

## MINUTES

POLICE RETIREMENT SYSTEM OF KANSAS CITY and CIVILIAN EMPLOYEES'  
RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF KANAS CITY  
BOARD MEETING  
Tuesday, May 11, 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
Vic Kauzlarich, Member	Connie Davis, Staff
Dave Reyburn, Member	Anna Vollenweider, Staff
Angela Wasson-Hunt, Member	

**SECRETARY REPORT:**

INVESTMENT MANAGER REVIEW – PRUDENTIAL

Darin Bright of Prudential Real Estate Investors presented a review of the PRISA II fund. Mr. Bright said net performance for the 1<sup>st</sup> Quarter 2010 was 0.45% in the Police plan and 0.42% in the Civilian Employees' plan. Net performance for the one year period was -26.8% in both plans. For the three year period the portfolio had returns of -19.24% compared to -4.31% for the NCREIF and -10.7% for the NFI-ODCE index. Mr. Bright said there has been significant improvement in the commercial real estate sector over the past 90 days. Debt is more readily available to finance transactions and transaction cap rates have declined by up to 1.0%. Prudential expects: 1) Vacancy rates to peak in 2010, which is sooner than expected; 2) Weakness in the real estate market until job growth takes hold; and 3) Apartment occupancy and rent rates to be the first real estate indicators to show growth.

Mr. Bright said their current total return projections for 2010 are 3% to 7%, with income and cash flow producing positive returns and property appreciation producing negative to flat returns. Prudential expects to draw down the final outstanding client commitments by June 2010. They also expect to restart client distributions in June and to honor all redemption requests in 2011. Mr. Bright said the amount of leverage in the portfolio has added to the underperformance of the portfolio, especially when compared to the unlevered NCREIF index.

The target composition of the portfolio is 60% core investments, 30% value added investments, and 10% opportunistic investments. The portfolio is currently over weighted to core, and under weighted in value added and opportunistic.

## INVESTMENT PERFORMANCE REVIEW 1<sup>st</sup> QUARTER 2010

Bill Miskell of DeMarche Associates presented the March 31, 2010 Capital Market Review and Performance Appraisal Report for the Police Retirement System and Civilian Employees' Retirement System.

	1 <sup>st</sup> Q 2010	1 Year ending 3/31/10	3 Years ending 3/31/10	5 Years ending 3/31/10
<b>Police Total Fund</b>	3.3%	34.6%	-0.6%	4.7%
Relative Objective	3.4%	34.5%	-1.0%	3.6%
Police Over/(Under) Relative Objective	-0.1%	0.1%	0.4%	1.1%
<b>Civilian Employees' Total Fund</b>	3.2%	34.6%	-1.1%	4.3%
Relative Objective	3.4%	34.5%	-1.0%	3.6%
Civilian Employees' Over/(Under) Relative Objective	-0.2%	0.1%	-0.1%	0.7%

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 0.1% for the one year ending March 31, 2010. Asset allocation contributed a loss of 0.3% and active management (fund managers' performance) contributed a gain of 0.4%.

The Civilian Employees' fund out performed the relative objective benchmark by 0.1% for the one year ending March 31, 2010. Asset allocation contributed a gain of 0.1% and active management (fund managers' performance) contributed a gain of 0.0%.

Benchmark Performance	1 <sup>st</sup> Q 2010	1 Year ending 3/31/10	3 Years ending 3/31/10	5 Years ending 3/31/10
S&P 500 Index	5.4%	49.8%	-4.2%	1.9%
Russell 2000 Index	8.8%	62.8%	-4.0%	3.4%
MSCI EAFE Index	0.9%	54.4%	-7.0%	3.7%
Barclays Govt./Credit Index	1.5%	7.5%	5.8%	5.2%
NCREIF Index	0.8%	-9.6%	-4.3%	4.2%
MSCI Emerging Markets	2.4%	81.1%	5.2%	15.6%
KCPERS Actual Private Equity	3.0%	-6.0%	-3.7%	
Dow Jones UBS Commodity Index	-5.0%	20.5%	-6.9%	-1.4%
Merrill Lynch High Yield Bond Index	4.8%	55.7%	6.4%	7.5%

<b>Police Fund Manager Performance</b>	<b>1<sup>st</sup> Quarter 2010</b>	<b>Benchmark YTD 3/31/2010</b>
RCM (large cap growth)	3.4%	4.6%
NT Russell 1000G (large cap growth)	4.9%	4.6%
LSV (large cap value)	7.8%	6.8%
Waddell & Reed (small cap growth)	5.9%	7.6%
Vaughan Nelson (small cap value)	8.3%	10.0%
GE (international growth)	0.1%	1.9%
LSV (international value)	1.1%	-0.2%
GE (emerging market)	-0.8%	2.4%
LSV (emerging market)	4.1%	2.4%
FCI (fixed income)	1.7%	1.5%
Shenkman (high yield)	3.1%	4.8%
Prudential (real estate)	0.8%	0.8%
Abbott Capital (private equity)	2.5%	2.5%
JP Morgan (private equity)	3.8%	3.8%
Gresham (commodity)	-1.8%	-5.0%

<b>Civilian Employees' Fund Manager Performance</b>	<b>1<sup>st</sup> Quarter 2010</b>	<b>Benchmark YTD 3/31/2010</b>
RCM (large cap growth)	3.4%	4.6%
NT Russell 1000G (large cap growth)	4.9%	4.6%
LSV (large cap value)	7.5%	6.8%
Waddell & Reed (small cap growth)	5.8%	7.6%
Vaughan Nelson (small cap value)	8.3%	10.0%
GE (international growth)	0.1%	1.9%
LSV (international value)	1.1%	-0.2%
GE (emerging market)	-0.8%	2.4%
LSV (emerging market)	4.0%	2.4%
FCI (fixed income)	1.7%	1.5%
Shenkman (high yield)	3.1%	4.8%
Prudential (real estate)	0.8%	0.8%
Abbott Capital (private equity)	2.4%	2.4%
JP Morgan (private equity)	3.8%	3.8%
PIMCO (commodity)	-3.2%	-5.0%

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

<b>1<sup>st</sup> Quarter 2010</b>	<b>Above Benchmark</b>	<b>Met Benchmark</b>	<b>Below Benchmark</b>
1 <sup>st</sup> Quartile	LSV(EM),	Prudential	
2 <sup>nd</sup> Quartile	LSV, Gresham		
3 <sup>rd</sup> Quartile	PIMCO	LSV(I), FCI	Vaughan Nelson,
4 <sup>th</sup> Quartile			RCM, Waddell & Reed, GE(I), GE(EM), Shenkman

<b>1 year ending 3/31/2010</b>	<b>Above Benchmark</b>	<b>Met Benchmark</b>	<b>Below Benchmark</b>
1 <sup>st</sup> Quartile	LSV(EM), PIMCO		Prudential
2 <sup>nd</sup> Quartile	LSV(I), FCI, Gresham		RCM
3 <sup>rd</sup> Quartile	LSV		Waddell & Reed, GE(I),
4 <sup>th</sup> Quartile			GE(EM),

In domestic equities, small cap stocks out performed larger cap stocks during the quarter and value stocks out performed growth stocks for the quarter and full year. Low quality stocks out performed high quality stocks for the quarter and full year. Mr. Miskell said investors were putting more money in stocks with greater risk rather than taking a defensive position and investing in larger more stable companies. In international equities small cap stocks continue to out perform large cap stocks for the quarter and year, and growth stocks out performed value stocks for the quarter, but not for the year. Emerging market stock returns were on a more normal pace for the quarter but still produced gains of over 80% for the year.

Fixed income returns were positive for the quarter with the high yield bond rally continuing for the fifth consecutive quarter. Yields for treasuries, corporate and high yield bonds are all well below their 10 year averages.

In the alternative asset classes, the commodities index had negative returns for the quarter but positive returns for the year. In real estate the NCREIF index had a positive quarter for the first time since June 2008.

Mr. Miskell said most of our managers were below their quarterly benchmarks because they had taken a defensive position during the recent market run. 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 March 2010. For the ten year period the portfolio had annualized returns of 3.4% while the relative benchmark returned 2.7%.

Mr. Miskell said DeMarche's tactical calls this year through April produced returns of 5.05% against benchmark returns of 6.19% for under performance of 1.15%. Mr. Miskell said they were early in adopting a defensive position by underweighting equities and overweighting bonds and cash.

#### RETIREMENT BOARD ELECTION UPDATE

Mr. Burnett said that the filing period for the 2010 Retirement Board election ended on May 7 and the following members are running for the open seat on the board: Sgt. Timothy Gaughan, (Ret.) Chief Floyd Bartch, and (Ret.) Sgt. Robert W. Jones. Election ballots will be mailed to all members on June 7.

#### SECRETARY'S UPDATE

##### **2010 Legislation**

Mr. Pyle said Steve Carroll called last week to report that he was working to get our retirement bill, HB2162, amended into SB714 which appears to be the best vehicle for our legislation to get through the General Assembly.

##### **Asset Mix Update**

Mr. Pyle said DeMarche was working on the targets and constraints for the asset mix update. The initial discussions with DeMarche have focused on asset mixes that reduce risk in the portfolio while maintaining the same level of expected return. The current target allocation projects long term returns of 8.79% with standard deviation (risk) of 12.33% for a geometric return of 8.09%. The board reviewed a mix of asset classes and constraints which will be used as a starting point for the asset mix update discussion at the July Retirement Board meeting.

##### **Gresham Commingled Commodity Fund**

Discussion of the Gresham Commingled Commodity fund was held over to the July Retirement Board Meeting.

##### **Future Retirement Board Meeting Dates**

Mr. Pyle reminded the board and attendees that there would be no Retirement Board meeting in June. Due to scheduling conflicts the July Retirement Board meeting date was changed to July 6.

OMNIBUS MOTION

Mr. Tate made the following motion, seconded by Ms. Wasson-Hunt. Motion passed unanimously.

RESOLVED, that the Retirement Board hereby unanimously approves:

- The minutes of the previous meeting of April 13, 2010;
- The monthly financial statements for March 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 **July 6** at 9:00am at the KC Police Credit Union.