Present: Chairperson O'Connell; Vice-Chair Shock; Member: Fisher, Koss and Mercer

Absent: None

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 7:35 p.m. in the Public Safety Department conference room at 18600 W. Thirteen Mile Road. He welcomed new Board member Tim Mercer.

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

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

Motion passed (5 – 0).

PRESENTATION BY MIKE DRYSDALE, PRINCIPAL GLOBAL INVESTORS

Mike Drysdale with Principal Global Investors presented an update on the Principal U.S. Property Account as of December 31, 2010. He addressed questions submitted by Asset Strategies as well as material included in the book distributed to the Board.

Drysdale provided an organizational overview of Principal Global Investors noting that there have been no changes in ownership, key management, nor the team that works with the Principal U.S. Property Account. As of December 31, 2010, the firm had $232 billion in assets under management with $35 billion in real estate assets. The Retirement System is invested in the U.S. Property Account, which is a commingled fund that invests in direct private real estate. The intent is a high-quality, core, well diversified portfolio of properties. Drysdale referred to a chart and provided an overview of the equity assets and exposure.

The Retirement System's initial deposit in this fund (8/19/2004) was $700,000. There were $390,000 worth of withdrawals. The ending market value as of 12/31/2010 was $495,581.

Drysdale related that there has been no change in the risk management process in light of what happened in 2008 and 2009 in the capital markets and real estate markets. This is a core real estate fund that is invested in well leased and low leverage properties in primary markets. The company focuses on the property level aspects – tenancy, lease arrangements, individual properties as well as debt, if any.

The 2010 strategy was defensive. Principal was looking at managing the loan aspect of the fund and properties to keep the fund's debt and leverage under control. Efforts were made to take care of the withdrawal queue as efficiently as possible. In the fourth quarter of the year, the withdrawal queue was at a manageable level of less than $100 million. Principal started looking more for acquisitions with new money coming in while focusing on the property management aspect. The withdrawal queue is now at zero, but remains in place from a technical standpoint. If

someone wants $100,000, Principal waits to make sure that there is money available more towards the end of the month. The company wants this fund to do what it always did until September of 2009, which is to provide daily liquidity for investors.

Drysdale discussed 2011 strategies and focus. The fund managers are actively pursuing acquisition opportunities. They are looking at the properties they have and working to improve occupancy rates, increase rental rates where possible, and manage the property expense aspect to improve the net operating income in the property level. Drysdale addressed the following topics: status of debt renegotiation, occupancy levels of real estate holdings in the past year, sales transactions, and an outline of each of the fund's investment types.

Drysdale remarked that employment drives the commercial real estate properties whether it is office, industrial, multi-family or retail. Principal anticipates that the economy will grow 3% this year. It is a sustainable recovery, but they are not optimistic about job growth.

The biggest challenge for the Fund in the next 12 months will be managing the net operating income. It is a low leveraged, low-risk fund with the objective of generating an income return in the 6-7% range. The challenge is how to generate income, improve occupancy, increase quality of tenants, obtain better rent through improvement of property, and manage property level expense. A concern for Principal will be what happens with interest rates.

Questions from George Vitta were addressed by Drysdale. O'Connell thanked Mike Drysdale for his presentation.

2010 FOURTH QUARTER PERFORMANCE REPORT BY ASSET STRATEGIES

George Vitta from Asset Strategies recapped the global capital markets for the fourth quarter and all of 2010. He presented the Asset Strategies fourth quarter performance report ending December 31, 2010 for the purpose of evaluating the performance of the investment managers for the Public Safety Officers' Retirement System.

Vitta reviewed the Retirement System performance summary and comparisons for the period ending 12/31/2010. The plan earned 7% for the three months ending 12/31/10. The total fund slightly trailed the Policy Index due to poor results from Western Asset. Last year the Retirement System earned 14.92% with roughly 15% exposure to the U.S. Stock Market and 20% to International. This plan versus other public retirement plans is in the 14th percentile. The two year average annual return has been 17.1%, better than two-thirds of public retirement systems in the United States. The average annual return for 6.25 years has been 5.9%, almost in line with the Policy Index, which is 6%. Variability is 12.3 versus the policy index of 12.2.

Vitta went through the fund performance executive summary commenting on each of the funds. The S&P 900 Fund is a little behind the benchmark. The Retirement Fund is getting market results both on a return and risk basis. For the last five years, this low cost strategy has outperformed two-thirds of the investment managers in the world.

Munder SMID Cap had a good quarter. The Retirement Board made a decision at its November, 2010 meeting to direct Asset Strategies to conduct a replacement manager search for the Munder

SMID Cap portfolio. The Board gave Munder a generous opportunity to come back, but the company failed probation.

Dodge & Cox International Stock Fund outperformed its benchmark with a total return of 8.12; the portfolio is up 13.9% for the year. Dodge & Cox is a top performer in its peer group.

Western Asset Intermediate Plus Bond Fund missed its benchmark with a total return of -1.56. There was an outperformance for the year and over two years. Vitta stated that Western Asset is closing the Intermediate Plus Bond fund and proposes to reorganize the fund into the Western Asset Intermediate Bond Fund. Asset Strategies has conducted a due diligence manager search for the Board and will present a list of candidates to replace Western.

The Lyster Watson Fund of Funds has delivered a more consistent return than the stock portfolios with less risk or volatility. Lyster Watson has distinguished itself among its peer group over the years.

Mike Drysdale from Principal US Property presented a report to the Board earlier in the meeting. The commercial real estate market is in better shape than the residential real estate market in the U.S. It was thought that the recovery in prices of commercial real estate will be a slow and gradually upward process.

The asset mix of the total fund is composed of 50.02% Domestic Equity, 28.52% Domestic Fixed, 1.02% Cash and Equivalents, 3.31% Real Estate, 5.92% Hedge Funds, and 11.21% International Equity. The market value at the end of December 31, 2010 was $14,980,000.

Questions from Board members were addressed by Vitta. There was concern relative to allocating more money to the real estate fund. As of February 14, 2011, there was $496,000 invested with Principal US Property. The fund target is $770,000 (which is 5% total plan value). Vitta indicated that the Investment Policy says that the Board should assess rebalancing of the portfolio no less than once a year. The fund is about $300,000 over-allocated in US stocks today and about $200,000 over-allocated in International, which is $500,000 more equity market risk than the Board may be comfortable with.

The question for the Board is whether there is a good buying opportunity in the commercial real estate market. The Retirement Fund is under allocated by $274,000 in the Principal US Properties Account. Vitta thought that the bond market is looking like the most risky investment right now. Asset Strategies has a recommendation to present; however, the Retirement Board does not have to take action today to rebalance the portfolio back to its long-term target allocations.

There was further discussion regarding rebalancing the portfolio to address under-allocated and over-allocated funds. O'Connell suggested that an abbreviated exercise to review the investment policy guidelines could be undertaken to determine if the Board is in the same place it was when the guidelines were created.

Vitta presented the conclusions and recommendations following the investment performance evaluation for the Fourth Quarter of 2010 as follows:

1. Total Fund results slightly underperformed the Policy Index due to poor results from the fixed income manager; Western Asset.

2. Calendar year results rank at the 14th percentile and outperformed the Policy Index by 29 basis points.

3. Western Asset closed the Intermediate Plus Bond fund in December 2010. The Plan's investment was exchanged into shares of the Western Asset Intermediate Bond Portfolio (WATIX), with a 12.42% ownership as of 12/31/2010 in the Western Asset Intermediate Plus Liquidating Trust (which was valued to be $71,757 as of 12/31/2010).

4. Replacement manager search to be presented for a replacement to Western Asset (fixed income).

5. Replacement manager search to be presented for a replacement to the Munder SMID Cap portfolio.

6. An employer contribution ($121,807) was made in November 2010.

7. Asset Strategies recommends modifying strategic asset allocation targets by reducing the target exposure to U.S. SMID Cap equities by 5% to 15% and subsequently increasing the target exposure to international equities from 10% to 15%. This would be accomplished by rebalancing $600,000 from the Munder SMID Cap portfolio to the Dodge & Cox International Stock Fund.

Vitta is proposing tonight that the Board reduce its US Equity allocation from 50% to 45% and increase the International Equity allocation from 10% to 15 percent. This would not change the global equity exposure or risk from stocks; it would change where we get the risk. Everything else would stay the same. The proposition for increasing the fund's International Equity exposure and reducing its US Equity exposure goes to the observation that the rate of growth going forward for the U.S. is not going to be anywhere near where it was in past years; other areas of the world are still in the expansion phase of their economies. Companies are going to other economies where they think they can grow their earnings faster or at a higher sustained rate. In terms of growing the Retirement System's assets, the rate of growth should be enough to compensate investors for a higher level of risk long term in emerging markets.

Wilson stated that his concern with the portfolio was that 30% of the total investment is in an S&P 900 Index Fund. He understood that there is a low level of fees associated with the fund, but suggested that there are managers that might offer better growth opportunities than indexing.

Vitta responded that considering strategies and formulating recommendations goes beyond looking at rates of return. Part of the decision is whether the fund will earn a premium after fees and after risk. Another part of the reallocation decision is looking at the sources of risk in the overall Retirement Plan. He discussed the rationale of the Asset Strategies recommendation to modify asset allocation targets. The basis of the recommendation is to go from a lower growth, high risk asset class to a higher growth, less risky asset class.

Vitta said that being in the S&P 900 provides outstanding diversification of the fund's US Equity allocation. The Fund gains a different return risk profile in that strategy than from the Small Mid Cap strategy. The combination of the two provides complete exposure to the US market. He added that using an index fund eliminates manager risk.

Vitta stated that he is prepared to provide the Board with an executive summary at an upcoming meeting to address how the Board achieved the current targets. Asset Strategies has tools that help formulate recommendations. By doing real time modeling, Vitta could show Board members what it would mean to take the S&P 900 from 30% to 15% of the target allocation. We can demonstrate how that changes the return-risk profile, the expected future return growth, and risk of the plan versus where it is today. The Board is always looking for ways to reduce costs in the investment program and improve the return to risk ratio.

O'Connell summarized the asset allocation discussion. It was noted that the Retirement System is under allocated in the Principal US Properties Account; there is a buying opportunity in the commercial real estate market. There was discussion of reducing the allocation in US Equities and increasing the International Equity fund allocation. There was a comment about the advisability of investing 30% of the portfolio in an Index Fund. O'Connell questioned whether the Board should discuss the Plan's asset allocation and analyze how it all fits together rather than looking at a single segment. It was the sense of the board to review the asset allocation.

Vitta proposed holding the Asset Strategies recommendation in abeyance until such time as the Board can undertake a review of the current asset allocation policy. It was the sense of the Board to accept the Asset Strategies Conclusions and Recommendations for the Fourth Quarter of 2010 with the exception of Item #7.

DUE DILIGENCE REPORT – MANAGER SEARCH FOR REPLACEMENT FOR THE MUNDER SMID CAP PORTFOLIO

Katherine Ghannam explained what was involved in the identification, evaluation and selection of a domestic Small-Mid Cap equity manager. The investment managers profiled in the Asset Strategies report are the remaining candidates from a large universe of 205 investment manager organizations initially considered. The five candidates profiled within the report are the survivors of a rigorous screening and questionnaire process that included many qualified firms. These candidates are judged to have the best fit with the criteria and objectives set forth in this search process.

The candidate information in the report includes organizational background, investment process, personnel, fees, portfolio characteristics, account administration, and a detailed analysis of historical investment performance. Performance data was supplied by the candidate managers and cross-referenced. Additional information was obtained from independent data sources believed to be reliable. The information is current as of December 31, 2010, unless otherwise noted. Performance data is gross of fees and periods greater than one year are annualized.

The five investment managers evaluated in the report were as follows: Alliance Bernstien L.P., Lazard Asset Management LLC, Rothschild Asset Management, Security Global Investors, and Westwood Management Corporation. Ghannam reviewed candidate information with the Board with the intent of seeking a firm that could demonstrate success in providing additional return.

She addressed questions from Board members on the quantitative data associated with the five managers.

The statistical analysis tables provided in the report were revealing with Westwood Management showing the highest rankings overall. The Board had enough information to make a decision on a replacement investment manager for the Munder SMID Cap portfolio.

> Motion by Shock, second by Koss, that the Retirement Board move funds from the Munder SMID Cap portfolio to the Westwood Management SMidCap Plus Equity Fund at the recommendation of Asset Strategies.
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> Motion passed (5 – 0).

DUE DILIGENCE REPORT – MANAGER SEARCH FOR REPLACEMENT FOR WESTERN ASSET (FIXED INCOME)

Vitta reviewed the handout dated February 2011 from Asset Strategies outlining the Fixed Income Manager Evaluation. There are many firms in the universe that manage bonds for pension funds and retiree health care plans. The candidates profiled in the report are the remaining five candidates from a group of about 358 companies that offer 1,531 types of bond investments. The manager identification and selection process began with multiple screens of the investment manager database. These five candidates are judged to have the best fit with the criteria and objectives set forth in the search process.

The candidate information in the report includes organizational background, manager approach, guidelines, risk management controls, investment process, personnel, fees, and a detailed analysis of historical investment performance. Performance data was supplied by the candidate managers and cross-referenced. The information provided is current as of December 31, 2010 unless noted.

The five organizations profiled in the report are Federated Investors, Inc.; Lord Abbett & Co. LLC; Munder Capital Management; Pacific Investment Management Company LLC; and Seix Investment Advisors Inc. Four of the five are an institutional mutual fund; the Munder proposal is to do a separate account. Vitta explained the difference between a mutual fund and a separate account to a Michigan public retirement system. We invest by prospectus with a mutual fund and, in doing so, accept their guidelines, objectives, rules and regulations. With a separate account, we have the ability to create a customized set of guidelines that conform with state statute and benchmarks.

Vitta reviewed the analysis and summary of written statements contained in the report. He discussed the tables included with the material and the significance of that analysis. Asset Strategies ranks all the statistics and arrives at overall scores for each candidate. The qualitative data is then verified to determine whether there are strengths or weaknesses that would add or subtract from the score.

Questions and concerns from Board members were addressed by Vitta. In response to an inquiry, Vitta recommended investing with Munder Capital Management in its Enhanced Core Fixed Income product. Munder has served the Retirement System in the past and has done an excellent

job in terms of communication and service. The fixed income strategy that Munder is proposing has an index-like fee, but it is actively managed. Given the risks in terms of the fixed income market, Vitta has a higher level of confidence that a separately managed account would come through in a downturn. Vitta expressed the opinion that the Board would be comfortable with the prospectus offered by each of the funds with the exception of the Pimco Total Return Fund.

The Board did not arrive at a clear choice after discussing the candidates. There was agreement to invite representatives from both Munder Capital Management and Federal Investors, Inc. to make a presentation of their product at the Retirement Board meeting in May.

> Motion by Shock, second by Koss, that the Retirement Board interview a representative from Munder Capital Management and from Federated Investors, Inc. at its May 2011 meeting prior to making a decision on a Fixed Income product manager.
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> Motion passed (5 – 0).

Continued Discussion of Asset Strategies Fourth Quarter 2010 Recommendation
Asset Strategies recommended modifying strategic asset allocation targets by reducing the target exposure to U.S. SMID Cap equities by 5% to 15% and subsequently increasing the target exposure to international equities from 10% to 15%. This would be accomplished by rebalancing $600,000 from the Munder SMID Cap portfolio to the Dodge & Cox International Stock Fund.

Vitta suggested that the Board may want to conduct an asset allocation review before making this change. It was the sense of the Retirement Board to postpone action on the recommendation from Asset Strategies to modify the strategic asset allocation target.

RECEIVE AND DISCUSS REQUEST FROM SONIA KOENIG FOR DUTY DISABILITY RETIREMENT
Wilson stated that a Village of Beverly Hills Public Safety employee has been off for disability for shoulder related medical issues for a period of time. Officer Sonia Koenig has been on Workers' Compensation for almost two and a half years. The officer has requested a duty disability retirement in a letter dated February 2, 2011. Wilson said that the Village cannot make a determination on this matter. There is a process outlined in the ordinance on duty disability filing.

The officer has been seen by two physicians. The Board is in receipt of reports from both physicians. The officer's physician recommends the disability retirement. The other physician represents Meadowbrook Insurance, the Village Workmen's Compensation Insurance company. That physician proposed ongoing treatment with the potential for a third surgery. The ordinance requires that two physicians must support a claim of disability; that threshold has not been met. The ordinance calls for these two physicians to select another physician and meet as a team to render a determination on whether the individual is disabled to the point of not being able to return to work.

Director Woodard referred to the language in the Public Safety Ordinance 3.08, subsection (s) Disability Retirement. The ordinance says that, upon application, a member who becomes totally or permanently disabled for duty as a public safety officer by reason of a personal injury or

disease may be retired by the Board of Trustees. The ordinance further states, "Provided, that after a medical examination of the said member, by or under the direction of a medical committee consisting of three (3) physicians, one of whom shall be named by the Board, one by the said member, and the third physician by the first two physicians so named, the said medical committee certifies to the Board, in writing, that (1) the said member is physically or mentally totally disabled for duty as a Public Safety Officer, (2) his disability will probably be permanent and (3) the said member should be retired." Woodard thought it would take a selection of a third doctor and a determination by those three doctors for this application to proceed.

Shock questioned the intent of the ordinance language and asked for clarification by the Village Attorney. He thought that there was a differentiation between an injury sustained on-duty and off-duty, which may relate to whether a third evaluation is needed.

> Motion by Koss, second by Shock, to request Village Attorney Tom Ryan to render an interpretation of Public Safety Ordinance 3.08 Retirement System Established, subsection (s) Disability Retirement. If a determination by a third physician is needed, the process will be expedited through Director Woodard. The Retirement Board will call a special meeting if necessary at the time an opinion of the medical committee is received.
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> Motion passed (5 – 0).

"NET OF FEES" DISCUSSION

O'Connell stated that Asset Strategies has provided an analysis of the "net of fees" return to the Village's Public Safety Pension Fund. Asset Strategies will provide those numbers in the quarterly reports. The Board indicated that it was satisfied with the figures. It was noted that Vitta had not charged the Board for the time spent on compiling these calculations.

Wilson stated that he was asked at the November meeting to invite a representative from IBEX Insurance Agency to the February meeting to discuss the Fiduciary Policy. This individual was not available for tonight's meeting but could be present at an upcoming meeting.

O'Connell commented that the MAPERS (Michigan Association of Public Employee Retirement Systems) 2011 Spring Conference is coming up on May 1-3. This forum has been a useful tool for providing education to Retirement Board members. Information was made available on the conference. Interested members should contact the Village Manager.

PUBLIC COMMENTS

None

The meeting was adjourned at 11:56 p.m.