

## MINUTES

POLICE RETIREMENT SYSTEM OF KANSAS CITY and CIVILIAN EMPLOYEES'  
RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF KANAS CITY  
BOARD MEETING  
Tuesday, March 9, 2010

Gary Howell called the meeting to order.

PRESENT:

Gary Howell, Member

Bailus Tate, Member

Kenny Burnett, Member

Vic Kauzlarich, Member

Dave Reyburn, Member

Patrick Trysla, Member

Gerald Gorman, Attorney

James Pyle, Staff

Sharon Blancett, Staff

Connie Davis, Staff

Anna Vollenweider, Staff

SECRETARY REPORT:

INVESTMENT REVIEW AND OUTLOOK

Christina Danner of DeMarche Associates presented an investment review and outlook as part of the tactical asset allocation process. Ms. Danner said today was the tenth anniversary of the 2000 stock market peak leading up to the technology bubble and the S&P 500 index is down over 26% from that market peak. Today is also the first anniversary of the 2009 stock market bottom and the S&P 500 index has gone up by over 65% in the past 12 months. Ms. Danner said it was unusual for the market to go up that quickly without some kind of correction. As a result DeMarche is recommending a tactical overweight to fixed income and cash, and an underweight to equities.

A year ago DeMarche recommended a tactical overweight to stocks in anticipation of the market rebounding. This past fall they began to make tactical recommendations that reflected a more cautious approach. The current tactical asset allocation calls for a 12% underweight to stocks and a 6% overweight to both fixed income and cash.

Ms. Danner said they do not believe there is a high likelihood of a double dip recession but they are not overly optimistic about market growth. A significant reason for the lack of growth is the decline in consumer spending, which represents 71% of gross domestic product. Consumers have been hard hit by the job market, housing, and the economy in general. As a result, personal consumption and disposable income is down from five year averages, personal savings rates have increased but only off of historic all time lows, and consumers are not spending at a rate that will support long term economic growth.

Without consumers spending money, the federal government has stepped in to fill the void. Ms. Danner said when the government borrows money they compete with businesses for capital and while government spending on infrastructure, health care, and defense may help

certain sectors of the economy it does not have the same impact as business expansion and consumer spending.

For the next three to five years, if earnings grow at an average rate of 6% and stocks maintain an average price to earnings ratio of 22%, expected stock market returns will be 7.5%. Earning growth of less than 6% or P/E ratios of less than 22% will produce significantly lower returns. Over the next five years, if bond market interest rates increase by as little as 3%, only intermediate investment grade and high yield bonds will be able to produce positive but modest returns. Intermediate and long term government bonds and long term investment grade bonds will produce flat to negative returns.

DeMarche's outlook for 2010 remains similar to their outlook in the fall of 2009 in that we are probably approaching a fork in the road. That fork could produce market conditions for the next three to five years that have a 45% chance of improving or a 55% chance of deteriorating. On the improving side of the equation the following scenarios are most likely: Real Estate – stabilizes, Consumer – saves, Banks – cautious, Unemployment – uneven, Inflation – some, Dollar – stable. On the deteriorating side of the equation the following scenarios are most likely: Real Estate – seeks bottom, Consumer – struggles, Banks – tight/troubled, Unemployment – higher, Inflation – deflation pockets, Dollar – strong.

### ASSET MIX STUDY

Bill Miskell of DeMarche presented a comparison of an asset mix update, that is being considered by the Retirement Board, and a full asset allocation study which the board last completed in 2006. Mr. Miskell said the components of the full asset allocation study that are not included in the asset mix update are: (1) an education session on investment concepts and asset classes, and (2) the completion of the risk tolerance questionnaire by each board member. The remaining components of both studies are identical and will result in several versions of asset allocations through the optimization model, and the application of strategic asset class forecasts for a three to five year period. Mr. Miskell said with most asset mix updates the allocations do not change drastically but are tweaked to conform to the efficient frontier. The optimization model inputs now include market return data from 2006 to 2009, which has also impacted asset class correlations.

Mr. Pyle reminded the board that either an asset mix update or a full asset allocation study will have to be completed before the end of 2011. Mr. Tate made the motion to contract with DeMarche, at a cost of \$10,000, to conduct an asset mix update starting in May 2010. Mr. Trysla seconded the motion which passed unanimously.

### SECRETARY'S UPDATE

#### **2010 Legislation**

Mr. Pyle said Rep. Tim Flook has filed House Bill 2162 in the House of Representatives on behalf of the Police Retirement System of Kansas City, Missouri and Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri. Mr. Pyle has sent a letter to House Speaker Ron Richard asking him to assign the bill to the House Retirement Committee.

Mr. Pyle said no retirement related bills in the House (including bills that were pre-filed in December) have had a committee hearing and only one retirement related bill had been assigned to the Retirement Committee. With only seven weeks remaining in the legislative session, it is very unlikely that any retirement related House bills will pass this year. On the Senate side, only two retirement related bills have been heard by the Senate Pensions Committee. One bill establishes a defined contribution retirement plan for new state employees' and the other allows the state auditor to audit any public employee retirement system.

#### OMNIBUS MOTION

Mr. Reyburn made the following motion, seconded by Mr. Kauzlarich. Motion passed unanimously.

RESOLVED, that the Retirement Board hereby unanimously approves:  
The minutes of the previous meeting of February 9, 2010;  
The monthly financial statements for January 2010;  
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 April 13 at 9:00am at the KC Police Credit Union.