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MINUTES

KENT DISTRICT LIBRARY PENSION BOARD
Kent District Library Service Center
814 West River Center Dr. NE, Comstock Park, MI 49321
Wednesday, November 18, 2009 - 1:00 p.m.

Present: Members: Sharon K. Harrington, Charles R. Myers, Anthony A. Senna, Carol Simpson, Henry T. Vry

Administrators: Brian L. Mortimore, Martha J. Smart

Guests: Mark Binnion, *Franklin Templeton Investments*; John Jackson, *Asset Consulting Group*

Absent: None

I. Call to Order – Chair Charles Myers called the meeting to order at 1:05 p.m.

II. Pledge of Allegiance

III. Approval of Agenda
Motion: Mr. Senna moved for approval of the agenda as presented.
Support: Supported by Ms. Harrington.
RESULT: Motion carried.

IV. Public Comments – None

V. Approval of Minutes – August 19, 2009
Motion: Ms. Simpson moved to approve the minutes of August 19, 2009 as presented.
Support: Supported by Mr. Senna.
RESULT: Motion carried.

VI. Franklin Templeton Annual Report

Mark Binnion presented a report on the Franklin Templeton International Equity Portfolio highlighting the investment philosophy, portfolio managers, and its relative performance. Templeton's bottom-up, value-oriented investment philosophy attempts to identify value through rigorous fundamental analysis of a company's business to determine its potential economic worth based on projected future earnings, cash flow, or asset value potential. The investment team then seeks to include in the portfolio those companies that are trading at a discount in comparison to what research indicates the company may be worth.

The portfolio management team, lead by CIO Gary Motyl, is comprised of 36 analysts working at 7 global research offices. Over a trailing ten year period, the portfolio has returned an annualized 7.3% outperforming both the MSCI EAFE Index and the MSCI All Country World Free ex USA Index and ranking in the 45th percentile of the median international equity peer.

VII. Asset Consulting Group – 3rd Quarter Report 2009

Total Fund

- The Kent District Library Retirement System's portfolio allocation as of September 30, 2009 was as follows:
  - *Asset Allocation*: Domestic Equity 38.3%, International Equity 9.9%, Fixed Income 49.3%, and Cash Equivalents 2.4%.

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- *Manager Allocation*: INTECH 28.2%, Atlanta Capital 10.1%, Templeton 10.0%, JP Morgan 50.2%, and cash 1.5%.

- The Total Portfolio market value was $28,968,599 as of September 30, 2009 and included a $2,656,060 return on investment for the third quarter of 2009.
- The Total Portfolio generated a return of 10.1% in the third quarter underperforming both the Policy Index (10.4%) and the median peer with a similar equity allocation (10.9%). Over the past one, three, five and ten year periods, the Total Portfolio has returned 7.1%, 2.4%, 4.6%, and 4.6%, respectively.
- For the five year period ending September 30, 2009, the Total Fund had a risk profile (as measured by the standard deviation) lower than the median peer and the Policy Index.
- As of September 30, 2009, the retirement system's assets are in compliance with the investment criteria established by Michigan Public Act 314.

JP Morgan Asset Management

- The JP Morgan core bond portfolio returned 4.7% in the third quarter, 100 basis points ahead of the Barclays Aggregate Index but below the median core fixed income peer. The positive performance this quarter contributes to a relatively strong 13.7% return over the trailing one year period versus 10.6% for the Index and 13.3% for the median peer.
- The portfolio's underweight to Treasuries in favor of spread sector securities was a positive contributor this quarter, as all non-Treasury securities continued to outperform. Conversely, the portfolio's underweight exposure to commercial mortgage backed securities (CMBS) was a detractor as the sector rallied significantly during the quarter.
- Over the trailing 10 year period, the strategy has returned an annualized 6.8% versus 6.3% for the Index and is meeting its performance objectives over this time period.

INTECH

- INTECH's large cap equity portfolio gained 14.9% in the third quarter underperforming the S&P 500 Index by 70 basis points and ranking in the bottom quartile of the large cap core peer universe. Over the trailing one year period, the portfolio has declined 7.8% versus -6.9% for the Index.
- Over the trailing three and four year periods, the enhanced index strategy is outperforming the S&P 500 Index by 20bps and 10bps respectively.
- INTECH's process is based upon a quantitative mathematical approach that does not focus on bottom up stock selection or macro economic themes. INTECH's strategy is focused on relative volatility, seeking to overweight stocks with high volatility relative to the Index and underweight those stocks with low relative volatility.

Atlanta Capital

- Atlanta Capital's small/mid cap strategy returned 17.5% in the third quarter, lagging both the Russell 2500 Index and the median SMID peer. In the one year since inception in the portfolio, the Fund is outperforming the Index by more than 1200 basis points and ranks in the 5th percentile of the median SMID equity peer.
- During the third quarter, poor stock selection was the largest detractor from performance. In particular, holdings in the consumer discretionary and industrial sectors caused performance to lag. Conversely, sector weightings contributed positively and offset some of the performance due primarily to an overweight in consumer discretionary coupled with an underweight in telecom and utilities.

Templeton

- Templeton's international equity portfolio gained 21.5% in the third quarter outperforming the MSCI EAFE Index by 200 basis points but underperforming the MSCI All Country World Free ex USA Index by 170 basis points. Over the trailing three and five year periods, the Fund is outperforming both Indices and ranks in the top quartile of the median international equity peer.
- Templeton's relative performance in the third quarter can be attributed to strong stock selection in the financial, information technology, and industrial sectors. On a regional basis, the portfolio's

underweight position in Japan was a positive for performance but this was offset by poor stock selection in China.

- Over a trailing ten year period, the strategy has returned an annualized 7.3% outperforming both Indices and ranking in the 45th percentile of the median international equity peer.

John Jackson reported that the equity market remained strong through the third quarter and that low quality stocks continue to be the best performers. He noted that the recent strong performance by some companies is not necessarily due to increased revenues, but a result of cost cutting measures such as a reduction in staff size. Lastly, he indicated that emerging markets performed well in the third quarter as did the technology sector.

The Trustees discussed INTECH's recent underperformance and how the loss of two key members of their investment team may have impacted the portfolio. John Jackson noted that this loss of personnel did not affect INTECH's research group or the plan strategy, and that during times of greater volatility in the market, mathematical investment strategies like the one employed by INTECH tend to experience underperformance. The Trustees requested that Mr. Jackson monitor the situation with INTECH and report back to the Board should he have cause for concern.

The Trustees discussed whether they should lobby in support of Michigan House Bill 5323, which amends certain sections of Michigan Public Act 314. Mr. Jackson noted that some portions of the Bill may not apply to all retirement systems. HR Director Brian Mortimore will distribute a copy of this Bill to the Trustees so they can review it.

VIII. Approval of Invoices

Motion: Mr. Vry moved for approval of the invoices totaling $10,041.61 as presented.
Support: Supported by Mr. Senna.
RESULT: Motion carried.

IX. Refund of Accumulated Contributions (Non-Vested Terminations)

Name	Start Date	Termination Date	Pension + Interest
J. Taylor	8/29/2005	8/10/2009	$2,514.90
A. Warner	8/30/2004	7/31/2007	$2,067.95

X. Retirement (Vested Terminations)

Name	Start Date	Termination Date	Service Credits	Monthly Benefit
L. Adams	8/4/1987	7/29/2009	11.6146	$480.80 Option B
K. Martin	10/30/1995	3/21/2001	5.3195	$226.85 Option C
J. Roman	7/7/1997	8/31/2009	12.2500	$858.91 Option C
M. Smith	4/11/1988	8/31/2009	18.9797	$978.52 Option A

Human Resources Director Brian Mortimore reported that the retirees had been counseled about retirement options and made elections after meetings in which spouses were included.

Motion: Ms. Harrington moved to approve the retirements of L. Adams, K. Martin, J. Roman, and M. Smith as presented.
Support: Supported by Ms. Simpson.
RESULT: Motion carried.

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XI. Actuarial Experience Study

Per the Board's request at its August 19, 2009 meeting, HR Director Brian Mortimore provided the quoted prices for actuarial firm Gabriel, Roeder, Smith & Company to undertake an experience study of the KDL Employees' Retirement Plan. The costs are as follows:

- Economic assumptions only: $1,750
- Demographic assumptions only: $3,250
- Both economic and demographic assumptions: $4,500
- Meeting to present results: $500

The last experience study, undertaken in 2003, examined only the demographic assumptions of the Plan. Mr. Mortimore recommended that the Board consider approving a full experience study examining both the economic and demographic assumptions so as to obtain the most current data for use with next year's actuarial valuation.

Motion: Ms. Harrington moved to approve an expenditure of up to $5,000 for an economic and demographic study of the Plan with a meeting to present the results to be decided at a later date.
Support: Supported by Mr. Senna.
RESULT: Motion carried.

XII. Miscellaneous

Trustee Senna inquired as to the reason for the significant variance in benefit payments month-to-month throughout the third quarter. HR Director Brian Mortimore will investigate this matter and report back to the Board.

Trustee Vry encouraged the Board to consider undertaking additional due diligence site visits particularly to those organizations located in Michigan. Mr. Mortimore concurred and encouraged these visits in the spring of 2010 following the completion of the union negotiations. Mr. Jackson noted he could provide Trustees with a list of due diligence questions should they desire to visit an investment manager.

Trustee Senna raised the concern of having the Board's draft minutes available to the public within eight business days following the date of the meeting to comply with the Open Meetings Act. The draft minutes will now be posted on the KDL website within this time window.

Mr. Jackson led the Trustees in a brief discussion of the differences between strategic and tactical investment planning and provided a comparison of five-year return rates for KDL's strategically planned fund versus two tactical asset allocation universes. While the return for the tactically planned universes was on average 200 basis points higher than the return on KDL's fund, the volatility/risk for the tactically planned universes was much greater. Additionally, over a five year period, the tactically planned universes had a greater exposure to non-U.S. securities than is currently permitted within Michigan Public Act 314.

XIII. Adjournment

Chair Charles Myers adjourned the meeting at 3:16 p.m.

Next Meeting: Wednesday, February 17, 2010 at 1:00 p.m. – KDL Service Center