

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
Wednesday, August 24, 2016**

A meeting of the City of Kalamazoo Retirement Investment Committee was held on Wednesday, August 24, 2016 in the Lawrence Conference Room of the Kalamazoo Community Foundation Building. Chair Robert Salisbury called the meeting to order at 8:55 a.m.

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

Absent: Joel Wittenberg.

Jan Van Der Kley motioned and Vice Chair Randy Eberts supported excusing committee member Joel Wittenberg. The motion passed by voice vote.

Guest present: Lynn Chen-Zhang, Anna Kniffin, and Chris Tarkowski from Zhang Financial.

Others present: Chris Ruppel, Consultant; Commissioner David Anderson; Patricia Vargas, recording secretary.

Chair Robert Salisbury announces that Randy Eberts will not be able to stay the duration of the meeting.

2016 1st Quarter Meeting Minutes

No comments

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

Trip Reports

Chris Ruppel attended the DFA conference.

Chris Ruppel indicated the purpose of the RREEF meeting was to review staff changes, and the purpose of the BlackRock was to review the fee structure and the contracts. Terry Doyle left RREEF and is with another firm and Chip George is his replacement. Head of unit Kevin Howley was promoted and a new hire is being sought after for his previous position. The BlackRock meeting went over the fee structure change and contracts. DC was discussed at the DFA conference and conversion from DB to DC.

Investment Portfolio

Assets

Patricia Vargas reported on behalf of Tom Skrobola: Tom previously reviewed and will report out on the report discrepancy by the next quarterly meeting. *Resolution: The amount reported by the City in the Portfolio Profile (p13 of 90) for the RREEF balance at 30Jun2016 of \$18,828 (thousands) was the balance for 31Mar2016. The correct balance for 30Jun2016 was \$19,198 (thousands)*

Chris Ruppel clarified and Dean Bergy confirmed that the City Portfolio Profile number of \$690,041 (thousands) on the City Profile should be \$690,411 (thousands).

Investment Performance Review

The market value of portfolio assets increased from \$688.4 million to \$690.4 million during the second quarter of 2016, an increase of \$2 million or 0.29%.

The portfolio weighted average return for the quarter, net of manager fees, was 1.71%. The 1-year net return was 0.43%. The return since October 1982, net of manager fees, through the end of the quarter has been 10.96%.

Equities comprised 69.7% of the City portfolio at the end of the quarter. The equity portion of the City portfolio returned 1.39% for the quarter and -2.68% year-on-year.

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Fixed income comprised 24.8% of the City portfolio at the end of the quarter. Total fixed income returned 2.09% for the quarter and 6.11% year-on-year.

At the end of the quarter, real estate investments were 5.4% of the portfolio. Real estate returned 4.22% for the quarter and 17.28% for one year.

The portfolio assets finished the quarter with 69.7% in equities, 24.8% in fixed income, 5.4% 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 0.49% as the inflation rate for the quarter was 1.22%. With a year-on-year inflation rate of 1.01%, the one year real return was -0.58%. Since October 1982, the return on the portfolio, net of manager fees, has been 10.96% nominal and 8.22% real.

Chris Ruppel indicated that the City's cumulative return has been as high as 13.5%.

Bob Salisbury indicated in an earlier meeting the risk and return, impact on pension assumptions, and pension contributions were discussed. To be consistent the City should adopt the approach that the County uses. The County asked actuaries to create multiple assumptions for risk and return, salary assumptions, and discount rate.

The net effect of both the City of Kalamazoo and Kalamazoo County was 7.5%.

Bob Salisbury noted that on page 21 of 90, in the five year column, the DFA Emerging Markets Value I fund return is below the benchmark. Per the Investment Policy, the committee is reviewing. DFA will be brought in to Kalamazoo to discuss.

Further, Mr. Salisbury noted the entry of the SSgA Prime Money Market Institutional in the Manager Correlations (p25 of 90) and asked what State Street will be using for the money market funds after the SEC rules issued in 2010 go into effect on 14Oct2016. Mr. Ruppel will follow-up.

Randy Eberts asked that the correlation entries be checked on page 25 of 90, noting that with the equity characteristic of Vanguard REIT Index I, the oddity of a positive entry vs. a negative entry.

Account Update

2016 2nd Quarter Cash Flow Report

Patricia Vargas indicated that Tom Skrobola reviewed the report and found no issues.

Dean Bergy observed that the employee contributions in the second quarter actual were lower than projected.

Bob Salisbury requested that Tom review and provide follow-up to board members.

2016 2nd Quarter Expense Report

No Comment

Dan DeMent motioned and Dean Bergy supported approval of the total miscellaneous expenses by roll vote.

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

2016 2nd Quarter Liquidations

No Comment

Audit

Audits are complete. No Comment

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Due Diligence

Chris Ruppel stated that a proposed investments agreement is being reviewed by attorneys and the City's portion is complete.

Communications

Derivatives Report

No Comment

Articles of Interest

John McGowan helped found DFA and integrate the Chicago school of Thought into the market place. Also, the only fully funded pension fund in the State of Michigan was City Employees' Fund, which is still taking employees into a defined benefit plan.

PCIC Report

No questions on Perpetual Care Fund. Bob Salisbury summarized that committee members' actions on behalf of the City are covered under the current liability insurance.

New Business

No Comment

Future Meetings (all in the Lawrence Conference Room of the Kalamazoo Community Foundation Building)

Monday, November 21, 2016 @ 2:30 p.m.

Wednesday, February 22, 2017 @ 8:45 a.m.

Wednesday, May 24, 2017 @ 8:00 a.m.

Wednesday, August 23, 2017 @ 8:45 a.m.

Around the Table

Dean asked if the committee will be brought up to date on the status of the OPEB. Chris Ruppel will check with Tom Skrobola that this is a regular practice.

Bob Salisbury stated that there will be further deliberation on the insurance review, however getting close to closure.

Adjourn

Chair Salisbury mentioned that a lot work has gone into the insurance review that has been very useful. No further comments the court was adjourned at 9:24 a.m.



Thomas C. Skrobola,
Secretary