

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
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.

REVIEW AND APPROVE MINUTES OF A REGULAR RETIREMENT BOARD MEETING HELD NOVEMBER 22, 2011

Motion by Mercer, second by Fisher, that the minutes of a regular Retirement Board meeting held November 22, 2011 be approved as submitted.

Motion passed (5 – 0).

REVIEW AND CONSIDER STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES FOR RETIREE PENSION PLAN

Board members are in receipt of the Statement of Investment Policies, Procedures and Objectives for the Public Safety Pension Plan. Vitta described the new format of the document placing manager guidelines, benchmarks, standards, and performance at the back of the document in Section 2 so that pages can be easily replaced if an investment manager is removed or added from the portfolio. Section 1 includes information on the structure and purpose of the Board of Trustees and their responsibilities as well as the responsibilities of the investment consultant. It identifies the actuary and the custodian. Another improvement is that the document contains a glossary. Vitta commented on added and deleted language; the document reflects new rules and regulations from the Securities and Exchange Commission.

In response to an error pointed out by Fisher, Vitta will correct the language in the Introduction to state that any new Public Safety Officer is eligible for the defined benefit plan. Vitta and Board members went through the Investment Policy with the understanding that the document would be reviewed either by Village Attorney Ryan or an attorney he recommends.

Motion by Mercer, second by Koss, that the Retirement Board forward the Statement of Investment Policies, Procedures and Objectives for the Public Safety Pension Plan to Village Attorney Ryan or someone he recommends to review the document and report back to the Retirement Board.

Motion passed (5 – 0).

2011 FOURTH QUARTER PERFORMANCE REPORT BY ASSET STRATEGIES

Katherine Ghannam presented the Asset Strategies fourth quarter performance report ending December 31, 2011 for the purpose of evaluating the performance of the investment managers for the Public Safety Officers' Retirement System. She provided an overall market review of the quarter and referenced various market indices.

Ghannam reviewed the Retirement System performance summary and comparisons for the period ending 12/31/2011. The plan earned 6.31% for the three months ending 12/31/11. The total fund slightly underperformed the Policy Index due to a lower allocation to (U.S.) domestic equities and a concurrently higher allocation to international equities versus the Policy allocation. Ghannam stated that the policy index will be updated in the revised policy document to correctly reflect the asset allocation.

The Total Year results were flat at 0.12%; the two-year performance was just over 7 percent. The fund has performed 4.04% over the last 7 years with the benchmark at 4.42 percent. There is little dispersion between the return and the benchmark. The average annual return for 7.25 years has been 5.03%, almost in line with the Policy Index, which is 5.41 percent. Variability is 12.38 versus the Policy Index of 12.34.

Board members reviewed the page showing each fund's target and policy allocation. The funds are pretty closely within their targets at the end of the year. At the end of the quarter, the total fund amount was \$14.3 million. The February 14, 2012 updated total was \$14.8 million.

Ghannam presented the fund performance executive summary commenting on each of the funds. It was noted that \$31,544.00 remains in the Western Asset Intermediate Plus Bond Liquidating Trust. Vitta suggested that the Board let Western watch the market and liquidate the securities at the time they can maximize the return to the Retirement System.

At the Board's inquiry, Ghannam will determine whether there is a queue to get out of the Principal US Property Fund. Vitta related that the outlook for commercial real estate in 2012 is mid to high single digit returns. However, commercial real estate expected returns are better than returns for the stock market. Vitta indicated that Asset Strategies is looking at some investment opportunities that will benefit from the recovery of the commercial real estate market in the U.S.

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

1. Total Fund results slightly trailed the Policy Index due to a lower allocation to (U.S.) domestic equities and a concurrently higher allocation to international equities versus the Policy allocation.
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 redemption of the Western Asset Intermediate Bond Fund.

3. As of 12/31/2011, \$31,544 remains in the Western Asset Intermediate Plus Bond Liquidating Trust.

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

5. Liquidity needs of \$95,000 were funded on 12/31/2011 and 1/31/2012 from the World Asset Management S&P 900 Fund, and an additional \$95,000 on 2/29/2012.

Ghannam did not recommend any liquidity needs for the next quarter due to adequate funds in the cash account.

6. An update on the Lyster Watson Fund of Hedge Funds will be provided at the February Board meeting.

Vitta informed the Board that he received a phone call from Lyster Watson about a month ago announcing that they were going to close the Conservative Alternative Fund and return the Retirement Fund investment to the Village at whatever the market value is at the end of March. Vitta noted that Jay Dirnberger, Managing Director of Lyster Watson & Company, retired at the end of December after a successful career in and around Wall Street.

Beginning with the fourth quarter of 2008, hundreds of hedge fund of funds have closed. Lyster Watson is making a voluntary decision based on one consideration. A large investor withdrew from the fund in which the Retirement System is invested. With \$350 million left in that fund, Lyster Watson decided that it was in their clients' best interest to close the fund. Lyster Watson is going to continue to do fund of fund investing without offering the comingled pool for smaller investors.

Vitta outlined the decision before the Board of Trustees. Lyster Watson researched its competitors that offer a low volatility return fund; the fund of funds that it recommends is Crestline out of Dallas, Texas. On March 31, the money currently with Lyster Watson will be managed by Crestline. Vitta remarked that Asset Strategies does not know Crestline well enough to make that recommendation. Asset Strategies is recommending that the Board send a withdrawal notice to Lyster Watson by the end of March. The money would not be returned until July 1, 2012. Asset Strategies would develop a due diligence report for the Board's review at its May meeting and recommend candidates worthy of consideration for replacement of Lyster Watson.

Koss asked if the due diligence would be conducted on hedge fund managers or whether other types of funds would be considered to replace the 5% plan allocation. Mercer asked what a hedge fund contributes to the pension plan.

Vitta recognized that the question is whether the Board should be looking at alternative investments besides a hedge fund of funds. Hedge funds represent a hedge against public securities risk. As a group, the Board should determine its sense of comfort with the fund of hedge fund investment approach. If there is a consensus, the Board can move to withdraw funds from Lyster Watson. A due diligence report will be compiled by Asset Strategies to find another fund of hedge funds.

Vitta highlighted a number of investment options in lieu of hedge funds including distressed debt, commodity trading advisors, infrastructure (public and private), currencies, real estate finance, and real asset funds. All of these different types of investments are designed to be long term in nature, generate a somewhat consistent income stream, and are usually for large investors. These are the types of investments that are designed to do well in times of inflation.

Vitta suggested taking measures to become educated on these types of investments. Asset Strategies has been working on this for a number of clients in order to diffuse the risk of the public markets. Vitta will forward educational pieces on alternative funds to Board members for review and discussion at the May Retirement Board meeting. At that time, the Board could advise Vitta on what funds it is comfortable with before Asset Strategies prepares a due diligence report on funds that are available for investment.

When the cash from the Lyster Watson fund is received on July 1, Asset Strategies will transfer it to either the Vanguard short-term investment grade bond fund or the intermediate-term investment grade bond fund, a fixed income asset class. The Board will make a decision on where to invest the funds at its August meeting.

Motion by Koss, second by Shock, that the Retirement Board notify Lyster Watson of its intention to withdraw Retirement System assets from the Lyster Watson Group Trust - Conservative Alternative Fund and consider alternative investment management options over the next three months.

Motion passed (5 – 0).

Mercer had questions on the 10-year numbers indicated on the Total Fund Composite page of the Investment Performance Analysis. He referred to the \$7 million loss for the ten year period while the chart shows a total return of 4.48. Vitta addressed the figures and will provide the Board with additional information to explain how Asset Strategies arrived at the numbers.

UPDATE ON INVESTMENT CONSULTANTS RFI

Wilson provided Board members with a copy of a document prepared for the purpose of receiving information from Investment Performance Measurement Consultants. The consultant firm would be contracted to provide investment performance measurement for the Village of Beverly Hills Public Safety Officers' Retirement System and the Retiree Health Care Fund.

Wilson asked that Board members contact him with any feedback on the document before it is finalized. The list of contacts received from MAPERS will be available to interested Board members. There was a consensus to issue the Request for Information (RFI) on April 1, 2012 with responses due by May 1, 2012. The results will be analyzed by Wilson and available for the Board's review at its May 22 meeting.

PUBLIC COMMENTS

Wisowaty commented that actuarial data has been submitted to Gabriel, Roeder, Smith & Company. The report was more complex this year as a result of one disability retirement and two

individuals entering the DROP program. In addition, public safety officers are now making a contribution to the pension plan. Copies of the completed actuarial report will be provided to the Retirement Board members when it is available. At the request of the Board, Wiszowaty will have a discussion with the actuary about the intent to go to a 30 year amortization schedule as well as the Board's interest in reviewing other assumptions.

LaFerriere suggested that the Village consider having a separate financial audit of the Pension Fund. Wiszowaty remarked that the Pension Fund audit is included as part of the annual audit of the Village's financial statements. LaFerriere had a question on custodial responsibilities that was addressed by Vitta. Funds are held by Comerica in a separate trust account for the Beverly Hills PSO pension.

Motion by Koss, second by Shock, to adjourn the meeting at 9:30 p.m.

Motion passed (5 – 0).