

MINUTES

POLICE RETIREMENT SYSTEM OF KANSAS CITY and CIVILIAN EMPLOYEES' RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF KANAS CITY BOARD MEETING

Tuesday, February 9, 2010

Gary Howell called the meeting to order.

PRESENT:

Gary Howell, Member	Gerald Gorman, Attorney
Bailus Tate, Member	James Pyle, Staff
Kenny Burnett, Member	Sharon Blancett, Staff
Greg Mills, Member	Connie Davis, Staff
Vic Kauzlarich, Member	Anna Vollenweider, Staff
Dave Reyburn, Member	
Patrick Trysla, Member	
Angela Wasson-Hunt, Member	

SECRETARY REPORT:

INVESTMENT PERFORMANCE REVIEW 4th QUARTER 2009

Bill Miskell of DeMarche Associates presented the December 31, 2009 Capital Market Review and Performance Appraisal Report for the Police Retirement System and Civilian Employees' Retirement System.

	4 th Q 2009	1 Year ending 12/31/09	3 Years ending 12/31/09	5 Years ending 12/31/09
Police Total Fund	4.1%	20.9%	-0.8%	3.9%
Relative Objective	3.7%	20.1%	-1.3%	2.7%
Police Over/(Under) Relative Objective	0.4%	0.8%	0.5%	1.2%
Civilian Employees' Total Fund	4.2%	21.2%	-1.3%	3.5%
Relative Objective	3.7%	20.1%	-1.3%	2.7%
Civilian Employees' Over/(Under) Relative Objective	0.5%	1.1%	0.0%	0.8%

The Relative Objective is made up of 34% S&P 500, 10% Russell 2000, 12% EAFE, 23% BG/C, 5% NCREIF, 3% MSCI EM, 3% KCPERS Active PE, 5% DJ-UBS, and 5% ML HY which matches our target asset allocation.

The Police fund out performed the relative objective benchmark by 0.8% for the one year ending December 31, 2009. Asset allocation contributed a loss of 0.5% and active management (fund managers' performance) contributed a gain of 1.3%.

The Civilian Employees' fund out performed the relative objective benchmark by 1.1% for the one year ending December 30, 2009. Asset allocation contributed a gain of 0.9% and active management (fund managers' performance) contributed a gain of 0.2%.

Benchmark Performance	4th Q 2009	1 Year ending 12/31/09	3 Years ending 12/31/09	5 Years ending 12/31/09
S&P 500 Index	6.2%	26.7%	-5.6%	0.5%
Russell 2000 Index	3.9%	27.2%	-6.1%	0.5%
MSCI EAFE Index	2.2%	31.8%	-6.0%	3.5%
Barclays Govt./Credit Index	-0.2%	4.5%	5.8%	4.7%
NCREIF Index	-2.1%	-16.9%	-3.4%	4.7%
MSCI Emerging Markets	8.5%	78.5%	5.1%	15.5%
KCPERS Actual Private Equity	3.1%	-12.2%	-4.5%	
Dow Jones UBS Commodity Index	9.0%	18.9%	-3.8%	2.0%
Merrill Lynch High Yield Bond Index	5.8%	56.3%	5.6%	6.2%

Police Fund Manager Performance	4th Quarter 2009	YTD 12/31/2009	Benchmark YTD 12/31/2009
RCM (large cap growth)	8.6%	40.6%	37.2%
NT Russell 1000G (large cap growth)	8.3%	37.6%	37.2%
LSV (large cap value)	5.3%	26.3%	19.7%
iShares Russell 1000G (large cap growth)	8.1%		
iShares Russell 1000V (large cap value)	4.1%		
Waddell & Reed (small cap growth)	4.7%	36.0%	34.5%
Vaughan Nelson (small cap value)	5.4%		
GE (international growth)	3.7%	28.3%	29.4%
LSV (international value)	0.4%	32.5%	34.2%
GE (emerging market)	7.3%	77.9%	78.5%
LSV (emerging market)	10.5%	97.9%	78.5%
FCI (fixed income)	-0.2%	6.6%	4.5%
Shenkman (high yield)	4.4%		
Prudential (real estate)	-6.9%	-45.0%	-16.9%
Abbott Capital (private equity)	2.1%	-15.9%	-15.9%
JP Morgan (private equity)	4.6%	-6.4%	-6.4%
Gresham (commodity)	11.1%	30.0%	18.9%

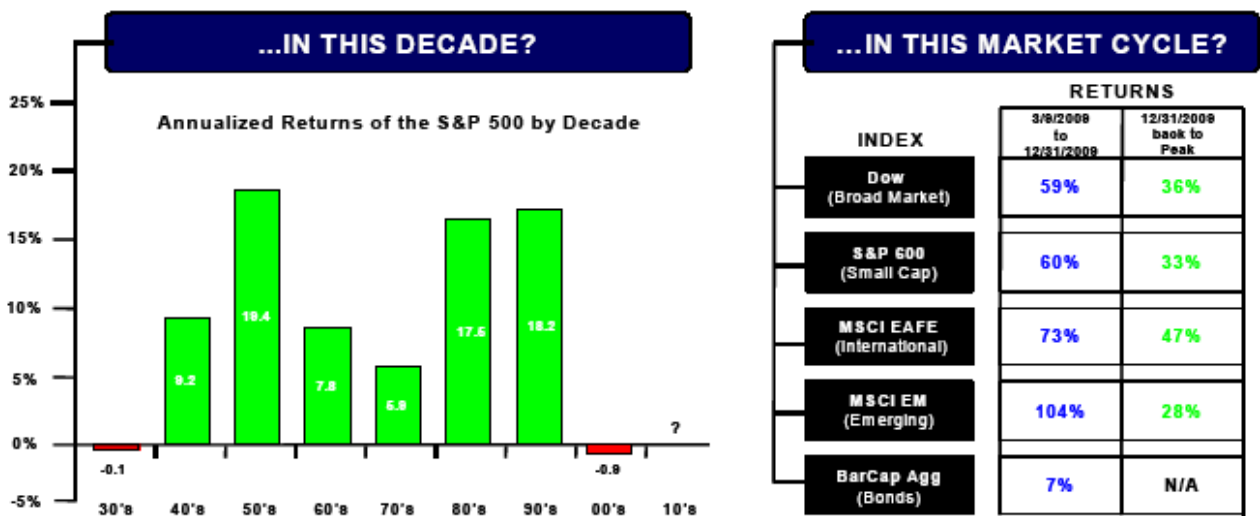
Civilian Employees' Fund Manager Performance	4th Quarter 2009	YTD 12/31/2009	Benchmark YTD 12/31/2009
RCM (large cap growth)	8.6%	40.5%	37.2%
NT Russell 1000G (large cap growth)	8.3%	37.6%	37.2%
LSV (large cap value)	5.3%	25.3%	19.7%
iShares Russell 1000 Growth (large cap growth)	8.1%		
iShares Russell 1000 Value (large cap value)	4.1%		
Waddell & Reed (small cap growth)	4.7%	35.7%	34.5%
Vaughan Nelson (small cap value)	5.4%		
GE (international growth)	3.7%	28.3%	29.4%
LSV (international value)	0.4%	32.5%	34.2%
GE (emerging market)	7.5%	78.3%	78.5%
LSV (emerging market)	10.5%	97.9%	78.5%
FCI (fixed income)	-0.2%	6.4%	4.5%
Shenkman (high yield)	4.4%		
Prudential (real estate)	-6.9%	-45.0%	-16.9%
Abbott Capital (private equity)	2.1%	-16.0%	-16.0%
JP Morgan (private equity)	4.6%	-6.4%	-6.4%
PIMCO (commodity)	11.6%	39.9%	18.9%

Manager Performance for both plans vs. Peer Group and Relative Benchmark are as follows:

4th Quarter 2009	Above Benchmark	Met Benchmark	Below Benchmark
1 st Quartile	RCM, LSV(EM), Gresham, PIMCO		
2 nd Quartile	LSV		Prudential
3 rd Quartile	Vaughan Nelson, GE(I)		
4 th Quartile	Waddell & Reed	FCI	LSV(I), GE(EM), Shenkman

1 year ending 12/31/09	Above Benchmark	Met Benchmark	Below Benchmark
1 st Quartile	LSV(EM), PIMCO		
2 nd Quartile	RCM		
3 rd Quartile	LSV, Waddell & Reed, LSV(I), FCI, Gresham		GE(EM)
4 th Quartile			GE(I), Prudential

Mr. Miskell reviewed the overall performance of the stock, bond, and alternatives markets in the fourth quarter. He highlighted the two graphs below to illustrate how the long term and short term performance of the markets have impacted the assets of the retirement systems. DeMarche and others have called the decade of the 2000's the "lost decade", edging out the 1930's and the recession-plagued 1970's as the worst decade on record for stock market performance. Mr. Miskell reminded the board that it is primarily stock market performance that drives the asset growth of the retirement system. The chart on the right shows how exceptional market returns were in the last three quarters of 2009 with the Dow Index up 59%. However for that index to get back to the peak of October 2007 the index must generate additional returns of 36%.



In domestic equities, large cap stocks out performed smaller stocks during the quarter and growth stocks out performed value stocks for the quarter and full year. High quality stocks out performed low quality stocks for the quarter, for the year low quality stocks out performed high quality stocks. In international equities small cap stocks more than doubled the returns of large cap stocks for the year, and value stocks slightly out performed growth stocks. Emerging market stocks produced gains of almost 80% for the year.

In fixed income, U.S. treasuries produced negative returns for both the quarter and for the year, while high yield bonds, TIPS, and corporate bonds produced positive returns for the same time periods.

Mr. Miskell said most of our managers were in line with their quarterly benchmarks with the exception of Shenkman (high yield bonds), Prudential (real estate), LSV (international) and GE (emerging markets). All of the managers we have worked with for over five years, with the exception of Prudential, out performed their benchmark for the five year period ending in December 2009. For the managers we have worked with for over ten years, all of them out performed their respective benchmark. For the ten year period ending in December 2009 the portfolio had annualized returns of 3.4% while the relative benchmark returned 2.8% for the same period.

Mr. Miskell said DeMarche was meeting with clients to provide information on their market outlook. DeMarche's general message is: 1) Consumer spending is still a key factor for economic recovery. Economic and market recovery will be slow as long as consumer spending stays below normal rates. 2) For the next several years we can expect market returns to be below normal. With market returns below normal achieving an assumed rate of return of 7.75% will be a much more difficult task. 3) The board may want to consider incorporating some additional defensive strategies into the current asset allocation. Tactical asset allocation is one of the strategies DeMarche recommends, another option to consider would be giving managers more leeway on cash held in their investment funds. 4) Look for a 50% chance of a market correction of between 20% and 30%.

APPOINTMENT OF RETIREMENT BOARD ELECTION DIRECTOR

Mr. Howell said Mr. Burnett had agreed to serve as election director for the 2010 Retirement Board election and that Mr. Reyburn had agreed to serve as assistant director. Mr. Burnett said one open seat, currently held by Mr. Mills, is up for election this year. Mr. Burnett reviewed the election schedule which starts on April 7 with the election notice and filing period; May 7 is the deadline for receipt of filings and nominations; June 7 is the date ballots will be mailed to all members; June 7 to June 22 will be the balloting period, all ballots must be returned to the retirement office by 4:00pm on June 22; June 23 is the date for counting ballots. Mr. Burnett said the election schedule would be posted on the KCPERS website.

Ms. Wasson-Hunt made the motion to appoint Mr. Burnett as election director and Mr. Reyburn as assistant director. Mr. Trysla seconded the motion which passed unanimously.

RESIGNATION LETTER FROM ROBERT EVANS SR.

Mr. Pyle said Mr. Evans had submitted his resignation letter to the Retirement Board. Mr. Evans said due to his health he could no longer serve on the board in a manner that met his standards for public service.

Mr. Evans seat on the Retirement Board is appointed by the City Council and Ms. Wasson-Hunt has talked with Councilman Bill Skaggs about their process for appointing a new member to the board.

Since Mr. Evans fulfilled the role of board Vice Chair, Mr. Howell recommended that Mr. Mills be elected as the new Vice Chair. Mr. Reyburn made the motion to appoint Mr. Mills as Vice Chair of the Retirement Board. Mr. Trysla seconded the motion which passed unanimously.

SECRETARY'S UPDATE

2010 Legislation

Mr. Pyle said the legislative proposals recommended at the January Retirement Board meeting had been drafted and submitted to the Missouri General Assembly for approval. Rep. Tim Flook has agreed to sponsor the legislation in the House of Representatives.

Mr. Pyle said the legislation does not contain any changes to provisions for age or years of service requirements for benefit eligibility in either plan, and there are no changes to provisions for disability retirement benefits in the Police plan.

The legislation submitted to the General Assembly does include changes to move the starting dates of pension benefits for new retirees from the date of retirement to the first of the month following retirement. In the Police plan, when a retired member dies pension benefits would be prorated through the date of death. If there is an eligible surviving spouse, the spouse would also receive a prorated benefit plus the supplemental benefit. For any month when there is not a full pension benefit paid to a member or surviving spouse no supplemental benefit would be paid.

Members in both plans would be able to purchase unpaid leave time at any time prior to retirement by paying the actuarial cost for the service purchase. Currently Civilian Employees' plan members cannot purchase unpaid leave time and Police plan members must make the purchase within one year of returning from unpaid leave. Police plan members would no longer receive free creditable service for an unpaid leave of less than 30 days.

Members of both plans wanting to restore prior service, upon returning to membership in the plan, would pay the member's portion of the actuarial cost rather than repaying refunded contributions plus or minus interest earned while the funds were withdrawn from the retirement system.

OMNIBUS MOTION

Mr. Mills made the following motion, seconded by Mr. Tate. Motion passed unanimously.

RESOLVED, that the Retirement Board hereby unanimously approves:
The minutes of the previous meeting of January 12, 2010;
The monthly financial statements for December 2009;
The payment of bills as listed in the Secretary's Reports for this meeting;
The return of contributions to those persons, who have resigned or terminated service, as listed in the Secretary's Reports for this meeting;
The purchases and sales of assets as listed in the Secretary's Reports for this meeting;
The payment or commencement of pensions or other benefits as listed in the Secretary's Reports for this meeting; and
Any purchases of creditable service as listed in the Secretary's Reports for this meeting.

PUBLIC COMMENTS

A time was set aside for public comments.

ADJOURNMENT

The next regularly scheduled board meeting will be March 9 at 9:00am at the KC Police Credit Union.