



The Total Fund market value was \$28,664,360 as of December 31, 2007 and included a \$1.6 million return on investment for the one year period.

The Total Fund generated a return of 0.5% in the fourth quarter and outperformed the Policy Index (-0.1%) and median peer at -0.2%. Over the past one, three, five and ten year periods, the Total Portfolio has returned 6.0%, 6.4%, 9.7% and 7.5%, respectively.

For the five year period ending December 31, 2007, the Total Fund has a risk profile (as measured by the standard deviation) lower than the Policy Index and median peer and is outperforming the Policy Index and median peer on a risk adjusted basis.

As of December 31, 2007, the retirement system's assets are in compliance with the investment criteria established by Michigan Public Act 314.

### **JP Morgan Fleming Asset Management**

The JP Morgan fixed income portfolio gained 2.6% in the fourth quarter and fell shy of the Lehman Brothers Aggregate Index (3.0%). The financial sector was the worst performing sector in the portfolio on an excess return basis. JP Morgan's overweight to mortgages over credit has been a positive for the portfolio. The portfolio continues to be overweight in seasoned AAA rated and agency mortgage-backed securities. Most of their exposure is in seasoned CMOs. The majority of the mortgage securities are agency-backed and, therefore, carry an explicit or implicit government guarantee. During the fourth quarter, the strategy's allocation to private label mortgages detracted from results as these widened to a greater degree than agency-backed mortgage securities. Subprime exposure is minimal and accounts for 0.18% or less of the portfolio. The portfolio has benefited from its relative underweight to the weak-performing corporate sector.

For the 2007 calendar, the core fixed income portfolio gained 7.0% and matched the return of the Lehman Aggregate Index.

### **INTECH**

INTECH's large cap equity portfolio generated strong results in the fourth quarter and out performed the S&P 500 Index by 290 basis points (-0.4% vs. -3.3%). This ranked the portfolio in the top decile among other large cap core equity managers.

Despite underperformance in the first half of 2008, INTECH's portfolio rebounded and finished the year with strong results as the Enhanced Plus strategy outperformed the S & P 500 Index by 210 basis points and ranked in the top quartile among their large cap core peers.

INTECH added a capitalization constraint to their model in the third quarter to control the average weighted market capitalization and to limit the amount of smaller capitalization stocks in the strategy. This resulted in an increase to the average market capitalization of the portfolio by approximately 30%. This was added to the model to help limit the tracking error of the portfolio relative to the benchmark.

### **Panagora**

PanAgora's small cap equity portfolio continued to post disappointing results in the fourth quarter as the strategy lagged the Index (-8.6% vs. 4.6%).

2007 has proved to be an extremely tough year for Panagora as their strategy has lagged the Russell 2000 Index by a significant margin. Asset Consulting Group has had conference calls with the team leading the strategy and conducted an on-site visit with the management of the firm and strategy. Asset Consulting Group is not recommending taking formal action with Panagora at this time; however, ACG will continue to monitor portfolio results and stay in close communication with the firm.

### **Templeton**

Templeton's international equity portfolio gained 1.6% in the fourth quarter and outperformed both the MSCI EAFE Index (-1.7%) and the MSCI All Country World Free ex USA index (-0.6%). This ranked the portfolio in the top decile among other international equity managers. A significant underweight allocation to the weak performing Japanese market (4.3% vs. 14.8%) contributed to fourth quarter results as did strong stock selection in large, mega cap names (stocks >\$12 billion). Strong stock selection in capital goods, financials particularly banks, telecommunication services and information technology also contributed to fourth quarter results.

For the 2007 calendar year, the international equity strategy generated strong results on both an absolute and

relative basis as the strategy gained 18.4% vs. the MSCI ACWI 17.1% and the MSCI EAFE at 1.6%. Performance over longer periods of three, five and nine years is similar.

Mr. John Jackson and Ms. Patty Karolczak presented the quarterly market overview and how that impacts manager performance. They reviewed the Total Pension Fund Performance vs. Objectives:

- The Pension Fund’s annualized total return should equal or exceed the annualized rate of inflation as indicated by the Consumer Price Index. ***This objective has been met.***
- The Pension Fund’s annualized total return should equal or exceed the Fund’s actuarial interest rate assumption (currently 7%). ***This objective has been met.***
- The Pension Fund’s total return should exceed the total return of an index composed as follows: 30% S&P Stock Index, 10% Russell 2000 Index, 10% MSCI EAFE Index, and 50% Lehman Brothers Aggregate Bond Index. ***The benchmark is 9.9%, and the portfolio actual performance was 9.7%.***
- Pension Fund’s total return should rank at median or above as compared to a universe of total portfolios with similar weightings in equities (40-55%). ***The benchmark is 10.8%, with actual coming in at 9.7% and ranking 71<sup>st</sup>.***

VI. Asset Consulting – Real Estate Performance Update – John Jackson, Patty Karolczak  
Mr. Jackson suggested that a real estate discussion be deferred due to trustee absences. Information was provided in trustee packets related to JP Morgan Asset Management’s Strategic Property Fund and Principal Global Investors Real Estate Overview.

VII. Approval of Invoices:  
**Ms. Harrington moved for approval of invoices as presented.**  
**Supported by Mr. Senna.**  
**Motion carried.**

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

<u>Name</u>	<u>Start Date</u>	<u>Termination Date</u>	<u>Svc.Credits</u>	<u>Amount</u>
Matthew Arends	9-13-04.	9-7-07	2.2548	\$1,602.97
Brandon Kruse	2-14-05	4-15-07	1.4848	\$1,005.37

IX. Retirement (Vested Terminations)

<u>Name</u>	<u>Start Date</u>	<u>Termination Date</u>	<u>Svc.Credits</u>	<u>Amount</u>
Kircheis, Erma	10-25-82	11-30-07	23.6827	\$2,191.94/Mo (Straight Life)

**Mr. Senna moved to approve the application for retirement of the above-named employee.**  
**Supported by Ms. Harrington.**  
**Motion carried.**

X. Approval of modified meeting schedule:

May 14, 2008; August 20, 2008; November 19, 2008; February 18, 2009

**Upon a request from Asset Consulting Group to modify the annual KDL Pension Board meeting schedule (change in May 2008 date), Ms. Harrington moved to accept the meeting schedule as proposed.**

Supported by Mr. Senna.  
Motion carried.

XI. Trustee Training and Development lead by Asset Consulting

Mr. John Jackson conducted a training update as part of due diligence exercised annually to benefit trustees. Using the KDL Pension Fund Trustee Handbook (February 2008) as a guide, Mr. Jackson reviewed trustee responsibilities, familiarized trustees with terms and practices unique to market research and focused on a discussion of the role of real estate investments in a portfolio. He encouraged trustees to use the handbook to become familiar with pension funds and, in particular, with the various elements and components of defined benefit pension investing.

- XII. Next Meeting: May 14, 2008, 1:00 p.m., KDL Service Center  
The meeting adjourned at 4:33 p.m.