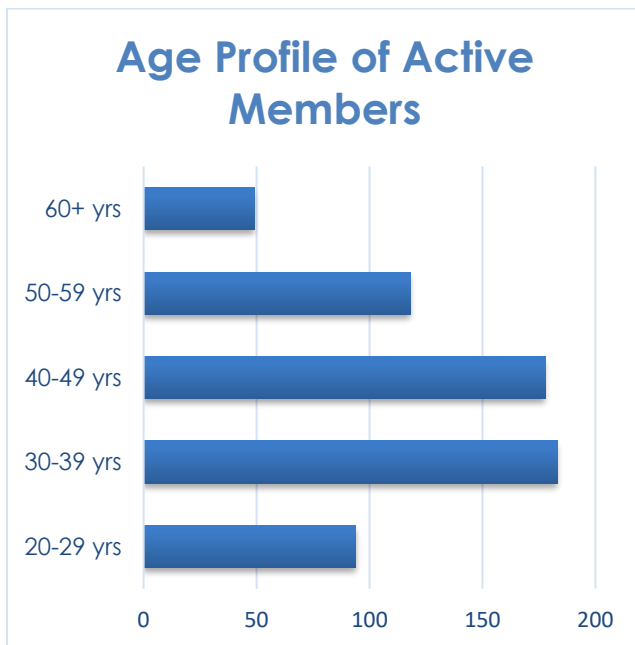
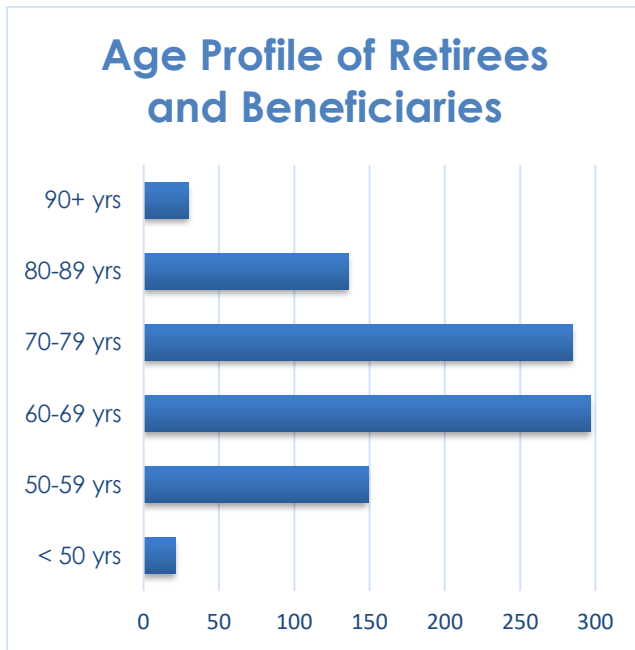
Assets and Liabilities no longer include Metro/CCTA as of 2016.

Member Contributions	
Weighted average	3.21%
Employer Contributions	
Computed Normal Cost of benefits	
expressed a a percentage of valuation payroll	15.81%
Unfunded Actuarial Accrued Liability contribution rate	
expressed a a percentage of valuation payroll	-31.26% *
Valuation Payroll	\$39,983,168

*The overfunded liability is currently supporting pension costs that would otherwise require City contributions.

Actuary assumptions include 7.25% Investment rate of return and 3.5% Wage inflation rate. Cost Method is Entry Age, Normal.

ACTUARIAL SUMMARY



PLAN ADMINISTRATION

BOARD OF TRUSTEES

The City Commission established a five-member Board of Trustees to administer the System in accordance with the provisions set forth in the Code of Ordinances of the City of Kalamazoo. The Board of Trustees consists of a City Commissioner selected by the City Commission, the City Manager, a citizen who is appointed by the City Commission, a public safety member elected by the public safety members, and a general member elected by the general members.

Board Members as of 12/31/21

Dr. Randall Eberts	Citizen at Large
Charles Mason	Public Safety Member
Michelle Emig	General Member
James Ritsema	City Manager - Chairman Pro Tem
Chris Praedel	City Commissioner

INVESTMENT COMMITTEE

The City Commission created the Investment Committee on October 19, 1981. The Investment Committee is charged with the management of the System's assets and has full authority to invest and reinvest such assets subject to the provisions of applicable state and local laws, ordinances, and the investment policy. The Investment Committee is composed of as many as seven members, all have an extensive financial background, and none are participants in the System. The members are appointed by the Mayor with the consent of the City Commission and serve three-year terms.

Board Members as of 12/31/21

Robert Salisbury	Chair
Dr. Randall Eberts	Vice Chair
Daniel DeMent	
Dean Bergy	
Sandi Doctor	
Joshua Sledge	
Nick Griffith	

City Commission Liaison: David Anderson

PLAN ADMINISTRATION

ADVISORS & CONSULTANTS

Actuary	Gabriel, Roeder, Smith & Company
Attorney	Ice Miller
Auditor	Maner Costerisan
Custodian	State Street Bank and Trust
Investment Advisor	Merion Capital LLC

FOR FURTHER INFORMATION

If you would like to see the Retirement Ordinance, Actuarial Valuation, or the Audited Financial Report, these are available during regular business hours in the Management Services Division of City Hall or at the City of Kalamazoo website, www.kalamazoo.org.

If you have questions regarding the Retirement System, or need to make changes to beneficiary or general contact information, please contact:

City of Kalamazoo
241 West South Street
Kalamazoo, MI 49007

Lisa Brown 269-337-8472 pension@kalamazoo.org
