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

Absent: None

Also Present: Village Manager, Wilson
Finance Director, Wiszowaty
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 REGULAR RETIREMENT BOARD MEETING HELD ON FEBRUARY 28, 2012

Motion by Koss, second by Mercer, that the minutes of a regular Retirement Board meeting held February 28, 2012 be approved as submitted.

Motion passed (5 – 0).

PRESENTATION OF THE DECEMBER 31, 2011 PUBLIC SAFETY RETIREMENT SYSTEM ACTUARIAL VALUATION

Randy Dziubek and Zari Gano from Gabriel, Roeder, Smith & Company presented the results of the actuarial valuation report as of December 31, 2011. Dziubek reviewed that there was discussion at the November 2011 Retirement Board meeting on the appropriateness of the various actuarial assumptions, in particular the 7% investment return assumption. GRS prepared the actuarial report as of December 31, 2011 with no changes to the assumptions.

A supplemental document will be distributed that presents results under alternative investment return assumptions and a change to the mortality assumption. Dziubek related that the Board could review the information and decide to make a change for the next valuation. The Board also has the ability to make the change for this valuation and have GRS reissue the report at no charge. Dziubek and Gano will jointly present the report with the current assumptions before going over alternative results using different assumptions.

Zari Gano presented the highlights of the report. The purpose of the valuation is to measure the System's funding progress and to determine the contribution requirement for the year starting July 1, 2012. The funding objective of the Retirement System is to establish and receive contributions, expressed as percents of active member payroll, which will accumulate sufficient reserves during each member's working lifetime to pay expected benefits during the member's retirement. The employer contribution rate for the fiscal year ending June 30, 2013 is 26.68% compared to 27.92% last year.

Based on actuarial assumptions, the long term contribution rate for the Village is expected to be 21.09% of payroll (the employer normal cost). There is a new item this year, normal cost for refunds on member contributions at 0.25%. The total normal cost is offset by 3.22% in member contributions. As of the valuation date, public safety officers are contributing 5% of payroll.

Gano referred to charts that show how well funded the System was on the valuation date. Assets are applied against actuarial accrued liabilities in determining unfunded actuarial accrued liabilities. The funding target is $17.4 million. This year, the System has assets of $15.044 million, which means there was an unfunded amount of $2.4 million on the valuation date. In addition to continuing to fund the accruing benefits of active participants, the System has to make a payment towards this unfunded liability. The payment has been such that it will pay off that unfunded liability over a period of time set by the Board. The Retirement Board reset the period to 30 years a few years ago and is down to a 27 year amortization period this year.

The payment toward the $2.4 million unfunded amount was calculated to be 8.81% of payroll. Applying the computed employer contribution rate of 26.68% of payroll produces the required employer contribution of $407,791 for the year beginning July 1, 2012.

Gano reviewed how the experience of the System lined up with the actuarial assumptions. The unfunded liability as of the valuation date is compared to the anticipated unfunded liability based on the last valuation. The result was an overall actuarial loss of $96,112, or (0.6%) as a percentage of total actuarial accrued liability.

The actuarial accrued liability is decreased by about $40,000 due to the addition of member contributions. Dziubek briefly explained a complex actuarial cost method that resulted in a negative change from benefit changes but noted that it is not a significant factor. There is virtually no effect on the present value of future benefits. There was a slight loss due to lower than expected terminations. But the bulk of experience losses were due to lower than expected investment returns as well as the phased-in investment losses from 2008.

Gano outlined information contained in the report about investment gains and losses. She answered questions from Board members regarding funding value, market value and recognized rate of return. The Board uses a common smoothing method that takes unexpected investment gains and losses in any particular year and spreads them out over a five-year period rather than recognizing them at once when they occur. It was noted that the last of the 2008 losses will be fully recognized in the next valuation cycle.

Comments and Conclusions:
<u>Experience</u>: The funded status of the plan remained relatively flat at 86% this year. The system is funded at 82% based on market value of assets. Experience loss was primarily due to investment return that was lower than expected and retiree mortality that was lower than expected. These losses were offset by salary increases that were lower than expected. Investment return was 3.9% on a funding value basis, which is less than the assumed rate of 7%. On a market value basis, the rate of return was (2.6)%. The funding value exceeds market value by about $0.7 million. Absent investment gains, the 2012 valuation will reflect the recognition of deferred asset losses that will decrease the funded status and increase contributions.

<u>Amortization Period</u>: Actuarial accrued liabilities exceeded accrued assets by approximately $2.4 million. This unfunded accrued liability was amortized as a level percent-of-payroll over a 27-year period and added to the normal cost contribution. The previous actuarial valuation used a 28-year amortization period.

Plan Provision Changes: The Retirement System provisions were amended to require member contributions of 5% of pay for Public Safety Officers.

Conclusion: It is the actuary's opinion that the required contribution rates determined by this actuarial valuation are sufficient to meet the System's financial objective, presuming continued timely receipt of required contributions when due.

Dziubek reviewed that a topic at the November 2011 Retirement Board meeting was the 7% expected rate of return; GRS agreed to look at some alternatives and review the other assumptions as well. It has been four years since the Board changed assumptions. Looking at the history since the last experience study, Dziubek had no recommendations to change anything except perhaps the mortality assumption with regard to demographics.

Dziubek distributed a one-page summary showing how alternate assumptions would modify the primary valuation results. The first column of figures matched the report just reviewed and reflected no changes to any assumptions. The next column changed only the mortality assumption. The next three columns reflected changing the Interest Rate to 6.50%, 6.00% and 6.75% and changing Wage Inflation to 3.50%, 3.00% and 3.25%. The new mortality assumption is used in these columns. The bottom row indicated the dollar contribution requirement. The number noted in the report is $407,719 for the contribution for the year starting July 1, 2012. If the Board decided to change the assumptions and have it apply to this report, that $407,000 contribution would change to $441,000 with just the new mortality assumption and no change to the investment return or wage inflation assumptions.

The Board had expressed interest in looking at lower investment return assumptions. Dziubek changed the wage inflation assumption with the interest rate assumptions to arrive at an appropriate spread between the figures. Dziubek reviewed the four alternatives with Board members, noting that he was comfortable with any of the options in the report. The Board can make a decision to have a change applied to the next valuation or make the change for this valuation and ask GRS to redo the report. Dziubek addressed inquiries from Board members regarding mortality tables, rates of return used by other GRS clients and the reasons, wage inflation numbers, contribution levels, and comparison of plans in terms of being funded.

Council members Koss and Mercer remarked that the Village's budget for FY 2012-13 has been adopted with an employer contribution set at $407,719. Mercer suggested that the Board accept the actuarial report as presented and request that GRS apply the new mortality rate assumption to next year's valuation report.

Dziubek explained that the mortality rate used in the valuation report is the Year 2000 based U.S. Table. There is a standard improvement factor assuming that mortality rates will improve going forward. He has taken the year 2000 table and standard projection improvements and projected the mortality rates to 2015.

Wilson questioned whether a change in mortality assumptions would impact the calculation of optional forms of retiree benefit payments. When a person gets ready to retire they make a decision on taking straight life or survivor benefits. Dziubek said that there is a written document that controls how benefits are provided in this Plan. He concurred that it was probably a good time to revisit those plan provisions. Dziubek will work with Wiszowaty on this review.

> Motion by Mercer, second by Shock, that the Retirement Board direct Gabriel Roeder Smith & Company to apply the new mortality rates to the next Actuarial Valuation Report for the Beverly Hills Retirement System covering public safety officers. The current assumptions applied in the Actuarial Valuation Report as of December 31, 2011 will not be changed. The Retirement Board requests that GRS work with Village Finance Director Wiszowaty to review the calculation of survivor benefit options.
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> Motion passed (5 – 0).
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> Motion by Mercer, second by Koss, that the Retirement Board accept the Actuarial Valuation Report as of December 31, 2011 for the Village of Beverly Hills Retirement System.
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> Motion passed (5 – 0).

REVIEW INTERNATIONAL EQUITY SEARCH REPORT

Ghannam reviewed that Asset Strategies and the Board decided to conduct a search for an international equities manager to replace Dodge & Cox International Stock Fund. Although the returns have been good for the Dodge & Cox Fund, Asset Strategies had concerns that the volatility of the Fund was too high for their comfort level. The Board is looking for a manager with lower risk or standard deviation.

Katherine Ghannam explained what was involved in the identification, evaluation and selection of an international equity manager. The five investment managers profiled in the Asset Strategies report are the remaining candidates from a large universe of 354 investment manager organizations initially considered. 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. The information is current as of March 31, 2012, 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: First Eagle Investment Management; Johnston Asset Management; Thornburg Investment Management Inc.; Vontobel Asset Management, Inc.; Wentworth, Hauser and Violich. Ghannam reviewed candidate information and addressed questions from Board members.

> Motion by Shock, second by Koss, that the Retirement Board request that Asset Strategies arrange interviews with a representative from First Eagle Investment Management and from Johnston Asset Management at the August 2012 meeting prior to making a decision on an international equity manager.
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> Motion passed (5 – 0).

REVIEW ALTERNATIVE INVESTMENT REPORT

It was announced at the February Board meeting that Lyster Watson was going to close its Conservative Alternative Fund and return the Retirement Board investment to the Village at whatever the market value was at the end of March. The money will be returned this week and put into fixed income manager fund on a temporary basis. It will be determined if there is a consensus by the Retirement Board to reinvest in an alternative fund.

It was suggested at the last meeting that it might be a good time to provide information to Board members on alternative investments in order to determine members' comfort level with various strategies for the pension fund. Vitta proposed starting with an educational approach before conducting a manager search. Alternative investments represent 5% of the Retirement System. They are meant to move opposite bad market performance, and they are a counterbalance to higher interest rates.

The Board recessed at 8:47 pm before reconvening at 9:00 pm.

Vitta highlighted information contained in an Asset Strategies report dated May 22, 2012 entitled "A History and Overview of Alternative Investments". He outlined characteristics common to alternative investments and the risks involved. Vitta talked about the case for Alternative investments and why institutional investor interest in alternative investing has grown significantly since 1990. Charts were reviewed that displayed calendar year returns for traditional asset classes versus Hedge Funds and other Alternatives in terms of return, risk and correlations.

Vitta spent some time defining and outlining various alternative investments and primary alternative asset classes within those categories. The alternative investments reviewed were Private Equity/Venture Capital; Real Estate; Commodities; Hedge Funds; and Real Assets. Vitta discussed each alternative investment class and talked about those investment characteristics and drivers of returns. He attempted to describe the risks and the benefits of these funds, noting that the potential for higher returns are real and the numbers are compelling.

Vitta answered questions regarding how to locate an investment alternative and the window of opportunity to invest in alternative funds at any specific time. He commented on how these types of investments are vetted. The liquidity factor with alternative funds were considered. Vitta mentioned that many public funds invest in alternative strategies.

Board members discussed the types of investments and agreed that they would like more information on Hedge Funds and Infrastructure (Real Assets). Vitta will provide information on these asset classes at the next meeting and address fund availability. He will come back with information on specific funds that are looking for new investors in these two asset classes and present an executive summary of the characteristics of those funds. The Board can request that a fund manager make a presentation at an upcoming Board meeting.

2012 FIRST QUARTER PERFORMANCE REPORT BY ASSET STRATEGIES
Katherine Ghannam presented the Asset Strategies first quarter performance report ending March 31, 2012 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 noted that this was the best first quarter performance since 1998.

The Total Fund Composite for the quarter was 7.95% versus the policy index of 7.96 percent. There was some underperformance in the year over year number. The average return over the last two years was 9%, beating the actuarial benchmark of 7%. The total return over the last three years was 15.82% versus the policy index of 17.43%. The Total Fund results were in line with the Policy Index.

The updated policy allocation as of May 21, 2012 shows that the Plan is close enough to the targeted allocation so as not to require a recommendation from Asset Strategies. The funds coming back from Lyster Watson will be transferred to the fixed income portfolio.

The asset mix of the total fund is composed of 44.68% Domestic Equity, 14.01% International Equity, 28.85% Domestic Fixed, 3.82% Real Estate, 5.52% Hedge Funds, 3.13% Cash and Equivalents. The market value at the end of May 21, 2012 was $14,808,000.

Ghannam reviewed the Retirement System performance summary table for the year ended 3/31/12 and commented on the performance of each of the funds by manager. She reported that there was a slight overall underperformance, but there were double digit returns.

The conclusions and recommendations following the investment performance evaluation for the First Quarter of 2012 are as follows:
1. Total Fund results of +7.95% benefitted from Munder Capital (fixed income) outperforming their benchmark by 1.23% for the quarter.

2. As of 3/31/2012, $33,895 remains in the Western Asset Intermediate Plus Bond Liquidating Trust.

3. An employer contribution ($124,450) was made in February 2012.

4. An update on the Lyster Watson fund liquidation and information on replacement strategies will be provided at the May Board meeting.

5. Munder notified the Board on April 19th regarding the departure of the Plan's fixed income manager.

> Motion by Koss, second by Shock, that the Retirement Board move funds returned from the closed Lyster Watson Conservative Alternative Fund into the Munder Fixed Income portfolio.
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> Motion passed (5 – 0).

Ghannam referred to the notification received by the Board that two Munder portfolio managers have left the firm. She and Vitta met with Munder representatives and were assured that nothing has changed other than the person who administers the Village's account has left the firm. Munder runs their portfolios by committee; they have research teams dedicated across all the classes within Fixed Income. Asset Strategies was comfortable giving Munder three more months of license to prove that nothing will change because of their new process of a committee making portfolio decisions versus individuals.

The Retirement Board meeting was recessed at 11:08 pm to review the 2012 First Quarter performance report for the Retiree Health Care Fund with Vitta and Ghannam. The Retirement Board meeting was reconvened at 11:16 pm. Ghannam, Vitta, and Wiszowaty left the meeting.

UPDATE ON INVESTMENT CONSULTANTS REQUEST FOR INFORMATION

Wilson stated that eight firms have responded to the Village's Request for Information prepared for the purpose of receiving information from investment performance measurement consultants. Board members are in receipt of summary documents that contain the actual RFI responses from each of the firms. The complete proposals are available to any members who want to review the submittals from each vendor in their entirety.

The primary list of contacts solicited were received from MAPERS (Michigan Association of Public Employee Retirement Systems). Approximately 30 RFIs were mailed. Asset Strategies was one of the respondents. Wilson commented on the fees and location of the eight firms.

Wilson related that one entity that was interested but that did not respond to the RFI was MERS (Municipal Employees' Retirement System). MERS is not an investment consultant; it is a state run pension plan. One of their services includes an Investment Services Program. Wilson spoke with the Village's contact person at MERS about how it would work if the Village had MERS take over the Public Safety Pension Plan. The Village would give MERS the pension fund assets; they would enroll our current employees in a pension plan that matches the provisions of the Village's current plan.

Wilson observed that the MERS returns over the last ten years were better than the Village's Retirement Plan. He suggested that the Board talk to MERS representatives about this proposal. Council would be involved in the decision. It would require an ordinance change as well as discussion with the unions.

Board members discussed the best scenario for handling the Pension Fund. Koss emphasized that the bottom line was the security of the public safety officers and the responsibility of the Village. There are questions that need answering relative to entering in the MERS Investment Services Program. It was the consensus of the Board to invite a MERS representative to attend a special meeting of the Retirement Board at the end of July to make a presentation on their investment program and answer inquiries from the Board. The Public Safety Officer and Command representatives on the Board require more information before they can present the MERS proposal to the officers for consideration. Board members will review the eight proposals from investment consultants and place them in rank order for discussion at the August meeting.

PUBLIC COMMENTS

Koss thanked Don O'Connell for his time and service to the Retirement Board and the Village. His term of office is expiring on June 30, 2012, and he did not request reappointment. Shock added that O'Connell has been a tremendous asset to the Village. Don wished everyone the best.

Motion by Mercer, second by Koss, to adjourn the meeting at 11:52 pm

Motion passed (5 – 0).