

## MINUTES

POLICE RETIREMENT SYSTEM OF KANSAS CITY and CIVILIAN EMPLOYEES'  
RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF KANAS CITY  
BOARD MEETING  
Tuesday, July 6, 2010

Gary Howell called the meeting to order.

### PRESENT:

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

### SECRETARY REPORT:

#### INTRODUCTION OF NEW RETIREMENT BOARD MEMBERS

Gary Howell introduced Ret. Chief Floyd Bartch and James Chappell as new members on the Retirement Board. Mr. Bartch was elected to the open seat for a three year term on the board replacing Greg Mills. Mr. Chappell was appointed by the City Council for a two year term on the board replacing Robert Evans.

#### RETIREMENT BOARD ELECTION RESULTS

Kenny Burnett, who served as the Retirement Board election chair, said the results of the Retirement Board election for the open seat were as follows: Floyd Bartch 922 votes, Robert W. Jones 175 votes, Timothy Gaughan 169 votes.

#### APRIL 30, 2010 AUDITED FINANCIAL STATEMENTS

Bill Nicks and Jacob Holman from BKD presented drafts of the Fiscal Year 2010 audited financial statements for both the Police Retirement System and Civilian Employees' Retirement System. As of April 30, 2010 net assets in the Police plan increased by \$121.2 million to \$655.5 million. This represents a 22.7% increase from April 30, 2009 and is mainly due to a 22.4% increase in investments. For FY2010 total additions included member contributions of \$8.9 million, employer contributions of \$16.6 million and net investment gains of \$142.7 million. Total deductions included benefit payments of \$46.3 million, refunds of contributions of \$232,000 and administrative expenses of \$560,000.

As of April 30, 2010 net assets in the Civilian Employees' plan increased by \$19.2 million to \$91.2 million. This represents a 26.8% increase from April 30, 2009 and is mainly due to a 26.4% increase in investments. For FY2010 total additions included member contributions of \$1.3 million, employer contributions of \$3.3 million and net investment gains of \$19.5 million. Total deductions included benefit payments of \$4.5 million, refunds

of contributions of \$270,000 and administrative expenses of \$118,000. Mr. Nicks said they were issuing clean unqualified opinions for both plans and that no adjustments were made to the financial statements presented to them at the start of the audit.

Mr. Nicks said the management advisory letter includes: Comments on significant accounting policies which are described in Note 1 of the financial statements; BKD's review of the estimates and assumptions used to calculate the actuarial present value of accumulated plan benefits; and BKD's review of financial statement disclosures related to securities lending transactions, investment risk, and current economic conditions. In each case they found reasonable processes in place related to the accounting policies, actuarial assumptions and disclosure items. The management letter also addressed the segregation of duties related to handling of cash receipts, purchasing and cash disbursements, and payroll processing. Mr. Nicks said this was not a new issue for the Retirement Board and pointed out that the management letter reflects the compensating controls staff had put in place to mitigate any identified risks.

Mr. Tate made the motion to adopt the draft audits, allowing for staff proof reading and minor corrections if necessary. Mr. Kauzlarich seconded the motion. The motion passed unanimously.

#### ASSET MIX UPDATE

Mr. Howell said the Retirement Board completes an asset allocation study every three years and the most recent change to the asset allocation was adopted by the board in early 2007. Christine Danner from DeMarche Associates said the board has chosen not to complete a full allocation study but to review the allocation mix and determine if any changes are appropriate for the current asset allocation. Many of DeMarche's clients are looking to reduce volatility within their asset allocations. Ms. Danner provided a review of their model inputs including the expected return, standard deviation, geometric (growth) return, and correlation coefficient for 22 asset classes. The asset allocation for both the Police plan and Civilian Employees' plan is built on these model inputs.

The board compared the returns and volatility of ten model portfolios to the current asset allocation. Portfolio #6 replicated the geometric return of the current portfolio while Portfolio # 8 replicated the expected return of the current portfolio. In both of these model portfolios, standard deviation (volatility) is reduced by more than 10%.

	Current Allocation	Portfolio #6	Portfolio #8
Expected Returns	8.79	8.55	8.79
Standard Deviation	12.33	9.80	10.85
Geometric Returns	8.09	8.11	8.25

DeMarche also prepared expected strategic (three to five year) returns for the same three portfolios using optimistic, base case, and pessimistic outlooks.

	Current Allocation	Portfolio #6	Portfolio #8
Optimistic Returns	10.7	9.1	9.9
Base Case Returns	4.3	4.1	4.3
Pessimistic Returns	-10.4	-7.3	-8.4

Ms. Danner said DeMarche believes there is a very low probability for the optimistic outlook so the expectation for the next three to five years should be market returns that do not meet our assumed rate of return of 7.75%.

Ms. Danner continued the discussion of portfolio risk by reviewing the distribution of returns around an expected rate of return. Based on historical data, in any one year the two model portfolios could have returns as high as 31% and as low as -11%. Over a three year period the returns could range from 21% to -3%, over a five year period a range from 18% to -1% and over a 10 year period from 15% to 2%. The probability of either of the two model portfolios not meeting a return objective of -10% were between 2-3% for any one year and 0.1% for the three, five and ten year periods. The probability of either of the two model portfolios not meeting a return objective of 0% were between 19-21% for any one year, 6-8% over any three year period, 3-4% over any five year period, and less than 1% over a 10 year period. The probability of either of the two model portfolios not meeting a return objective of 7.75% (our actuarial objective) is 48% for any one year period, 46-47% over any three year period, 46% over any five year period, and 44-45% over any 10 year period. In every case the risk levels and probability of not meeting return expectations was less for the model portfolios than the current asset allocation.

Board members will review the model portfolios and forward any modifications they would like to see to Mr. Pyle. Ms. Danner will arrange for DeMarche staff to provide a primer on hedge fund of funds and emerging markets for the Retirement Board.

SECRETARY’S UPDATE

**Gresham On Shore Commingled Commodity Fund**

Mr. Pyle said Mr. Gorman had reviewed the subscription agreement for the Gresham On Shore Commingled Commodity Fund and following that review both he and Mr. Gorman were recommending that the Retirement Board continue it’s investment with Gresham’s separately managed account for the Police plan.

Since no changes were recommended the Retirement Board did not take any action on this item.

OMNIBUS MOTION

Mr. Reyburn 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 May 11, 2010;  
The monthly financial statements for April and May 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 August 10 at 9:00am at the KC Police Credit Union.