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MINUTES

KENT DISTRICT LIBRARY PENSION BOARD
Kent District Library Service Center
Wednesday, August 18, 2010 – 1:00 p.m.

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

Administrators: Cheryl Garrison

Guests: Michael Gano, *Gabriel, Roeder, Smith & Co.*
Carla Grant, *Hungerford, Aldrin, Nichols, & Carter, PC*
John Jackson, *Asset Consulting Group*
William Libby (via teleconference) and Michael Lynam, *Franklin Templeton*

Planned Absence: Brian L. Mortimore

I. Call to Order – Vice Chair Sharon Harrington called the meeting to order at 1:10 p.m. and Charles Myers arrived and assumed the Chair at 1:20 p.m.

II. Pledge of Allegiance

III. Approval of Agenda
Motion: Mr. Senna moved to approve the agenda as presented.
Support: Supported by Ms. Simpson.
RESULT: Motion carried.

IV. Public Comments – None

V. Approval of Minutes: May 19, 2010
Motion: Ms. Simpson moved to approve the minutes of May 19, 2010 as presented.
Support: Supported by Mr. Senna.
RESULT: Motion carried.

VI. Actuary Report – Gabriel, Roeder, Smith & Company
Michael Gano presented the results of the 15th annual Actuarial Valuation for the Kent District Library Employees' Retirement Plan dated January 1, 2010. He explained the valuation process and how the employer contribution rate was calculated. He noted that the valuation does reflect assumptions from the recently completed experience study, but does not take into consideration plan benefit changes occurring after January 1, 2010 such as the closing of the plan to new members. However, a supplemental valuation of the January 1, 2009 valuation was completed detailing the potential impact of these changes.

With regard to the actuarial process for next year's valuation, the Board encouraged the Actuary to send the Plan Administrator a schedule detailing what information is required and an associated timeline for the delivery of this data.

Motion: Ms. Harrington moved to forward the actuarial valuation to the KDL Board recommending adoption of an employer contribution rate for fiscal year 2011 of 7.75% as detailed in the valuation report minus 1.93%. The reduction is based on the supplemental actuarial valuation from Gabriel, Roeder, Smith & Co. dated March 12, 2010, which took into consideration plan benefit changes.
Support: Supported by Ms. Simpson.
RESULT: Motion carried.

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VII. Pension Audit Report – Hungerford, Aldrin, Nichols & Carter, PC

Carla Grant presented the results of the audit of the financial statements of the Kent District Library Employees' Retirement Plan. Ms. Grant noted that the audit process went smoothly and that her firm issued an unqualified opinion on the financial statements, which is the highest opinion that can be offered for an audit.

Motion: Mr. Vry moved to accept the audit into the KDL Pension Board records.
Support: Supported by Mr. Senna.
RESULT: Motion carried.

VIII. Franklin Templeton Annual Report

William Libby and Michael Lynam reported on Franklin Templeton's international equity portfolio noting that their investment strategy focuses on bottom-up, long-term stock selection. The portfolio has seen a move toward higher quality stocks over the course of the year. Currently, the portfolio has a large overweight in telecommunication services, industrials, and health care and is underweight in materials and consumer staples. Mr. Libby also spoke briefly to Templeton's sell discipline.

IX. Asset Consulting Group: 2nd Quarter Report 2010

Total Fund

- The Kent District Library Retirement System's portfolio allocation as of June 30, 2010, was as follows:
  - *Asset Allocation*: Domestic Equity 37.6%, International Equity 8.7%, Fixed Income 52.8%, and Cash Equivalents 0.9%.
  - *Manager Allocation*: INTECH 27.6%, Atlanta Capital 10.0%, Templeton 8.7%, JP Morgan 52.8%, and cash 0.9%.
- The Total Portfolio market value was $30,067,121 as of June 30, 2010 and included a $1,294,502 loss for the second quarter of 2010.
- The Total Portfolio declined 3.5% in the second quarter outperforming both the Policy Index (-4.2%), and the median peer with a similar equity allocation (-4.5%). Over the past one, three, five and ten year periods, the Total Portfolio has returned 13.2%, 0.5%, 3.9%, and 3.7%, respectively.
- For the five year period ending June 30, 2010, the Total Fund had a risk profile (as measured by the standard deviation) lower than the median peer and the Policy Index.
- As of June 30, 2010, 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 3.5% in the second quarter, performing in line with the Barclays Capital Aggregate Index and ranking in the 38th percentile of the core bond peer universe. Over the trailing one year, the strategy's 12.4% return has outpaced the Index by 290 basis points.
- For the first time in several quarters, the portfolio's underweight to Treasuries was a detractor from performance as heightened fears and a resulting flight to quality boosted the return of government debt relative to spread sectors. Additionally, the portfolio's underweight to longer-dated securities was a negative contributor as the yield curve flattened significantly. On the positive side, an underweight to credit securities and strong stock selection within the CMO market boosted performance relative to the Index.
- Over a trailing 10 year period, the strategy has returned an annualized 7.1% versus 6.5% for the Index and is meeting its performance objectives over this time period.

INTECH

- INTECH's large cap core strategy returned 10.7% in the second quarter, outperforming the S&P 500 Index by 70 basis points and ranking in the top quartile of the large core peer universe. Over the trailing one year period, the portfolio has generated a return of 15.2% versus 14.4% and 14.5% for the respective benchmarks.

- 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.
- In the four years since inception in the portfolio, the strategy has declined 2.7% outperforming both the broad market and the median peer.

Atlanta Capital

- Atlanta Capital's small/mid cap strategy posted a -8.9% return in the second quarter, versus -10.0% for the Russell 2500 Index and -8.8% for the median SMID peer. Positive stock selection in the industrials, consumer discretionary and consumer staples was the primary driver of outperformance for the quarter. Sector weighting had a slight negative impact on performance due to an overweight in consumer discretionary and lack of exposure to utilities.
- In the two years since inception in the portfolio, the Fund has advanced 4.0% outpacing the Index by 770 basis points and ranking in the 14^{th} percentile of the SMID peer universe.

Templeton

- Templeton's international equity portfolio declined 11.3% in the second quarter, outperforming both the MSCI All Country World ex-US Index (ACWI) and MSCI EAFE Index and ranking in the 36^{th} percentile of the international equity peer universe. This contributes to a 9.0% return over the trailing one year period.
- During the second quarter the strategy benefited from strong stock selection in the information technology, financials, and consumer discretionary sectors coupled with an underweight position in the materials sector. On a regional basis, the portfolio was hurt by poor stock selection and an underweight position to Japan coupled with weak holdings in South Korea.
- Over a trailing ten year period, the strategy has returned an annualized 4.7% outperforming both Indices and ranking above median in the international equity peer universe.

John Jackson reviewed the Fund's investment performance for the second quarter of 2010. He noted that while markets were stable until the end of April, lingering fears about the European sovereign debt crisis, the end of US government aid programs, continuing unemployment, and uncertainty about financial regulations resulted in increased market volatility in May and June. While spending by organizations was up in the first quarter, it came to a hold in the second quarter. The Federal Reserve has indicated that it expects a slow financial recovery.

The trustees discussed available options to secure plan assets should another financial crisis unfold. Mr. Jackson noted that the plan's current long-term investment philosophy based on a diversified asset allocation and grounded in a reversion to mean has historically been more stable and successful than a more short-term, tactical strategy. He noted, however, that opportunities do present themselves in the market, so maintaining an awareness of and discussing other investment philosophies is an important aspect of being fiscally responsible.

Mr. Jackson concluded by briefly presenting a summary of capital markets and distributing a handout providing a capital markets update through June 30, 2010.

X. Approval of Invoices

Motion: Ms. Harrington moved to approve the invoices as presented totaling $10,036.48.
Support: Supported by Mr. Senna.
RESULT: Motion carried.

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

Name	Start Date	Termination Date	Pension + Interest
A. Boruta	11/7/2005	3/28/2008	$1,521.85
J. Ogden	5/7/2007	6/30/2009	$32.83 (interest credited after refund)
J. Gregory	3/24/2008	12/23/2009	$9.44 (interest credited after refund)
Z. Coulter	11/19/2007	12/31/2009	$12.67 (interest credited after refund)
B. McFall	9/11/2006	1/30/2010	$79.15 (interest credited after refund)
S. Wagner	5/22/2006	1/24/2010	$1,921.90
R. Wright	6/15/2009	5/7/2010	$179.54

XII. Retirement (Vested Terminations)

Name	Start Date	Termination Date	Service Credits	Monthly Benefit
M. Youness	11/2/1999	5/11/2010	6.1274	$313.36 – Straight Life
D. VanHuffel	1/9/1979	5/31/2010	26.4567	$1,754.37 – Option C
M. Esch	2/15/1993	6/18/2010	17.4167	$3,585.67 – Straight Life
D. Alt	1/6/1997	6/30/2010	9.3926	$457.61 – Option C
R. Joshua	1/14/1985	7/9/2010	25.5000	$1,735.48 – Option A

Motion: Mr. Vry moved to approve the retirements of M. Youness, D. VanHuffel, M. Esch, D. Alt, and R. Joshua as presented.
Support: Supported by Ms. Simpson.
RESULT: Motion carried.

XIII. Due Diligence Review: Attorney Services
The Board considered whether a RFP for attorney services was needed in light of the limited legal expenses incurred over the last three years, and held a related discussion on what was necessary for proof of due diligence. The Board also considered whether it would be feasible to include a RFP for attorney services within the greater KDL RFP for these services which will be undertaken in 2011.

Motion: Ms. Harrington moved to table the discussion of a RFP for attorney services until the November 17, 2010 meeting.
Support: Supported by Ms. Simpson.
RESULT: Motion carried.

XIV. Miscellaneous – None

XV. Adjournment
Motion: Mr. Senna moved for adjournment at 4:00 p.m.
Support: Supported by Ms. Harrington.
RESULT: Motion carried.

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