



## Overall Summary

The high return on international investments and equities from 2003 – 2007 has not continued in 2008.

The economic downturn of the last few months has impacted all asset classes including international equities. In response to these current realities, the portfolio managers and analysts have been working under the following mandate:

- Focus on what can be controlled, which is primarily the research and assessment process. Look at the assumptions that have made and test how they stand in today's market environment;
- Take this opportunity to upgrade the quality of stocks in the portfolio; and
- Take this time to prepare the portfolio for the inevitable upswing that will come.

No one can determine how long this current bear market will last and how steep the losses will be. Ms. Dominguez and Ms. Ulrich strongly believe the markets will turn and those that are positioned long term will succeed.

## VI. Asset Consulting – Quarterly Review – September 30, 2008

### **Mr. John Jackson**

#### **Total Fund**

The Kent District Library Retirement System's portfolio allocation as of September 30, 2008, was as follows:

*Asset Allocation:* Domestic Equity 37.0%, International Equity 8.7%, Fixed Income 50.7% and Cash Equivalents 3.6%.

*Manager Allocation:* INTECH 27.2%, Atlanta Capital 9.8%, Templeton 8.7%, JP Morgan 53.0% and cash 1.3%.

The Total Portfolio market value was \$26,402,756 as of September 30, 2008 and included a \$994,761 loss for the third quarter of 2008.

The Total Portfolio generated a return of -4.3% in the third quarter and outperformed the Policy Index (-5.0%) and the median peer with a similar equity allocation (-8.3%). Over the past one, three, five and ten year periods, the Total Portfolio has returned -8.9%, 2.5%, 5.4%, and 5.6%, respectively.

For the five year period ending September 30, 2008, the Total Fund has a risk profile (as measured by the standard deviation) lower than the median peer and higher than the Policy Index.

As of September 30, 2008, 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 -0.8% in the third quarter, approximately 30 basis points behind the Lehman Aggregate Index and 120 basis points above the median core bond manager. Despite the quarterly loss, the portfolio remains in positive territory year-to-date with a 0.9% return.

JP Morgan's underweight position in lower rated credit holdings helped minimize losses in the third quarter, although this was offset somewhat by an overweight in the financials subsector as downward pressure on banks increased significantly. Overall, JP Morgan's focus on diversification has allowed it to avoid much of the broad weakness in the fixed income market this year and outperform the majority of its peer universe.

#### **INTECH**

INTECH's large cap equity portfolio declined -8.3% in the third quarter and outperformed the S&P 500 Index by 10 basis points. Over the trailing one, two, and three year periods the enhanced index strategy is outperforming the S&P 500 Index by 250 bps, 80 bps, and 50 bps, 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**

In its first full quarter in the portfolio, Atlanta Capital small/mid cap equity strategy returned -0.1%. Despite the quarterly loss, the fund outperformed both the Russell 2500 Index and the Median SMID peer ranking in the top quartile of the universe.

An overweight to the strong performing consumer staples, health care, and financial sectors had a positive impact on performance. Conversely, poor stock selection in the energy sector detracted from performance.

### **Templeton**

Templeton's international equity portfolio declined 15.0% in the third quarter and outperformed the MSCI EAFE Index (-20.5%) and the MSCI All Country World Free ex USA Index (-21.8%).

During the third quarter the portfolio's performance can be attributed to a significant underweight to the poor performing energy and materials sectors as well as an overweight to the top performing health care sector.

Strong stock selection in industrial capital goods (larger positions in Embraer/Brazil and BAE/UK) and in Europe (Rolls Royce/UK, Celasio/Germany, and Novartis Lonza/Switzerland) had a positive effect on performance.

Mr. Jackson presented the Investment Performance Review for the period ending September 30, 2008. He also provided an in-depth capital market update including a chronology of market events from early September through October 31, 2008.

Mr. Jackson noted that the fund has lost \$4,692,359 between January 1, 2008 (\$28,664,359) and October 31, 2008 (\$23,972,000).

The markets remain highly volatile as uncertainty remains both with regard to the current mortgage bailout plan and the level of the Federal government's involvement in the financial and automotive sectors. In spite of its current volatility, Mr. Jackson provided documentation for why it pays to stay invested in the market over the long-term.

## VII. **FDIC Insurance Limits Discussion**

### **Mr. Anthony Senna**

KDL's short-term funds invested at Comerica are invested in the Janus Institutional Money Market Fund, a fund governed by rule 2a-7. The increased FDIC coverage provided under the Emergency Economic Stabilization Act of 2008 does not apply to funds governed by rule 2a-7.

However, on September 19, 2008, the U.S. Treasury announced a guaranty program that insures a \$1 NAV (net asset value) for participating entities, which would include KDL's short-term funds invested at Comerica. Key points to this guaranty program are:

- Coverage extends only to the amount invested at the close of business on September 19, 2008.
- The program is temporary and is due to expire on December 18, 2008, but it may be extended by the U.S. Treasury to September 19, 2009.

The KDL cash balance invested in this fund as of September 19, 2008 was \$301,527. The current cash balance as of November 18, 2008 is \$405,652.

Some alternatives to staying invested in the Janus Institutional Money Market Fund would be to switch investment vehicles to a lower yield government fund or treasury fund.

**Motion:** Mr. Senna moved that should the U.S. Treasury not extend the guaranty program beyond December 18, 2008 that the KDL Pension Board will change its short-term investment vehicle in its entirety to a money market mutual fund invested in government securities as offered through Comerica.

**Support:** Supported by Ms. Harrington.

**RESULT:** Motion carried.

VIII. Audit and Actuarial RFP Report

**Ms. Sharon Harrington and Mr. Brian Mortimore**

By decision of this Board and in interest of due diligence, two separate requests for proposals (RFPs) were issued for (1) Audit Services for the Retirement Fund and (2) Actuarial Services for the KDL Employee's Retirement Plan.

*Audit Services for Retirement Fund*

The RFP for audit services received four respondents – (1) BDO Seidman, LLP, (2) Abraham & Gaffney, PC, (3) Hungerford, Aldrin, Nichols & Carter, PC, and (4) Vredeveld Haefner, LLC. While all four firms are qualified to perform the audit, two firms – BDO Seidman, LLP and Hungerford, Aldrin, Nichols & Carter, PC – have staff members who are Yellow Book certified (this is a Governmental Auditing Standard). Trustee Harrington indicated that all the firms have an obligation to audit sufficiently and that the contracts are renewable year-by-year should KDL be dissatisfied after the first year by the services offered by the selected firm. For the past four years, BDO Seidman, LLP has performed the audit of the KDL Retirement Fund.

The General Accounting Office has issued recent changes regarding the gathering of information such that the testing of the computer system itself is required to verify to the auditor's satisfaction that the information presented by the entity being audited is correct. Only two firms, BDO Seidman, LLP and Hungerford, Aldrin, Nichols & Carter, PC, indicated in their RFP that they have the capability of performing this test.

As stated in the issue analysis, KDL staff are recommending Hungerford, Aldrin, Nichols & Carter, PC for this auditing services contract as they provide a considerable cost savings (approximately \$13,000 per year) over BDO Seidman, LLP and have auditing experience with a number of local governmental entities and school districts.

The firm with the lowest bid, Vredeveld Haefner, LLC, also has experience with auditing governmental entities and school districts, but they are neither Yellow Book certified nor do they have the same capacity to download data directly into their auditing software (they would require a separate, intermediate step of a data transfer into Microsoft Excel which could increase the possibility of error or data corruption). Additionally, Hungerford, Aldrin, Nichols & Carter, PC have a larger staff to dedicate to the KDL audit and the lead auditor at this firm has performed two audits of KDL in the past during his tenure at BDO Seidman, LLP.

The Trustees did raise some concerns regarding the price difference between Hungerford, Aldrin, Nichols & Carter, PC and Vredeveld Haefner, LLC as choosing Vredeveld would save KDL \$8,000 - \$10,000 annually. Specifically, they wondered if the cost savings of choosing Vredeveld would outweigh the increased use of staff time that may result by working with this smaller firm. The Trustees recognized the greater burden of this decision lies with the KDL Board of Trustees who must consider the audit for both the Library's General Operating Fund and the Retirement Fund.

**Motion: Ms. Harrington moved that the KDL Pension Board finds both Hungerford, Aldrin, Nichols & Carter, PC and Vredeveld Haefner, LLC suitable to perform the pension plan audit and would recommend a choice of either firm to the KDL Board of Trustees.**

**Support: Supported by Mr. Senna.**

**RESULT: Motion carried.**

For the sake of due diligence, Trustee Vry requested that, in the future, all received proposals and issue analyses be sent to the Trustees in advance of the meeting date. Mr. Mortimore agreed to this request.

*Actuarial Services for KDL Employee's Retirement Fund*

The RFP for Actuarial and Administrative services received two respondents – (1) Gabriel, Roeder, Smith & Company and (2) Watkins, Ross & Company. Both firms are capable of providing the necessary services for the purposes of the Human Resources Department. The key difference between the firms is the quoted

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price for services. Gabriel, Roeder, Smith & Company provided a quote of \$7,750 for an actuarial valuation of the Plan in 2009 versus Watkins, Ross & Company's quote of \$13,000. Gabriel, Roeder, Smith & Company's per hour fee for additional services was \$50 - \$125 higher than Watkins, Ross & Company, but Brian Mortimore indicated that KDL has historically had limited use for these additional services.

**Motion: Mr. Vry moved that KDL retain Gabriel, Roeder, Smith & Company as its Actuarial and Administrative Services provider for KDL's Employee's Retirement Plan for the coming year.**

**Support: Supported by Ms. Harrington.**

**RESULT: Motion carried.**

IX. Approval of Invoices

**Motion: Ms. Wisniewski moved for approval of invoices as presented totaling \$13,443.65.**

**Support: Supported by Ms. Harrington.**

**RESULT: Motion carried.**

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

Name	Start Date	Termination Date	Service Credits	Pension + Interest
D. Fortier	3-17-2003	8-12-2005	1.7653	\$1,706.89
J. Yahne	7-16-2007	9-12-2008	0.6429	\$462.62
A. Conrad	6-11-2007	9-19-2008	0.8266	\$629.08
J. Micka	4-9-2007	10-3-2008	1.6710	\$1,816.24

XI. Retirement (Vested Terminations)

Name	Start Date	Termination Date	Service Credits	Monthly Benefit
L. Dietrich	6-26-1989	6-7-2002	7.2907	\$302.22 Option-C
J. Gillis	2-24-1997	6-12-2003	3.6665	\$146.57 Straight Life

Human Resources Director Brian Mortimore reported that the retirees had been counseled about retirement options and made elections after meetings in which respective spouses were included. J. Gillis's paperwork was carried over from the August 20, 2008 Pension Board meeting and the mechanical error found in the paperwork at that meeting was corrected resulting in no change in the benefit level.

**Motion: Ms. Wisniewski moved to approve the retirements of L. Dietrich and J. Gillis.**

**Support: Supported by Mr. Vry.**

**RESULT: Motion carried.**

XII. Miscellaneous

In keeping with the decision to add a fifth Pension Board meeting in every calendar year beginning in 2009, the Board Members chose Wednesday, January 21, 2009 as the extra meeting date. Board Members will forward potential agenda items for this meeting to Brian Mortimore who will set the agenda. Initial suggestions included:

- An informational review of the Trustee handbook.
- An informational review of the recent revisions made to the Plan Summary.
- Discussion of the restriction on collecting a pension after age 63.
- Discussion of a timeframe for reconsidering real estate investments.
- Review and update of the multi-year calendar of events for the Pension Board.

Trustee Vry encouraged the Board to consider producing an information piece describing the roles and responsibilities of a Pension Board Trustee. John Jackson indicated that Asset Consulting has a list of best practices for trustees that may be helpful in producing this information piece and he will circulate that

document to the Board. Mr. Vry will draft a version of the “Roles and Responsibilities for Trustees” for the Board to discuss at a future meeting.

Trustee Wisniewski indicated that this may be her last meeting with the Pension Board contingent on the Kent County Board of Commissioners’ decision to reappoint her to the KDL Board of Trustees.

XIII. Adjournment

Chair Charles R. Myers adjourned the meeting at 3:45 p.m.

**Next Meeting: January 21, 2009 at 1:00 p.m., KDL Service Center**

APPROVED