

MINUTES

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

Tuesday, August 11, 2009

Greg Mills called the meeting to order.

PRESENT:

Robert Turgeon, Member

Kenny Burnett, Member

Greg Mills, Member

Vic Kauzlarich, Member

Dave Reyburn, Member

Angela Wasson-Hunt, Member

Gerald Gorman, Attorney

James Pyle, Staff

Sharon Blancett, Staff

Connie Davis, Staff

Anna Vollenweider, Staff

SECRETARY REPORT:

INVESTMENT PERFORMANCE REVIEW 2nd QUARTER 2009

Bill Miskell of DeMarche Associates presented the June 30, 2009 Capital Market Review and Performance Appraisal Report for the Police Retirement System and Civilian Employees' Retirement System.

| | 2nd Q 2009 | 1 Year ending 6/30/09 | 3 Years ending 6/30/09 | 5 Years ending 6/30/09 |
|---|------------|--------------------------|---------------------------|---------------------------|
| Police Total Fund | 11.6% | -17.9% | -3.0% | 2.3% |
| Relative Objective | 12.3% | -16.7% | -3.2% | 1.2% |
| Police Over/(Under) Relative Objective | -0.7% | -1.2% | 0.2% | 1.1% |
| | | | | |
| Civilian Employees' Total Fund | 11.6% | -19.4% | -3.5% | 1.9% |
| Relative Objective | 12.3% | -16.7% | -3.2% | 1.2% |
| Civilian Employees' Over/(Under) Relative Objective | -0.7% | -2.7% | -0.3% | 0.7% |

The Relative Objective is made up of 35% S&P 500, 10% Russell 2000, 12% EAFE, 31% BG/C, 4% NCREIF, 1% 3 Month T-Bill +0.5%, 3% MSCI EM, 1% KCPERS Active PE, and 3% DJ-AIG which matches our target asset allocation.

The Police fund under performed the relative objective benchmark by 1.2% for the one year ending June 30, 2009. Asset allocation contributed a loss of 0.9% and active management (fund managers' performance) contributed a loss of 0.3%.

The Civilian Employees' fund under performed the relative objective benchmark by 2.7% for the one year ending June 30, 2009. Asset allocation contributed a loss of 1.7% and active management (fund managers' performance) contributed a loss of 1.0%.

| Benchmark Performance | 1st Q 2009 | 1 Year ending 6/30/09 | 3 Years ending 6/30/09 | 5 Years ending 6/30/09 |
|-------------------------------|------------------------------|------------------------------|-------------------------------|-------------------------------|
| S&P 500 Index | 15.9% | -26.2% | -8.2% | -2.2% |
| Russell 2000 Index | 20.7% | -25.0% | -9.9% | -1.7% |
| MSCI EAFE Index | 25.4% | -31.4% | -8.0% | 2.3% |
| Barclays Govt./Credit Index | 1.9% | 5.3% | 6.2% | 4.8% |
| NCREIF Index | -5.2% | -19.6% | 1.0% | 7.6% |
| Citigroup 3 Mo. T-Bills | 0.1% | 0.8% | 3.1% | 3.0% |
| MSCI Emerging Markets | 34.7% | -28.1% | 3.0% | 14.7% |
| KCPERS Actual Private Equity | -11.0% | -20.1% | -8.0% | |
| Dow Jones UBS Commodity Index | 11.7% | -47.1% | -8.3% | -0.2% |

| Police Fund Manager Performance | 2nd Quarter 2009 | YTD 6/30/2009 | Benchmark YTD 6/30/2009 |
|---|------------------------------------|----------------------|--------------------------------|
| RCM (large cap growth) | 17.2% | 14.6% | 11.5% |
| NT Russell 1000G (large cap growth) | 16.4% | 11.5% | 11.5% |
| LSV (large cap value) | 18.9% | 0.5% | -2.9% |
| Waddell & Reed (small cap growth) | 23.1% | 15.1% | 11.4% |
| iShares Russell 2000V (small cap value) | 17.8% | -4.3% | -5.2% |
| GE (international growth) | 24.8% | 6.4% | 6.3% |
| LSV (international value) | 30.4% | 8.7% | 9.6% |
| GE (emerging market) | 33.2% | 36.1% | 36.0% |
| LSV (emerging market) | 38.7% | 43.9% | 36.0% |
| FCI (fixed income) | 3.1% | 1.8% | 0.6% |
| Prudential (real estate) | -12.3% | -34.2% | -12.1% |
| Abbott Capital (private equity) | -15.0% | -15.3% | -15.3% |
| JP Morgan (private equity) | -4.1% | -13.0% | -13.0% |
| Gresham (commodity) | 12.0% | 12.1% | 4.6% |

| Civilian Employees' Fund Manager Performance | 2nd Quarter 2009 | YTD 6/30/2009 | Benchmark YTD 6/30/2009 |
|---|------------------------------------|----------------------|--------------------------------|
| RCM (large cap growth) | 17.2% | 14.5% | 11.5% |
| NT Russell 1000G (large cap growth) | 16.4% | 11.5% | 11.5% |
| LSV (large cap value) | 18.5% | -0.2% | -2.9% |
| Waddell & Reed (small cap growth) | 23.0% | 14.6% | 11.4% |
| iShares Russell 2000 Value (small cap value) | 17.8% | -4.4% | -5.2% |
| GE (international growth) | 24.8% | 6.4% | 6.3% |
| LSV (international value) | 30.4% | 8.8% | 9.6% |
| GE (emerging market) | 33.2% | 36.1% | 36.0% |
| LSV (emerging market) | 38.7% | 43.9% | 36.0% |
| FCI (fixed income) | 2.9% | 1.9% | 0.6% |
| Prudential (real estate) | -12.3% | -34.2% | -12.1% |
| Abbott Capital (private equity) | -15.0% | -15.4% | -15.4% |
| JP Morgan (private equity) | -4.1% | -13.0% | -13.0% |
| PIMCO (commodity) | 15.5% | 14.5% | 4.6% |

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

| 2nd Quarter 2009 | Above Benchmark | Met Benchmark | Below Benchmark |
|------------------------------------|------------------------|-------------------------|------------------------|
| 1 st Quartile | LSV (I) LSV (EM) | Waddell & Reed | Prudential |
| 2 nd Quartile | RCM, FCI | | GE (I) |
| 3 rd Quartile | PIMCO, LSV | | GE (EM) |
| 4 th Quartile | | Gresham, iShares R2000V | |

| 1 year ending 6/30/09 | Above Benchmark | Met Benchmark | Below Benchmark |
|------------------------------|-------------------------------|----------------------|------------------------|
| 1 st Quartile | RCM, Waddell & Reed, LSV (EM) | | |
| 2 nd Quartile | LSV | Gresham | GE (EM) |
| 3 rd Quartile | FCI | LSV (I) | PIMCO |
| 4 th Quartile | | | GE (I), Prudential |

Mr. Miskell reviewed the overall performance of the stock, bond, and alternatives market in the second quarter. At the start of the quarter our investment portfolio was overweight fixed income and underweight equities, that position was reversed by the end of the quarter. The bulk of the gains took place early in the quarter with the relative benchmark returning 9% in April, 5.2% in May, and just 0.5% in June.

For the quarter equities performed positively following six quarters of declines. International equity markets outgained domestic markets, aggressive stocks (lower quality companies) outperformed defensive stocks (higher quality companies), and value stocks continued to outperform growth stocks. In fixed income, corporate bonds outperformed treasuries and high yield fixed income produced a 22% return for the quarter. Interest rate sensitive stocks led the industry sector rankings in the second quarter, a complete reversal from performance in the first quarter when those stocks lost about 30% of their value. Mr. Miskell pointed out that for the Dow Jones Industrial Average to return to its 2007 peak of 14,164, annualized returns would have to be 67% for one year, 18.8% for three years, 10.9% for five years, or 5.3% for ten years.

Mr. Miskell said all of our managers were in line with their benchmark with the exception of Prudential's PRISA II fund. Prudential had a -12% return for the quarter while the NCREIF index was down 5%.

Mr. Miskell also reviewed the results of tactical calls provided by DeMarche. Through June 30 the cumulative performance of the tactical portfolio is 14.49% vs. our relative objective portfolio of 13.32%. Using a \$500 million portfolio as an example, tactical asset allocation would have provided value added returns of \$5.8million. Mr. Pyle said the August rebalance to the tactical allocation will include a small decrease in fixed income, a small decrease in large and small cap value stocks, an increase in large and small growth stocks and cash.

Bob Marchesi provided an update on the tactical asset allocation recommendations and a follow up to the DeMarche 2009 forecast for the Dow Jones Industrial Average (DJIA). Mr. Marchesi said we are in a bear market rally that could try to push through the 11,000 mark. DeMarche expects a correction to this rally which could lead to a 2010 bull market or back to test the first quarter lows of 7,500. Mr. Marchesi said they currently prefer investments in defensive stocks as they believe we are at the top of the market rally.

SECRETARY'S UPDATE

Milliman model review with Major David Zimmerman

Mr. Reyburn and Mr. Pyle met with Major Dave Zimmerman and Budget staff to review the Milliman model and to start the discussion for the need to increase contributions for both plans in the FY2011 budget. Mr. Pyle said the models project employer contribution rates increasing to 30.78% in the Police plan and 16.72% in the Civilian Employees' plan in FY2011. The department has included an increase in contributions for both plans in recent budget requests and will plan to do so for the FY2011 budget. Major Zimmerman asked to meet again when we have the final valuation figures from Milliman.

Retirement System Office Space

Mr. Mills and Mr. Pyle met with Captain Jerry Gallagher to review the department's plans for Retirement System office space when the 1328 Agnes building closes. One of the options discussed was space in the new SPD/SOD building. Mr. Pyle said Capt. Gallagher was scheduled to attend our September meeting to update the board on the department's plans. Mr. Pyle said he had also met with Aaron Goff and Captain Mark Heimer about space that would be available for us in the KC Police Credit Union building. Mr. Mills said once the Agnes building is vacated, and there is no longer a significant police presence in the area, the Credit Union building may not be our best option considering the concentration of members the department is planning for the area that will house the new SPD/SOD.

Securities Litigation

Mr. Howell, Mr. Reyburn, and Mr. Pyle met with staff from Cohen Milstein to learn more about securities litigation. Mr. Pyle said Northern Trust files claims on our behalf when a case is settled and there are funds to recover because we were shareholders during the claim period. Mr. Pyle will gather additional information from Northern and other securities litigation firms. Mr. Gorman said in the past the board has taken the position to not participate in securities litigation cases beyond filing for our share of any settlements that may be reached in the cases.

OMNIBUS MOTION

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

RESOLVED, that the Retirement Board hereby unanimously approves:
 The minutes of the previous meeting of July 14, 2009;
 The monthly financial statements for June 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 September 8 at 9:00am at the KC Police Credit Union.