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

Absent: None

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

Chairperson O'Connell called the meeting to order at 7:36 p.m. in the Public Safety Department conference room at 18600 W. Thirteen Mile Road.

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.

Dirnberger distributed copies of his report and prefaced his review with a firm profile update. He referred to an organization chart and commented on three changes that will have an affect on the portfolio: an addition to their staff, a change to their process, and a number of manager changes. Dirnberger talked about the importance of adding new portfolio manager Robert Schletter to provide assistance with foreign investment styles.

Dirnberger provided detail on the strategy decisions and the current asset allocation that makes up the 31 hedge funds included in the portfolio. A year ago there were 28 funds in the portfolio. Over the year, Lyster Watson has eliminated 13 managers who either did not fit into the strategy allocation, had poor liquidity terms, or had poor performance. There are now 29 investment managers. He discussed changes in the manager lineup and commented on the well diversified portfolio.

Dirnberger elaborated on the how the firm has changed its methodology in terms of allocation targets. They have changed the portfolio over the last couple of years to emphasize more liquid strategies and liquid managers. That has allowed them to change their allocation targets to add more to credit and reduce some of the macro strategies. Dirnberger presented graphs and charts to demonstrate cumulative performance of the fund concentrating on the current year.

Questions from members of the Board and consultants were addressed by Dirnberger. O'Connell thanked Jay Dirnberger for his presentation.

REVIEW AND APPROVE MINUTES OF REGULAR RETIREMENT BOARD MEETING HELD ON MAY 24, 2011

Motion by Fisher, second by Koss, that the minutes of a regular Retirement Board meeting held May 24, 2011 be approved as submitted.

Motion passed (5 – 0).

REVIEW AND APPROVE MINUTES OF A SPECIAL RETIREMENT BOARD MEETING HELD MAY 31, 2011

Motion by Shock, second by Koss, that the minutes of a special Retirement Board meeting held on May 31, 2011 be approved as submitted.

Motion passed (5 – 0).

UPDATE ON SURVEY OF INVESTMENT CONSULTANTS

Manager Chris Wilson informed the Board that he sent requests for information on investment consultants to eight communities of similar size and makeup to Beverly Hills. He has heard back only from two communities at this point, Oak Park and Berkley. If he does not receive adequate response from the communities he has contacted, Wilson will expand the list. He will be in contact with the Board by email to update them on his progress. This will be an agenda item for the next meeting.

REVIEW AND CONSIDER SERVICE AND FEE AGREEMENT RENEWAL WITH ASSET STRATEGIES

This agenda item will be postponed to the next Retirement Board meeting.

Motion by Mercer, second by Koss, to table consideration of the service fee agreement renewal with Asset Strategies until the Retirement Board meeting scheduled for November 22, 2011.

Motion passed (5 – 0).

2011 SECOND QUARTER PERFORMANCE REPORT BY ASSET STRATEGIES

Katherine Ghannam from Asset Strategies presented a market review of the volatile quarter ending June 30, 2011 and referenced various market indices. She reviewed the Asset Strategies second quarter performance report ending June 30, 2011 for the purpose of evaluating the performance of the investment managers for the Public Safety Officers' Retirement System. The report contains analysis of the total fund and the individual managers' performance.

The Total Fund Composite for the quarter was .88% versus the policy index of .80 percent. Returns were tight for the quarter. The Year to Date performance is just under 5%; the year over year numbers are almost in line with the policy index at 22.1 percent. The Total Fund results exceeded the Policy Index due to gains generated by increasing international equity exposure. The market value at the end of June 30, 2011 was $15,456,000.

Ghannam noted a change in the quarterly report to add a sheet showing Asset Allocation vs. Target & Policy. It is a snapshot of the fund's market value, actual allocation, target and policy broken out by U.S. Equity Fixed, International Equity, Real Estate, Hedge Fund, and the cash account. Ghannam recapped that the Board voted at its May meeting to increase its international allocation, which went from 10-15%. This did benefit the performance of the plan. It was mentioned that the asset allocations are pretty close to the target and policy.

Ghannam reviewed the Retirement System performance summary and comparisons for the year ended 6/30/11 and commented on the performance of each of the funds. Vitta and Ghannam addressed questions from the Board regarding target versus policy allocation of funds and the performance summary with particular attention to recent results of the Hedge Fund.

The conclusions and recommendations following the investment performance evaluation for the Second Quarter of 2011 are as follows:

1. Total Fund results exceeded Policy Index by 8 basis points for the quarter due to gains from increased international equity exposure offsetting poor results from the Munder SMID Cap portfolio.

2. Trailing 12-month results slightly trailed the Policy Index by 33 basis points and rank at the 31st percentile.

3. The Munder SMID Cap portfolio was effectively terminated on 6/15/2011, with all proceeds (excepting $600,000) being invested with the new SMID Cap manager, Westwood. The Munder portfolio lost 5.15% prior to termination, as it was liquidated prior to the end-of-June market recovery. However, the proceeds invested with Westwood participated in this, and the aggregate SMID Cap exposure result for the full quarter was -1.38% versus the Russell 2500 Index return of -0.58%.

4. $600,000 was invested in the Dodge & Cox International Stock Fund on 6/15/2011. The additional shares were purchased at a price of $35.25 on 6/15 and generated a return of +4.34% as the quarter-end (6/3) price was $36.78. This additional investment represented an approximately 34% increase in exposure to international equities, which gained +2.24% for the Plan, versus the fund's stated return of +0.46% for the full quarter.

5. Funding of the new fixed income manager, Munder Capital Management, is pending review of the legal documents.

6. An employer contribution ($121,807) was made in May 2011.

7. Liquidity needs were funded on 7/06 ($20,000 from Dodge & Cox), 7/08 and 7/29 ($85,000 each from WAM; $170,000 total).

8. Asset Strategies recommends that the Board approve liquidity funding of $340,000 for Sept - Dec 2011 by taking $85,000 each month from WAM.

The Village has a monthly obligation in terms of expected benefit payouts. Manager Wilson stated that he and Finance Director Wiszowaty discussed the Asset Strategies proposal to meet the Village’s liquidity needs on a longer term basis of 3-4 months at a time. It was thought that this should come before the Retirement Board for consideration.

In response to an inquiry, O'Connell related how this was managed in the past and what has changed in terms of communication between Comerica Bank and the Village. He noted that Asset Strategies does not know what is needed in the account.

Questions on the rationale for the liquidity funding proposal for the next quarter was addressed by Ghannam and Vitta. It was mentioned that the fund allocations will remain within the policy guidelines. It was the sense of the Board that it would review liquidity on a quarterly basis as part of the recommendation portion of the consultant's report.

> Motion by Shock, second by Fisher, that the Retirement Board concurs with action taken to fund liquidity needs last quarter through the following transfers: Liquidity needs were funded on 7/06 ($20,000 from Dodge & Cox), 7/08 and 7/29 ($85,000 each from WAM; $170,000 total). It is further moved to approve the liquidity funding of $340,000 for September through December, 2011 by taking $85,000 each month from World Asset Management.
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> Motion passed (5 – 0).

Koss referred to the report presented by Jay Dirnberger from Lyster Watson at which time he explained that the firm reduced the number of its investment managers and the number of funds in the portfolio. Lyster Watson also changed its methodology of allocation targets and its portfolio over the last couple of years. Koss questioned whether the Retirement Board ever reviews its total fund objectives or considers changing its benchmark to earn an annual average of 7% over rolling three-year periods. She asked if the Board would consider reducing that number for the reason that the Plan has not met that 7% figure for the last three years.

Vitta responded that the best place to start that conversation would be with the actuarial firm. He related that a number of public pension funds have higher goals to earn an annual average return of 7.5 or 8 percent. Actuaries have informed the trustees that we are going through a bad period for stock market returns. In the last 10 years, the U.S. Markets averaged 2.5-2.7% per year. Actuaries rarely change the annual average return assumption without going to other assumptions such as expected life, mortality, level of contributions, etc. In our case today, lowering that assumption would raise our liabilities.

Koss maintained that it would benefit the Retirement Board to have a further conversation about lowering the benchmark at least for a period of time.

Vitta reiterated that the Board could have a conversation with the actuaries on this topic. Asset Strategies would be able to put some perspective on the investment side. Vitta commented on the smoothing technique used to smooth the gains and/or losses over five years so that a community can have a more consistent contribution and better manager its finances and budget.

REVIEW AND CONSIDER MUNDER CAPITAL MANAGEMENT AGREEMENT

O'Connell reviewed that the Retirement Board took action at its May 2011 meeting to select the Munder Enhanced Core Fixed Income Fund as the Fixed Income Manager for the Retirement Fund and to transfer assets from the Western Asset Intermediate Bond Portfolio (WATIX). The

contract with Munder was forwarded to Village Attorney Tom Ryan for review. Questions resulting from his review prompted a conference call with Ryan, Finance Director Wiszowaty, Vitta, Ghannam, and O'Connell.

Vitta summarized the conversation that addressed Ryan's concern about investing in derivatives. Investing in derivatives is permitted under PA 314 of 1965. Vitta explained the different meanings of derivatives. Derivatives that are used for speculation or creating leverage are prohibited under state law. Derivatives are permitted for hedging or protecting against certain types of risks. Vitta provided examples and addressed the positive and permitted uses of derivatives. He mentioned that Ryan suggested that the Board ask Munder for specific written documentation on its potential use of derivatives.

Wilson noted that Ryan had concerns with the following sentence under "Permissible Investments": "The manager may also invest in issues of mortgage pass-through securities, collateralized mortgage obligations and asset-backed receivables." Vitta explained these three types of securities in some detail. He remarked that the bond manager is expected to look at the underlying asset or collateral to verify whether it is credit worthy.

Ghannam related that Munder does not have a problem with modifying some of the terms of the investment guidelines as instructed by the Board. As a result of the conference call, Asset Strategies will provide a list of specific securities that are allowed or prohibited. The credit ratings were adjusted in the contract; the fee structure was revised; corrections were made. Asset Strategies will send the Board a copy of the revised language from the investment policy document that incorporates everything that has been discussed with the Village Attorney and Munder.

> Motion by Mercer, second by Koss, that the Retirement Board approve the Munder Capital Management Investment Guidelines pursuant to Village Attorney Tom Ryan signing off on revised items listed in his memo dated August 11, 2011 by Monday, September 12, 2011. It is further moved to authorize Village Administration to sign the contract with Munder Capital Management for the Munder Enhanced Core Fixed Income Fund as the Fixed Income Manager for the Retirement Fund upon receipt of said acknowledgment from Mr. Ryan.
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> Motion passed (5 – 0).

MAPERS CONFERENCE

The Fall MAPERS (Michigan Association of Public Employee Retirement Systems) conference is scheduled for September 18-20, 2011. It is an educational program that benefits trustees.

> Motion by Shock, second by Koss, to approve the expense for Trustees Tim Mercer and Bob Fisher to attend the Fall MAPERS conference from September 18-20, 2011 based on their availability.
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> Motion passed (5 – 0).

PUBLIC COMMENTS

Resident John McGrath commented that Trustee Koss suggested at the May Retirement Board meeting that the Board conduct a competitive review of investment consultant services to oversee the Beverly Hills Public Safety Retirement System. McGrath believed that there is a fiduciary responsibility to seek proposals for investment consulting. He asked O'Connell to reconsider his position on soliciting proposals for this service.

Motion by Koss, second by Shock, to adjourn the meeting at 9:32 p.m.

Motion passed (5 – 0).