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

Absent: None

Also Present: Village Manager, Wilson
Finance Director, Wiszowaty
Public Safety Director, Woodard
Asset Strategies, George Vitta and Katherine Ghannam
Plante Moran, Chris Jones
Gabriel, Roeder, Smith & Co., Randy Dziubek
Council member, LaFerriere

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.

DISCUSSION OF PLANTE MORAN FINDINGS REGARDING PENSION FUND PERFORMANCE

Chairperson O'Connell reviewed that the annual audit report for the year ending June 30, 2011 was received by the Village Council at its October 4 meeting, at which time representatives from Plante Moran presented issues related to the Public Safety Retirement System. O'Connell noted that representative Chris Jones from Plante Moran, Randy Dziubek from actuarial firm Gabriel, Roeder, Smith and Company, and consultant George Vitta from Asset Strategies were present to have a full discussion of the auditor's recommendation.

Chris Jones recapped that, as part of the auditor's recommendations to the Village Council, Plante Moran related information from the 2011 Actuarial Report. The Public Safety Retirement System experienced investment losses in eight of the last 10 years. It has been 10 years since the System has met the 7% actuarially assumed rate of return. These investment losses coupled with the rising number of retirees could result in significant increases in employer contributions in the future.

Jones recognized the extreme fluctuations in the rate of returns over the last 10 years, not generally to the good. To make sure the pension system is funded fully over a long period of time requires the correct actuarial assumptions to be used. Plante Moran recommended that it was appropriate at this time to look at market conditions, the investment mix, and overall facts and circumstances to determine whether the 7% rate of return is reasonable going forward. Jones proposed revisiting the assumptions in general. He clarified that he is not a money manager or an actuary.

O'Connell related that an actuarial study was conducted in 2008 based on data through 2006 whereby all assumptions were evaluated. The Board was advised that an experience study should be done every five years.

Actuary Randy Dziubek distributed information to provide an understanding of the numbers over the last ten years. He mentioned that the world has changed significantly in the last several years, and a lot of systems are reevaluating their investment return assumptions. When the experience

study was last conducted, all parties felt that 7% was a reasonable assumption. The average return of public retirement systems is probably close to 8 percent, although other systems may have a higher mix of stocks. The Board could decide to be more conservative and lower the assumed rate of return within actuarial standards.

Dziubek distributed and explained a handout listing 10 years of actuarial gains and losses. He discussed the "smoothing" method used in actuarial evaluations for retirement systems, which smoothes investment gains and losses over a five year period. He showed how asset gains and losses drive the total rather than the demographic gains and losses. Dziubek noted that there was an experience study with more conservative assumptions implemented on December 31, 2007. Referring to the Liability gains and losses over the whole 10 year period, there are five years of gains and five years of losses, which is what you would expect if the assumptions are doing their job.

Dziubek referred to a handout illustrating patterns of investment returns over various ten-year periods. The last ten year period is dramatically different than previous years with very few retirement systems making their investment return assumption. He reminded the Board that this is a long-term proposition.

Chris Jones interjected that a gap in communication may be that the total gains/losses for the year is a combination of investment and demographic gains and losses. The actuarial valuation refers to actuarial gains and losses versus true investment returns gains and losses. Jones suggested that there is a delicate balance. If you are too conservative, today's participants are paying for tomorrow's money. He suggested doing a sensitivity study to gauge the contribution change at 6.25% and 6.50%.

There was further conversation on investment returns with questions and comments from Board members addressed by Dziubek and Jones. Board members discussed whether or not it was reasonable to adjust the actuarial assumed rate of return to be closer to investment returns. The effect of fluctuating and high required contributions on budgeting was a major concern. Manager Wilson asserted that drastic changes in the contribution over time puts pressure on the Village to be able to provide necessary staffing levels and to make needed purchases. Volatility is what causes budgeting problems on a year-to-year basis. Members were cognizant of the responsibility to ensure that retirees receive their checks and that there is an adequate number of officers protecting the Village.

O'Connell commented on the volatility that has occurred in the last ten years. He thought that there was a need to manage the volatility not only with this assumption but with everything that is being done in terms of managing the Retirement System. In 2007, the Board changed the mortality assumption. The amortization period was changed from 10 years to 30 years in 2009.

Dziubek spoke to the volatility that has occurred. The Village was fortunate to have a zero contribution requirement for the Retirement System for a number of years; that is never an ongoing situation. The long-term expected contribution for this system based on the benefits provided is about 20% of payroll of the members. On top of that, we are paying off investment losses, which makes the contribution higher than the 20 percent. Dziubek said volatility can be

limited in terms of five year asset smoothing and the 30-year amortization period. Methods and assumptions are carefully chosen and evaluated every five years. Contributions are made to the System each year. Dziubek noted that the Village is almost 90% funded in this fund.

Dziubek remarked that he was not opposed to evaluating all of the assumptions. The main assumptions are the investment return, the wage growth assumption and the mortality assumption. Those are the main drivers of the results; other assumptions do not have a big impact on the valuation.

Vitta talked at some length about the state of the world economy and the levels of uncertainty and lack of confidence in the market shared by every state and every country in the world today. He referenced the big challenges in the market focusing on Europe, China and the United States. Investors world-wide are suffering. Every asset class for the last 10 years has underperformed its long term average annual rate of return. It could be more painful before we get back to the long-term average annual return for stocks and bonds or cash.

The discussion has been whether we should be doing something with the mechanics of the process in coming up with an annual contribution calculation or how to value future liabilities. The Board could change assumptions to reduce contribution pressure for the short term; but it pushes the bill down the road. These have been unprecedented times that everyone hopes end sooner rather than later. There is no immediate solution to the challenge of increasing contributions.

In response to an inquiry, Dziubek recommended against changing from a five year to a ten year smoothing period for the reason that it would not improve volatility due to the existence of the 20% corridor around the market value.

> Motion by Shock, second by Koss, to authorize Randy Dziubek from Gabriel, Roeder, Smith and Company to conduct a study of actuarial assumptions for the Retirement System including investment return, wage inflation, and mortality.
>
> Motion passed (5 – 0).

REVIEW AND APPROVE MINUTES OF REGULAR RETIREMENT BOARD MEETING HELD ON AUGUST 23, 2011

> Motion by Mercer, second by Koss, that the minutes of a regular Retirement Board meeting held August 23, 2011 be approved as submitted.
>
> Motion passed (5 – 0).

REVIEW AND CONSIDER REQUESTS FROM LT. JON SCHULTZ AND LT. DAVID DINKINS TO ENROLL IN THE DEFERRED RETIREMENT OPTION PLAN (DROP)

Public Safety Lt. Jon Schultz and Lt. David Dinkins have indicated their intention to enter the Deferred Retirement Option Plan (DROP) effective December 11, 2011 under the terms of the most current collective bargaining agreement for the Beverly Hills Public Safety Lieutenants and Sergeants Association.

Manager Wilson explained that Lt. Schultz and Lt. Dinkins will be considered retired for pension purposes upon entering the DROP program. They will be able to continue their employment with the Public Safety Department for a period of up to five years. As of December 11, the officers will cease to accrue seniority and service time toward their pension. Their pension will be deposited into a 457 Deferred Compensation Plan that will be available to Lt. Schultz and Lt. Dinkins when their employment with the Village ends.

Wilson stated that Lt. Schultz and Lt. Dinkins have been long-standing employees of the Public Safety Department. Their years of commendable service are appreciated.

> Motion by Koss, second by Mercer, that the Retirement Board accept the request of Public Safety Lt. Jon Schultz to enter the Deferred Retirement Option Plan effective December 11, 2011.
>
> Motion passed (5 – 0).
>
> Motion by Koss, second by Mercer, that the Retirement Board accept the request of Public Safety Lt. David Dinkins to enter the Deferred Retirement Option Plan effective December 11, 2011.
>
> Motion passed (5 – 0).

2011 THIRD QUARTER PERFORMANCE REPORT BY ASSET STRATEGIES

Katherine Ghannam of Asset Strategies presented a market review of the volatile quarter ending September 30, 2011 and referenced various market indices. She commented on the lack of confidence and lack of direction from financial and political leaders in terms of not addressing the debt ceiling. There were ongoing difficulties in Europe with the sovereign debt crises. Slowdowns in emerging markets, specifically China, was a significant issue that effected the world. Also noted was the downgrade of U.S. Treasury debt by Standard & Poors that occurred last summer.

Ghannam reviewed the Asset Strategies second quarter performance report 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 -10.42% versus the policy index of -9.98 percent. The Year-to-Date numbers were negative, but the year-over-year numbers were positive. The slight underperformance was primarily attributed to poor results from Western Asset (fixed income) and Dodge & Cox (international equity), offset by Westwood (domestic small/mid-cap equity). The market value at the end of September 30, 2011 was $13,635,000.

A page in the report indicates the value of each fund's assets at the end of the quarter. It was pointed out that the actual asset allocations are in line with policy ranges. Ghannam reviewed the Retirement System performance summary and comparisons for the quarter ending September 30, 2011 and commented on the performance of each of the funds.

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

1. In the midst of the extraordinary global capital market losses, the Total Fund results trailed the Policy Index by 44 basis points for the quarter primarily due to weak results from Western Asset (fixed income) and Dodge & Cox (international equity), offset by Westwood (domestic small/mid-cap equity).

2. Funding of the new fixed income manager, Munder Capital Management, occurred on 10/14/2011 with a transfer of $4,273,806.28 from the full redemption of the Western Asset Intermediate Bond Fund.

3. $32,687 remains in the Western Asset Intermediate Plus Bond Liquidating Trust.
Ghannam related that Western is attempting to liquidate those positions and will continue to report on the balance.

4. An employer contribution ($124,450) was made in August 2011.

5. Liquidity needs of $85,000 were funded on 8/31, 9/30, 10/31, and pending 11/30 from the World Asset Management S&P 900 Fund.

6. Asset Strategies recommends that the Board approve liquidity funding of $85,000 each month, for Jan - April 2012, from the WAM S&P 900 Fund.

Questions from Board members on the performance summary and report format were addressed by Vitta and Ghannam. In response to an inquiry about an investment policy for Munder Capital Management, Ghannam said that new guidelines were approved prior to signing the paperwork with Munder Capital Management. The Investment Policy will be updated to include the new guidelines.

The Board discussed liquidity funding for the next quarter. Ghannam explained that she updates the asset allocation every time she performs a liquidity review. This helps determine the appropriate place to take funds for liquidity funding. Wiszowaty will monitor the liquidity needs and advise the Board if adjustments are required.

> Motion by Mercer, second by Koss, that the Retirement Board approve liquidity funding through December 2011, January 2012 and February 2012 by taking $95,000 for each month from the World Asset Management S&P 900 Fund.
> Motion passed (5 – 0).

Vitta distributed an investment performance summary update for the month of October, 2011 as requested by Village administration. The total returns for October were up 6.53 percent.

Vitta and Ghannam left the room during the discussion of the next two agenda items.

UPDATE ON SURVEY OF INVESTMENT CONSULTANTS

Manager Chris Wilson was asked by the Board to conduct a survey of investment consultants used by other municipalities. He distributed a sheet that listed the municipalities contacted and the range of questions asked. Wilson contacted eight communities in an attempt to receive information on whether they work with a financial consultant, the services performed, the nature of their investment plan, and total compensation to the consultant.

Wilson received only three responses from Berkley, Clawson and Oak Park. Berkley and Clawson are working with a consultant. Clawson pays a flat rate of $20,000 per year for its consultant. Berkley bases its payment on a sliding scale of plan assets, which would amount to $34,000. Neither cities' consultants are receiving soft-dollar payments.

REVIEW AND CONSIDER SERVICE AND FEE AGREEMENT RENEWAL WITH ASSET STRATEGIES

It was reviewed that the current service and fee agreement with Asset Strategies expired December 31, 2009. Asset Strategies chose not to seek any changes in 2010 given the economic and investment recovery that was taking place. In a letter dated April 27, 2011, Vitta proposed an annual fee of $18,000, which would be an increase of $3,000. This fee would be guaranteed for the next three years from 2011-2013. The fee would continue to be paid out of plan assets.

The Retirement Board discussed the contract renewal at its May 2011 meeting. A motion to solicit proposals for investment consulting for the Retirement System failed. The Board agreed to authorize Village Administration to undertake a survey of area communities in order to compare services and fees of investment consultants. It was requested that the report be available for review at the August Retirement Board meeting. Discussion of the service fee agreement with Asset Strategies was postponed at the August Board meeting and scheduled to be considered at the November meeting.

O'Connell stated that he emailed a copy of the full contract to Board members. He emphasized that George Vitta of Asset Strategies is a consultant and not a money manager. The contract lists the functions of the investment consultant as follows:

Conduct a strategic asset allocation study.
Develop appropriate investment guidelines and allocation ranges.
Develop risk management and diversification strategy.
Determine the proper number of investment managers and roles.
Develop a statement of investment policies, procedures and objectives.
Prepare guidelines and performance benchmarks for each manager.
Develop separate return, risk and peer group objectives for the total fund.
Develop a liquidity policy.
Conduct investment manager searches using our comprehensive, unbiased, global databases.
Prepare a quarterly analysis of investment performance on each manager and the total plan, including written conclusions and recommendations.
Monitor compliance with Act 314 of 1965 and amendments thereof.
Conduct a professional custodian search using our global database, if necessary.

O'Connell expressed the view that George Vitta and his staff have performed these functions well. He believed that the Board was receiving a good deal with Asset Strategies and that it should approve the contract renewal as proposed. Shock concurred that Asset Strategies has done well as the Board's investment consultant for a reasonable price.

Koss conceded that Asset Strategies was doing a good job, but reaffirmed her position that it was the Board's fiduciary responsibility to solicit bids or requests for information from investment consulting firms in order to assess other options available in the marketplace. Mercer also expressed the opinion that the Board should go out for bids for investment consulting services.

There was further discussion among Board members on how to proceed with the contract renewal. Topics of discussion included the exercise involved in going out for RFPs and evaluating data, whether there is a need to seek bids regularly for professional services, building confidence in a consultant, the responsibility to look out for the best interests of the Village, performance history of the Pension System, and questions to ask a consultant. The following compromise was proposed.

> Motion by Shock, second by Fisher, that the Retirement Board approve the contract renewal proposal from Asset Strategies effective April 1, 2011 through December 31, 2012 at a rate of $18,000 per year. Simultaneously, the Board directs Village Administration to solicit Requests for Information from investment consulting firms.
>
> Motion passed (4 – 1).

Vitta and Ghannam rejoined the meeting at 9:52 pm. They were informed of the action taken by the Board regarding the terms of the Asset Strategies contract renewal and the decision to seek Requests for Information from investment consulting firms.

PUBLIC COMMENTS

John McGrath on Beverly Road related his opinion that Asset Strategies acts both as an investment consultant and an active manager.

The meeting was adjourned at 9:57 p.m.