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

Absent: Fisher

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

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 AUGUST 23, 2010

Motion by Shock, second by Koss, that the minutes of a regular Retirement Board meeting held August 23, 2010 be approved as submitted.

Motion passed (3 – 0).

Stearn entered the meeting.

ANNUAL UPDATE FROM LYSTER WATSON – JAY DIRNBERGER

Jay Dirnberger, Managing Director of Lyster Watson & Company, presented an annual review of the Lyster Watson Group Trust - Conservative Alternative Fund. It is a Fund of Hedge Funds described as a multi-manager and multi-strategy fund constructed for positive monthly returns with low volatility and low correlation to stocks and bonds. Lyster Watson is a designated fiduciary and it employs the Bank of New York Mellon as the administrator and custodial trustee of the fund. The Retirement Board invested $700,000 with Lyster Watson on December 1, 2004. The ending balance as of 10/31/2010 is valued at $868,617. Six percent of the portfolio is invested in the Absolute Return asset class.

Dirnberger distributed copies of his report to Board members. He referred to an organization chart and commented on individuals who have been added to the firm. Dirnberger presented graphs and charts to demonstrate cumulative performance of the fund from December of 2004 through August of 2010. The fund is back on track after losing money in 2008. October 2010 was positive and November is looking positive as well.

Dirnberger talked about the current strategy allocation noting that it is the most important decision Lyster Watson makes on behalf of this fund. He explained that a conservative fund trying to accomplish steady returns and low volatility embraces risk in different areas. The volatility is kept low by having risky assets that are diversified through different strategies and managers. The fund is comprised of 36 Hedge Funds and 35 managers.

Questions from Board members on the fund were addressed by Dirnberger throughout his presentation. Stearn remarked that members of the public have asked why the Retirement Board remains invested in Hedge Funds.

Dirnberger acknowledged that Hedge Funds have some notoriety. He added that there are about 8,000 Hedge Funds of institutional caliber that receive no notice. Hedge Funds can offer the portfolio attractive properties in different areas and different marketplaces; diversification is important in this fund. Dirnberger stated that Lyster Watson is registered with the Securities and Exchange Commission and the funds within the Group Trust are registered with the SEC. The feature of this portfolio is obtain exposure to elements that the fund would not ordinarily get from traditional managers.

Dirnberger commented on a few managers on the Conservative Alternative Fund Manager List to point out the types of managers Lyster Watson wants to find. He referred to graphs and discussed portfolio construction, examples of risk factors, and relevant trends. Lyster Watson thinks that the economy is in recovery and that there are some attractive opportunities overseas. Dirnberger expressed the concern that it will impact investments if rising inflation works its way into the global economy. Lyster Watson has some protective devices in the portfolio to address that. Dirnberger noted that he will forward further information to Board members to address concerns expressed about Hedge Funds.

O'Connell thanked Jay Dirnberger for his presentation. O'Connell welcomed Council member Rosanne Koss to the Retirement Board and welcomed Todd Stearn back to the Board.

2010 THIRD QUARTER PERFORMANCE REPORT BY ASSET STRATEGIES

Katherine Ghannam from Asset Strategies presented a market review of the quarter and referenced various market indices. The third quarter returns were good continuing through October and November, and the plan is up for the year.

Ghannam reviewed the Retirement System performance summary and comparisons for the period ending 9/30/2010. The Total Fund Composite for the quarter was 8.78 percent, which is in the 35th percentile. The Total Fund slightly exceeded the Policy Index due to strong results from Dodge & Cox and Western Asset. Ghannam highlighted the individual managers' performance as presented in the report.

Underperformance of the Munder SMID Cap Fund is primarily attributed to poor stock selection and sector weightings. Overweights in the Financials and Health Care sectors and underweights in the Material and Information Technology sectors detracted from returns. The performance of this fund is not improving. The Board extended probation on this fund in August for one more quarter. A recommendation from Asset Strategies will be forthcoming.

Dodge & Cox International Stock Fund is in the 17th percentile for the quarter, and it outperformed the Index. Outperformance is attributed to an overweight position in the strongly-performing Telecommunications sector, an underweight exposure to Japan, and strong results from emerging market holdings.

Stearn raised a concern about International Stocks based on the financial crisis in Europe, particularly Portugal, Ireland, Greece and Spain. Vitta addressed what is occurring to keep these countries from defaulting on their debts. Asset Strategies is trying to find good opportunities globally for consistent risk adjusted returns. The managing style of Dodge & Cox is to invest in companies that it thinks are going to benefit from economic growth regardless of their location. The fund is currently about 25% invested in emerging economies.

The outperformance of Principal U.S. Property Real Estate Fund is due to improvements in availability and cost of debt capital and a significant asset value appreciation. Asset Strategies has a recommendation in this area in terms of rebalancing. It was questioned whether a withdrawal queue remains in effect for this fund. Vitta said that the fund is not honoring any withdrawals now. O'Connell recalled that the Board had talked about getting into the queue. Vitta responded the end result was not to get into the queue due to the risk of locking in our losses.

The asset mix of the total fund is composed of 47.19% Domestic Equity, 30.61% Domestic Fixed, 1.86% Cash and Equivalents, 3.33% Real Estate, 6.05% Hedge Funds, and 10.96% International Equity. The market value at the end of September 30, 2010 was $14,197,000.

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

1. Total Fund results slightly exceeded the Policy Index for the quarter due to outperformance from the Western Asset Intermediate Plus Fixed Income and Dodge & Cox International Equity portfolios.

2. Total Fund longer-term results have trailed the Policy Index for the 2-, 3-, and 5-year periods primarily due to underperformance of the Munder SMID Cap portfolio.

3. The Munder SMID Cap portfolio trailed their benchmark by 1.43% for the quarter and trails expectations by 4.31% year-to-date. The manager did not meet the terms of extended probation. Asset Strategies recommends a replacement manager search to be presented at the February 2011 meeting.

> Motion by Stearn, second by Koss, to accept the recommendation of Asset Strategies to conduct a replacement manager search for the Munder SMID Cap portfolio to be presented at the February 2011 meeting.
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> Motion passed (4 – 0).

4. The Western Asset fixed income fund exceeded the market this quarter by 1.91% and continues to significantly outperform their benchmark year-to-date, as well as most of their peer group. Asset Strategies was advised that Western Asset is closing the Intermediate Plus Bond fund in December 2010 and is proposing via proxy to reorganize the fund into the Western Asset Intermediate Bond Fund.

Ghannam related that the fund is being closed because it is too small, and Western Asset has lost business due to the volatility of its performance. Western is going to merge this fund into another fund to achieve the needed economies of scale. Western Asset is asking via proxy for Retirement Board approval.

Ghannam and Vitta have discussed this and do not have a problem suggesting that the Board approve this reorganization. Asset Strategies proposes doing a manager search for a fixed income manager for consideration at the February Board meeting along with a review of the Western Asset Intermediate Bond Fund. It was noted that this fund represents 30% of the portfolio.

Vitta commented on the timing of the proxy process, noting that the Board will hold its February meeting before the process is complete. The proxy statement indicates that there is no cost to redeem.

> Motion by Stearn, second by Shock, that the Retirement Board accept the proxy recommendation to reorganize the Intermediate Plus Bond Fund into the Western Asset Intermediate Bond Fund and authorize Asset Strategies to conduct a manager search for a fixed income fund.
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> Motion passed (4 – 0).

5. An employer contribution ($121,807) was made in September 2010.

6. Asset Strategies recommends rebalancing the absolute return and small cap U.S. equity allocations in two steps, in December 2010 and March 2011, to the real estate allocation. Prior to 12/31/2010, reallocate $140,000 from the World Asset Management S&P 500 Fund to the Principal U.S. Property Fund. At the end of March 2011, (as funds are not available until March 2011), reallocate $120,000 from Lyster Watson to Principal U.S. Property Fund.

Ghannam explained that Asset Strategies is proposing to bring the asset allocation in line with the target allocation by increasing the Real Estate allocation in two stages. This would move the Real Estate allocation closer to the 5% policy allocation.

Questions from Board members on this action were addressed by Ghannam and Vitta. Stearn was concerned about the lack of positive returns from the Principal U.S. Property Fund in the last year combined with the weak commercial real estate market. He suggested the possibility of doing a search for another real estate firm. Shock also was wary about putting more money into the real estate fund at this time.

O'Connell inquired as to the consultants' rationale for reallocating funds to the real estate fund. Vitta responded that Asset Strategies has spoken with people from Principal and a half a dozen other equity funds. He outlined the elements of those funds, the significant drop in commercial real estate values, and the long extended recovery period in real estate prices. There have been incremental positive returns every quarter this year. Vitta discussed the risk that is still out there today and the thinking behind remaining with the real estate fund during the positive economic growth period.

Before Stearn left the meeting at 8:38 p.m., he said that he did not support transferring funds to the Principal U.S. Property Fund at this time. He and others had concerns about the liquidity of this real estate fund and the volatility in the market.

Vitta said that the intent is to build back to the real estate policy allocation. He addressed the liquidity issue. The fact that it is a less liquid part of the portfolio is one reason why, over time, commercial real estate has provided a better rate of return than the bond market. If the Board prefers, Vitta will invite the Principal U.S. Property Fund manager to attend the February meeting to discuss the fund. Action on the reallocation proposal will be postponed until that time.

PUBLIC COMMENTS

Resident John McGrath questioned the status of his inquiry on net investment returns. He was informed that the Village can provide numbers for McGrath to review, but it would require Board action to authorize money for Asset Strategies to conduct an in-depth study. A cost estimate for this study has not been determined.

Vitta commented on Beverly Hills Retirement System costs compared to other public retirement plan costs noting that the Village's total fees are in line with what other public retirement plans pay. The standard for reporting investment results is gross of fees. The Board's historical results are stated in compliance with industry standards. Beyond that, the Trustees should consider the value of the information to be determined through a study and what the Board would do with the information once it is received. These factors should be a part of the decision to spend money for a report that would require someone to go back and calculate costs.

It was the sense of the Board not to take action at this meeting to request a cost estimate from Asset Strategies to undertake the calculation of investment returns net of fees as requested by resident John McGrath.

REVIEW AND CONSIDER PROPOSAL FROM CHUBB GROUP OF INSURANCE COMPANIES FOR FIDUCIARY LIABILITY COVERAGE

Manager Wilson reviewed that there has been discussion about acquiring a fiduciary liability policy for the Retirement Board members as the custodians of the Public Safety pension plan and retiree health care money. The Village has received a proposal from Chubb Specialty Insurance for a policy in the amount of $1 million for each claim, $1 million aggregate, with a $10,000 deductible and a premium of $8,000. This company provides a similar fiduciary policy for the Village. Vitta remarked that it appears to be a competitive quote.

There followed questions and comments on the need of the Retirement Board to have fiduciary liability insurance separate from the Village's policy, the coverage provided under the proposed policy, what is excluded or included in this particular policy, and the process of filing a claim. It was noted that the premium would be payable through the Retirement Fund.

It was the consensus of the Board to request that a representative from IBEX insurance attend the next meeting to explain the coverage offered with this proposal. Vitta was asked to review this policy.

The meeting was adjourned at 8:58 p.m.