

Present: Chairperson Shock; Members: Briggs, Maxwell and Mercer

Absent: Fisher

Also Present: Village Manager, Wilson
Village Attorney, Ryan
Asset Strategies, Ghannam

Chairperson Shock called the regular Retirement Board meeting to order at 6:30 p.m. in the Village of Beverly Hills municipal building at 18500 W. Thirteen Mile Road.

REVIEW AND APPROVE MINUTES OF A REGULAR RETIREMENT BOARD MEETING HELD ON FEBRUARY 26, 2013

Motion by Maxwell, second by Briggs, that the minutes of a regular Retirement Board meeting held February 26, 2013 be approved as submitted.

Motion passed.

PRESENTATION OF THE DECEMBER 31, 2012 PUBLIC SAFETY RETIREMENT SYSTEM ACTUARIAL VALUATION

Motion by Maxwell, second by Briggs, to accept the Public Safety Retirement System Actuarial Valuation report as of December 31, 2012.

Zari Gano and David Hoffman from Gabriel, Roeder, Smith & Company presented the results of the actuarial valuation report as of December 31, 2012. Ms. Gano reviewed 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, 2013. 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.

Based on actuarial assumptions, the long term contribution rate for the Village is expected to be 16.23% of payroll (the Employer Normal Cost). Applying the computed employer contribution rate of 24.94% of payroll produces the required employer contribution of \$384,745 for the year beginning July 1, 2013. Assuming all functions are realized and the unfunded liability is paid off in 26 years, 21.23% is the expected percent of payroll that will be needed to be contributed on an annual basis. That includes the 5% of payroll contributed by public safety officers.

Gano and Hoffman referred to charts and graphs to discuss information contained in the report. Hoffman addressed comments and questions from those present.

Comments and Conclusions:

Experience: The funded ratio of the Retirement System as of December 31, 2012 is 86.5%. The funded ratio was 86% as of December 31, 2011. During the year ended December 31, 2012, the System experienced an actuarial gain of \$31,844. This gain was primarily due to lower than expected pay increases for active members during the 2012 calendar year. Losses due to

recognized investment income and retiree mortality partially offset the salary gains. Even though the investment return for the year ended December 31, 2012 exceeded expectations (11.3% versus 7.0%), continued recognition of investment losses from 2008 and 2011 resulted in an overall investment loss. Investment return was 4.6% on a funded value basis. The market value now exceeds funding value by about \$0.2 million. These unrecognized investment gains are expected to put downward pressure on contribution requirements over the next couple of years.

Amortization Period: 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 26-year period and added to the normal cost contribution. The previous actuarial valuation used a 27-year amortization period.

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

Chairperson Shock thanked Gano and Hoffman for their presentation.

Vote on motion:
Motion passed.

Copies of the GRS Actuarial Valuation Report as of December 31, 2012 are available at the Village offices for public review.

MUNDER CAPITAL UPDATE

Andrea Leistra, Senior Client Relationship Manager, and Jim Keltz, Portfolio Manager and Fixed Income Trader, presented a due diligence review of the company and the Munder Fixed Income Fund.

The purpose of the presentation was to update the Board on what was going on in the fixed income market in this period of rising interest rates. Munder representatives discussed the performance and status of the portfolio, management of the fund within Retirement Board guidelines, and their strategy to preserve market value in this challenging environment. Comments and questions from Board members were addressed by Keltz.

RESOLUTION RECOMMENDING VILLAGE COUNCIL'S ADOPTION OF THE MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM (MERS) AGREEMENT FOR PUBLIC SAFETY DEFINED BENEFIT PENSION

Motion by Mercer, second by Maxwell, that the Retirement Board recommend that the Beverly Hills Village Council adopt the Municipal Employees' Retirement System Agreement for Public Safety Defined Benefit Pension Plan.

This item was placed on tonight's Retirement Board meeting agenda at the request of Village Attorney Tom Ryan. The Village is on the threshold of approving collective bargaining agreements for the Public Safety Officers and Command Officers Unions. Both units are in agreement that the MERS Defined Benefit Pension Plan is in the best interests of the participants and the Village.

Ryan related that there was an issue with a few of the command officers who are participating in the Department's Deferred Retirement Option Plan (DROP). If the Village adopts an agreement to join the MERS Plan by June 1, the DROP Plan will remain in place for the MERS Defined Benefit Pension Plan. It is Ryan's suggestion as legal advisor for the Pension Fund that the Trustees recommend Council approval of this transfer of the portfolio. Council will meet on Thursday to consider a resolution to adopt the MERS Defined Benefit Plan in order to meet the June 1, 2013 deadline to retain the DROP Plan.

Shock questioned whether the Retirement Board has done adequate due diligence on which to base a recommendation to move the pension plan to the MERS Defined Benefit Plan. Ryan responded that this due diligence has been going on as part of the collective bargaining agreement negotiations and discussions with the public safety unions; the Pension Board has had access to the reports and findings. Wilson recalled that there were MERS representatives in attendance at a special July 2012 meeting of the Retirement Board to talk about this Defined Benefit Plan.

In answer to an inquiry from Shock, Wilson stated that MERS has produced an actuarial report that details what the cost would be for a Command Officer and a PSO Plan together under the terms that have been negotiated between the PSO and Command unions in the Village. There have been several actuarial reports done over past months because the plan terms have changed. Wilson stated that there is a provision that is spelled out in the Settlement Agreements that are being drafted to resolve the contracts. The time deadline is due to a decision by MERS to sunset its DROP Plan as of June 1. Council is meeting on Thursday, May 30 to consider a resolution adopting the MERS Plan following complex discussions during union negotiations to get everyone in agreement with new union contracts and this move to MERS.

Shock was concerned about any liability that may be incurred by Retirement Board members in the future. Wilson affirmed that the ultimate responsibility for this decision to move the Retirement System over to MERS lies with the Village Council.

Briggs remarked that the Village is considering an agreement that will combine the relatively small Retirement System portfolio with a much larger plan that could leverage our investment portfolio and provide additional opportunities for the Village's Retirement Plan. He added that the past performance of the MERS plan has been consistent or better than what the Village's Retirement Plan has been doing.

Ghannam commented that she did not know what has been done in terms of due diligence, but she suggested that the Trustees would find it helpful to have an independent company conduct a written evaluation of joining MERS versus Retirement Board management of the pension plan.

Wilson stated that this process has been going on for over a year with extensive amounts of research done by himself and Tom Ryan. Council has discussed this at length and there have been negotiations with the unions. Union representatives have spent an inordinate amount of time looking at this proposal to make sure that MERS is the best option for them as well.

Wilson related that he has been a proponent of changing the way the Village handles its investments. He understood that the Board's investment consultant is in contact with managers who look at the money every day; however, the fiduciary responsibility and the investment decisions lay with this Board, which meets quarterly. Considering the nature of the market today, decisions by this Board move at glacial pace. Wilson expressed the view that the Retirement System needs to be actively managed by the Retirement Board or it needs to give the fiduciary responsibility to an investment advisor and pay them appropriately to handle it. That is where the MERS program came into play. Wilson believes it is a good benefit package for the employees; it provides benefits and a level of customer service for employees that he could not replicate. Wilson commented on the fiduciary responsibility that this Board is willing to assume and the responsibility of decisions it has been required to make, which he does not think is in the best interest of the Village or the employees.

Mercer stated that the best predictor of future behavior and gains to be made in this MERS plan is past performance. Had the Village been in the MERS Defined Benefit Plan over a period of the last ten years, the Retirement System would have made \$3 million more than was made by the Retirement Board and its investment consultant. The Village has a responsibility to the people in the plan. Maxwell concurred that he was in support of the MERS Plan if it can reduce his fiduciary liability and provide greater fund performance.

Shock went on record as expressing his concern about taking time to do due diligence on the long-term implications of moving the Retirement System assets into the MERS Defined Benefit Plan.

In response to an inquiry, Wilson stated that Village Administration will be working with MERS and the current Retirement Board investment advisor to transfer Retirement System assets to MERS and handle all administrative requirements for the managing of the pension plan for current employees and retirees. The Settlement Agreements will also be incorporated into formal contracts that will be signed by the Unions and by the Village.

Wilson noted that this move to MERS does not involve the Retiree Health Care Fund, which will still be under the purview of the Pension Board. There will still be a Pension Board appointed by Council. If Council approves a resolution to adopt the MERS Defined Benefit Plan, the Pension Ordinance will have to be amended to allow MERS to act as the investment vehicle and plan advisor and to set parameters of the defined benefit plan.

Roll Call Vote on Motion:

Briggs	- yes
Maxwell	- yes
Mercer	- yes
Shock	- no

Motion passed (3 – 1).

2013 FIRST QUARTER PERFORMANCE REPORT BY ASSET STRATEGIES

Motion by Mercer, second by Briggs, to approve the 2013 First Quarter Performance Report from Asset Strategies as published with the exception of the Recommendations listed in the report.

Katherine Ghannam presented the Asset Strategies first quarter performance report ending March 31, 2013 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.

The Total Fund Composite for the quarter was 6.41% versus the policy index of 6.01 percent. The strong Total Fund result is attributable to outperformance from most managers. Ghannam reviewed the Retirement System performance summary table for the year ended 3/31/13 and commented on the performance of each of the funds by manager.

The conclusions and recommendations following the investment performance evaluation for the First Quarter of 2013 are as follows:

1. Strong Total Fund result of 6.41% exceeded the Policy Index by 40 basis points due to outperformance from most managers.
2. As of 3/31/2013, \$32,139 remains in the Western Asset Intermediate Plus Bond Liquidating Trust. \$3,105 was returned on 5/10/2013.
3. The annual employer contribution (\$120,359) was made in February 2013.
4. Lyster Watson's most recent return of capital was \$20,028.42 wired to Comerica Bank on 4/26/2013, which followed \$24,386.07 on 2/22/2013, \$38,320.98 on 11/29/2012, and \$101,903.88 on 10/01/2012. The remaining balance with Lyster Watson is currently valued at \$18,666 as of 4/30/2013.
5. Asset Strategies recommends moving \$140,000 from Cash to the Munder fixed income portfolio.
6. Asset Strategies recommends reviewing liquidity needs for the rest of 2013 at this time.
7. As of 5/15/2013, investment allocations were close to target.
8. Asset Strategies did not detect any violations of investment guidelines.

Vote on motion to accept report as amended:
Motion passed.

Motion by Mercer, second by Briggs, that the Retirement Board reverse its decision to authorize the Village Finance Director to move \$135,000 out of the Munder Fixed Income Fund to fund liquidity needs for July, 2013.

Motion passed.

TABLE AGENDA ITEMS

Motion by Mercer, second by Briggs, to table the following agenda items in view of the action taken to recommend Council adoption of the MERS Agreement for Public Safety Defined Benefit Pension Plan: 6) Asset Strategies presentation of asset allocation study; 7) Review liquidity schedule for the third quarter 2013; and 8) Review agreement with Asset Strategies.

Motion passed.

PUBLIC COMMENTS

None

Motion by Maxwell, second by Briggs, to adjourn the meeting at 8:43 p.m.

Motion passed.