Present: Chairperson O'Connell; Vice-Chair Shock; Members: Briggs, Fisher and Stearn

Absent: None

Also Present: Village Manager, Wilson
Public Safety Director, Woodard
Asset Strategies, Vitta

Chairperson O'Connell called the meeting to order at 7:30 p.m. in the Public Safety Department conference room at 18600 W. Thirteen Mile Road.

REVIEW AND APPROVE MINUTES OF REGULAR RETIREMENT BOARD MEETING HELD ON FEBRUARY 23, 2010

Motion by Briggs, second by Fisher, that the minutes of a regular Retirement Board meeting held February 23, 2010 be approved as submitted.

Motion passed (5 – 0).

PRESENTATION OF THE DECEMBER 31, 2009 PUBLIC SAFETY RETIREMENT SYSTEM ACTUARIAL VALUATION

Randy Dziubek from Gabriel, Roeder, Smith & Company presented the results of the actuarial valuation report as of December 31, 2009. He recapped that, when the Board met to review the 2008 actuarial valuation report a year ago, there was discussion about a significant increase in the required contribution to the system due primarily to investment losses in 2008. It was also said at that time that, because of the asset smoothing approach used in the valuation, the Village should expect additional increases in contribution rates for the next few years.

The theme of the report today is that there were a couple of positive things that happened during 2009. First, there was pretty good investment performance, well in excess of the 7% assumption. Second, there were a few terminations and retirements that were not replaced, which means that the portion of the contribution that funds additional accrual of benefits is lower than expected last year. Those factors balanced out the expected increase in the contribution from last year.

The purpose of the valuation is to measure the System's funding progress and to determine the contribution requirement for the year starting July 1, 2010. The funding objective of the Retirement System is to establish and receive contributions, expressed as percents of active member payroll, which will accumulate sufficient reserves during each member's working lifetime to pay expected benefits during the member's retirement. Based on actuarial assumptions, the long term contribution rate for the Village is expected to be 27.71% of payroll (the Employer Normal Cost), which produces an annual employer contribution of $487,229. Dziubek noted that the report reflects a change in the amortization period recommended by the Retirement Board and approved by the Village Council from 10 years to 30 years, down to 29 years this year.

In answer to an inquiry from the Board, Dziubek stated that the Retirement System is 86% funded, which is on the high side of plans that he has experience with. The funding target is

$16.7 million. The fact that the system has $14.4 million in assets means that the system has an unfunded liability of about $2.3 million.

Dziubek talked about the experience during 2009 and explained the calculation termed the actuarial gain or loss, which measures the effect of actual experience versus the actuarial assumptions. It takes into account investment performance and experience with your population such as mortality, termination, and pay increases. He pointed out the result, which is an experience loss of just over $400,000. The vast majority of that ($372,000) is due to investment performance. Not that 2009 was a bad year, but the plan is continuing to recognize the losses from 2008. There is only about $37,000 in liability loss, which is the demographic experience versus the assumptions.

Dziubek addressed the way valuation assets are measured. A smoothing method is used that recognizes unexpected investment gains and losses over a period of five years. The plan had a good year in 2009. The rate of return on market value was measured at about 17.8 percent. Only 20% of that gain will be recognized this year in the funding value of assets, which is used to determine the contribution rate and funding percentage. Unfortunately, the plan still has 80% of the losses from 2008 that are being recognized 20% per year. Unrecognized losses still exceed unrecognized gains. Additional investment losses are expected for the next few years, unless the Plan has other positive experiences. The Village should expect moderate increases in contribution rates over the next few years.

Questions from Board members on the report and the assumptions were addressed by Dziubek. It was noted that the Plan is due for another five year experience study in 2012. O'Connell thanked Dziubek for his presentation.

ANNUAL UPDATE FROM INVESTMENT MANAGER ROBERT CROSBY – MUNDER CAPITAL

Robert Crosby, portfolio manager for the Munder Capital SMID product was present to report on the performance of the Small-Cap/Mid-Cap Blend Strategy. He commented that it has been an interesting time over the last year, but the good news is that the equity markets have rebounded. Crosby said that the markets have been challenging to Munder's style, and there has been a lot of factors that have driven benchmarks higher and made it more difficult for active managers.

He discussed investment guidelines noting that the SMID fund is always consistent with Retirement System guidelines. He talked about what has been going on in the market in 2008 and 2009. Munder seeks good businesses for investments in the portfolio; it buys very profitable companies. However, low profit companies rebounded last year due to the characteristics of the market. There was significant performance from the most volatile stocks.

Crosby outlined the SMID portfolio performance for the period ending March 31, 2010. These past couple of years have not been good for the fund in terms of returns relative to the market. The fund was significantly ahead at the end of 2007, but 2008 and 2009 have been difficult. During the first quarter, the fund was up 5% but the benchmark was up 9%. Over the trailing 12 months, the fund was up about 52%; the market was up over 65%. The market value of the portfolio as of 3/31/2010 is $2,445,143.00.

Crosby stated that Munder is optimistic in terms of the period going forward based on what it is seeing in the global economy and the markets. The risk rally has probably ended for this cycle, and performance will be driven more by profitability characteristics over the next phase of the economic recovery. This has been seen in every other cycle. The primary message that Crosby would like to leave is that Munder feels like it has executed well on the stock selection side. The fund is well diversified. The SMID fund's outperformance comes from stock selection over time.

Crosby answered questions from the Board and Vitta. He indicated that Munder has added a person to their team. That individual is an analyst that is more Mid-Cap focused.

Vitta asked if there was any change in Munder's risk management process. Crosby responded that a lot of measurement has been done in terms of quantitative work and back testing. Munder has a robust risk monitoring system and risk controls. He mentioned that the firm is seeking to add another person to its quantitative resources area.

Vitta recalled that there was a similar period in the market in 2003 where highly leveraged companies were losing money. The rebound was shorter at that time. Vitta asked if Munder has any sense of confidence that the spread can be made up. Crosby answered yes; Munder is confident because the current environment will create the opportunity for the SMID fund to outperform.

Vitta asked how Munder's other clients in this product are holding up. Crosby said that most of them expect to see outperformance over the next 12 months. O'Connell thanked Robert Crosby for his presentation.

ANNUAL UPDATE FROM INVESTMENT MANAGER ROBERT KAY – WORLD ASSET MANAGEMENT

Robert Kay and Kevin Yousif were present from World Asset Management, a wholly owned subsidiary of Comerica Bank. The Village invested $4.2 million with World Asset Management in 2004 in the S&P 900 fund. This is a custom index fund consisting of 900 large and mid cap U.S. stocks (S&P 500: 91.9% and S&P 400: 8.1%).

Kay stated that World Asset has 18 people in the firm, and it manages about $15 billion of assets as of March 31. He reported on changes in the organization of the firm. There are now two active arms to the organization; but he emphasized that the World Asset Management Group will remain a passive manager. A passive approach to investing is where the client tells them to track to a particular benchmark, which is the S&P 900 in this case. World Asset Management is looking to provide the Retirement System with market exposure. Its fees are lower than most active managers.

Kay reported on the performance of the portfolio. As of March 31, 2010 the market value of the portfolio was $4,307,454. He talked about the exposure of the fund. Kay referred to the benchmarks over the course of five years, noting that the Fund tracks very close to the benchmark. Since inception, the Fund shows a 3.56% return compared to a 3.49% return of the benchmark.

Yousif commented on fluctuations that occur in the markets once every 15-20 years. Investors who maintain their allocations live through these, come back stronger, and continue to build upon the productive value of the stocks. He would expect a rate of return of about 8.5% over the coming years.

Kay invited Board members to call him or Yousif if they have any questions. They thanked the Retirement Board for their business.

2010 FIRST QUARTER PERFORMANCE REPORT – ASSET STRATEGIES

George Vitta from Asset Strategies presented a market review of the quarter and referenced various market indices. The U.S. economy showed signs of continuing recovery in the first quarter with a second consecutive quarter of GDP growth. The quarterly numbers for U.S. and International stocks are very strong.

Vitta said that money managers around the world are looking for the U.S. stock market going for single digit returns in the next 12 months. The outlook for the U.S. Bond market is also mid to low single digit returns based on the expectation that interest rates are not going to go up any time soon and that inflation is not going to be an issue until 2011. The risk to the scenario is the fact that there is still a 10% unemployment rate in the country muting consumption and economic growth. Going forward, 2.5 to 3.0 percent economic growth is anticipated. Less consumption will put pressure on U.S. companies' ability to grow their earnings going forward. The interest rate environment is favorable for growth; how long it will remain favorable is uncertain because we keep borrowing more money.

Vitta stated that a piece of good news that has helped restore investors' confidence in the capital markets is that commercial real estate across the country is starting to see some transactions going on after a bottoming out of property values. The risk of whether the demand for space will stay steady is directly tied into the growth of the economy and people getting back to work. Vitta addressed questions from the Board about the European economy and debt crises.

The Total Fund Composite for the quarter was 4.29% versus the policy index of 4.39 percent. The plan was in the 18th percentile versus other public retirement systems across the U.S. The Total Fund exceeded the Policy Index primarily due to strong results from Western Asset bond portfolio as it continued to rebound. The trailing 12 month result is almost 31% (52nd percentile); the policy index was 34.49 percent. Vitta said that what caused the actual result to fall short was Munder SMID Cap, which holds 17% of the assets. They missed their benchmark by 14 percent, which had a measurable impact on the Plan's bond fund.

Vitta reviewed the individual managers' performance as presented in the report. The WAM S&P 900 Fund is ahead of expectations since inception.

The Munder SMID Cap fund underperformance is primarily attributed to poor selection in the Industrials and Consumer Discretionary sectors. Weak stock selections in the Information Technology and Financials sectors further detracted from results. Vitta commented that the fund's low peer group rankings are significant. A lot of active managers underperformed the market index; however, Munder's numbers are considerably behind.

The Plan did see significant outperformance by this portfolio in 2004 and 2005. The question is how much patience the Retirement Board has. The manager is on probation through June 30, 2010. It is possible, given the sell off in the market, that there may be an opportunity for this portfolio to dig themselves out of this hole. Investors are starting to invest in companies that have profits.

The Dodge & Cox International Fund has positive results (3.2%) and is ahead of the market. Installment payments of $150,000 per month are scheduled to bring international equities up to the 10% target allocation. Another $200,000 investment will bring the Plan to the 10% target allocation. Vitta recommended investing $100,000 in the next week and investing the final $100,000 installment at the end of June.

Western Asset Management, the active core fixed income manager, had a strong quarter up 3.8%; their benchmark was up 1.8 percent. The fund has earned 24.1% in the last year. They have made up all their underperformance. Vitta has been in close contact with the money manager about positive changes in the management of the firm. However, they have lost a lot of business. The Board will be discussing the status of their probation.

The Lyster Watson Hedge Fund had a 1.90% result for the last quarter, in line with the HFRI Conservative Fund of Funds Index. The Fund was up 9.5% in the last year with the benchmark up 11 percent. Lyster Watson has been a good addition to the portfolio. When the stock market lost money, this fund turned in positive results. The diversification benefit has been proven over time.

Principal US Property had a +0.38% result in the last quarter, a little behind the property index. The trailing 12 month number is indicative of the fact that commercial is a lagging indicator of what is happening in the stock and bond markets. The cumulative periods are all negative for five years, but the trend is encouraging.

The asset mix of the total fund is composed of 47.82% Domestic Equity, 30.03% Domestic Fixed, 3.73% Cash and Equivalents, 3.04% Real Estate, 6.13% Hedge Funds, and 9.25% International Equity. The market value at the end of March 31, 2010 was $14,055,000.

The conclusions and recommendations following the investment performance evaluation for the First Quarter of 2010 are as follows:

1. Total Fund results of +4.29 for the quarter were strong but slightly trailed the Policy Index for the one-year period due to poor performance from the Munder SMID Cap Portfolio.

2. The Munder SMID Cap portfolio underperformed their benchmark by 4.30% for the quarter, and further detracted from their longer-term result. The manager is on probation for the 1/1 - 6/30/2010 period.

Vitta stated that he is comfortable, having seen the portfolio go through something similar before. He recognized that nothing is broken at Munder and the firm is doing things to build up the team. After hearing a presentation from the fund manager today, the Board will determine its sense of comfort with the fund.

3. Western Asset continued to rebound strongly for a consecutive quarter, exceeding their enhanced benchmark by 1.82%. The manager has significantly narrowed the longer-term performance deficiency.

Vitta stated that Western has been able to make up all its underperformance. The fund is a little bit behind after fees and does not have room to slip. Vitta is comfortable extending their probation through June 30, 2010.

4. Funding the Dodge & Cox International equity fund is nearing completion with about $200,000 remaining. Asset Strategies recommends using $200,000 of cash to complete the funding with $100,000 installments over the next five weeks.

5. An employer contribution ($122,461) was made in February 2010.

6. As of 5/14/2010, equities remain under-allocated 3.8% (2.3% U.S. & 1.5% International) and bonds and cash were over-allocated (1.0% and 3.4% respectively). The portfolio is a little under-allocated in real estate (3.1% versus a target of 5%). Cash should continue to be used for monthly benefit and expense payments.

> Motion by Shock, second by Briggs, that the Retirement Board continue the probation period for the Munder SMID Cap portfolio through June 30, 2010.
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> Motion passed (4 – 0).
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> Motion by Briggs, second by Fisher, that the Retirement Board continue the probation period for Western Asset Management through June 30, 2010.
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> Motion passed (4 – 0).

Asset Strategies will prepare a recommendation on Western Asset Management for the August Retirement Board meeting and have information on other fund managers if Vitta recommends a change.

> Motion by Shock, second by Briggs, to invest $200,000 from cash to complete the funding of the Dodge & Cox International Stock Fund with two $100,000 installments over the next five weeks.
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> Motion passed (4 – 0).

PUBLIC COMMENTS

John McGrath of 16210 Beverly Road commented on his inquiry regarding net investment returns. O'Connell indicated that he asked that a letter be prepared and sent to McGrath clarifying how investment returns are calculated.

The meeting was adjourned at 9:26 p.m.