

Present: Chairperson O’Connell; Vice-Chair Shock; Member: Koss

Absent: Fisher and Stearn

Also Present: Village Manager, Wilson  
Director of Public Safety, Woodard  
Asset Strategies, George Vitta and Katherine Ghannam

Chairperson O’Connell called the meeting to order at 9:00 p.m. in the Public Safety Department conference room at 18600 W. Thirteen Mile Road.

**REVIEW/APPROVE MINUTES OF RETIREMENT BOARD MEETING ON RETIREE HEALTH CARE FUND – AUGUST 24, 2010**

Motion by Shock, second by Koss, that the minutes of a Retirement Board meeting on the Retiree Health Care Fund held August 24, 2010 be approved as submitted.

Motion passed (3– 0).

**2010 THIRD QUARTER PERFORMANCE REPORT BY ASSET STRATEGIES**

Vitta reviewed the Beverly Hills Retiree Health Care performance summary for the period ending 9/30/2010. The quarter return for the Vanguard STAR Fund was 9.18% net of fees compared to the benchmark of 8.94 percent. The fund earned about 2.5% in October, putting it over 11% year-to-date. The market value of the Vanguard STAR Fund at the end of September was \$1,485,115.22.

3Q10 Quarterly Commentary:

1) An additional \$50,000 of the Vanguard STAR Fund was purchased on 9/28/2010.

The Board decided to dollar-cost-average from the Retiree Health Care Reserve into a diversified investment fund. There was another investment of \$50,000 on October 26, 2010; there will be a \$50,000 investment at the end of November; and the last movement of \$50,000 into the STAR fund at the end of December.

2) Outperformance by the STAR Fund is attributed to strong results from its two international funds and its long-term investment-grade bond fund.

Wilson related that, with the passage of the millage proposal in November, the Village will be able to fully fund its OPEB liabilities based on the current five-year projections. Over \$400,000 per year will be set aside for this fund starting next year. With the contributions increasing significantly, Wilson asked Vitta whether the Board would be looking at a more complex portfolio similar to the Pension Fund Plan. Vitta responded that this topic will be addressed during discussion of the asset allocation study.

## **REVIEW DRAFT OF INVESTMENT POLICY STATEMENT**

Vitta reviewed that Asset Strategies issued the draft Investment Policy in August with the intent of bringing it back to the Board for discussion. The Asset Allocation Policy section is not final. The hybrid asset allocation on page 4 resembles a number of public retiree health care systems throughout the State. Because this plan has its own unique liabilities, income, and liquidity needs, Vitta would expect the ultimate asset allocation policy adopted by the Board to look different.

O’Connell mentioned that there was an inquiry about the fund’s short term needs at the last meeting. Finance Director Wiszowaty has indicated that this is a long-term strategy. Wilson concurred that there are few liquidity concerns with this plan because the Village is currently paying for retiree benefits on a pay-as-you-go basis. Vitta said that income dependence is not an issue; on the other hand, it is unknown when the Village will have to draw on this fund.

Koss expressed concern about taking losses on retiree health care fund investments at a time when annual contributions based on current actuarial assumptions are now available in the budget.

O’Connell responded that the goal of this body is to minimize how much the Village has to contribute to the fund with the hope that the fund will gain returns. The market has done well over time. The Board will work on achieving a balance between risk and reward.

Vitta added that the plan has to earn at least the rate of inflation in order to maintain the purchasing power of today’s dollars. The Village will determine the target rate of return, and Asset Strategies will provide a strategy that will give the Board the highest certainty of achieving that. Vitta understands that the Board does not want to take any more investment risk than it has to. Consideration will be given to the fact that the retiree health care fund cannot ride out the highs and lows as well as the pension fund because of its current underfunded status. The first consideration is prudence and right behind that is what is financially necessary for the plan.

Vitta was encouraged to hear that there will be \$400,000-\$600,000 going into the plan starting next year for several years. He emphasized that receiving the contribution in small increments each month would be more beneficial for the long term success of the investment program and to the health of the plan.

Vitta provided perspective on the return risk tradeoff and whether the Board should be considering an investment other than the Vanguard STAR fund. Asset Strategies has been conducting an extensive review of institutional investment funds since August. This usually means tax exempt investors and a high minimum investment for this kind of plan. Asset Strategies is trying to establish whether there are enough investments to fit each of the asset classes listed in the Investment Policy. There are different investment vehicles that would fit each of these asset classes with the exception of the real estate category.

Something that Asset Strategies has done with other retiree health care funds is to use an all-asset fund, which is a diversified fund designed to combat inflation. A fund like that invests in TIPS (Treasury Inflation Protected Securities). They invest in some income producing strategies like high

yielding stocks, utilities, consumer goods; and high yield bonds. Using a multitude of different securities that are diversified has worked well for retiree health care plans.

Vitta did not have a recommendation at this meeting. Asset Strategies will continue its review until it can recommend how to fill each of the asset classes. The asset allocation model allows the Board to review various scenarios before investing. Tools enable them to take a look at historical return and risk for hundreds of market indices. They can try different assumptions and eliminate investment strategies that do not make sense in order to narrow down the selection. Through a process of elimination, the Board will be able to focus on an ultimate asset allocation policy for the retiree health care plan on a cost effective basis.

**PUBLIC COMMENTS**

John McGrath said that he would like to know the net investment returns for the Retiree Health Care Fund.

The meeting was adjourned at 9:40 p.m.