

**CITY OF OWOSSO  
EMPLOYEES RETIREMENT SYSTEM BOARD**

**FEBRUARY 21, 2013**

**7:15 AM**

**CALL MEETING TO ORDER:**

Chairperson Farrell called the meeting to order at 7:20 a.m.

**ROLL CALL:**

**PRESENT:** Trustees Thomas Cook, Ronald Pearsall, Mark Sedlak, Vice Chairperson Mark Mitchell and Chairperson Wilfred Farrell.

**ABSENT:** Trustees Michael Erfourth and Michael McCloskey.

**ALSO**

**PRESENT:** City Attorney William C. Brown; City Clerk Amy K. Kirkland; Merrill Lynch Advisor Maral Thomas; and Merrill Lynch Investment Consultant Marie Vanerian.

**APPROVE AGENDA:**

Motion by Trustee Cook to approve the Agenda as presented.

Motion supported by Trustee Pearsall and concurred in by unanimous vote.

**APPROVE MINUTES OF DECEMBER 20, 2012 REGULAR MEETING:**

Motion by Trustee Cook to accept the minutes of the December 20, 2012 Regular Meeting as presented.

Motion supported by Trustee Pearsall and concurred in by unanimous vote.

**APPROVE MINUTES OF JANUARY 25, 2013 SPECIAL MEETING:**

Motion by Vice Chairperson Mitchell to accept the minutes of the January 25, 2013 Special Meeting as presented.

Motion supported by Trustee Cook and concurred in by unanimous vote.

**CITIZEN COMMENTS:**

There were no citizen comments.

**CONSENT AGENDA:**

Motion by Vice Chairperson Mitchell to approve the consent agenda as follows:

1. Approve Pension Check Reports:

- |                  |               |
|------------------|---------------|
| a. December 2012 | \$ 172,266.93 |
| b. January 2013  | \$ 173,650.18 |

2. Approve Statements:

- a. Atlanta Capital  
As of December 31, 2012

- b. Franklin Templeton Investments  
As of December 31, 2012
  - c. MD Sass  
As of December 31, 2012
  - d. NFJ  
As of December 31, 2012
  - e. Russell Investments  
As of December 31, 2012
  - f. WHV  
As of December 31, 2012
  - g. City of Owosso Employees Retirement Fund  
December 31, 2012
  - h. City of Owosso Employees Retirement Fund  
January 31, 2013
3. Payment Authorizations:
- a. Merrill Lynch – Atlanta Capital  
For period 01/01/2013 through 03/31/2013 \$ 5,215.48
  - b. M.D. Sass  
For period 10/01/2012 through 12/31/2012 \$ 10,814.78
  - c. Franklin Templeton Investments  
For period 10/01/2012 through 12/31/2012 \$ 8,756.31
  - d. Franklin Templeton Investments – former Fifth Third equities  
For period 04/01/11 through 06/30/11 \$ 300.00
  - e. Merrill Lynch Consulting  
For period 01/01/2012 through 12/31/2012 \$ 11,850.00
  - f. NFJ Allianz  
For period 10/01/2012 through 12/31/2012 \$ 3,547.79
  - g. WHV (formerly Wentworth, Hauser, and Violich)  
For period 10/01//2012 through 12/31/2012 \$ 4,336.00
  - h. Ronald J. Tobey, City Treasurer  
Report of Checks Written – December 2012 \$180,776.64
  - i. Ronald J. Tobey, City Treasurer  
Report of Checks Written – January 2013 \$175,284.13

Motion supported by Trustee Pearsall and concurred in by unanimous vote.

**COMMUNICATIONS:**

- WHV – *Announcement of new President and CEO*
- Franklin Templeton – *Letter regarding annual offering of written disclosures*

- RIABiz – *Merrill Lynch pulls advisors from a \$2.9 billion business*
- Merrill Lynch – *Changes to methodology of Style Manager & Fund Selection Evaluations*
- Hirayama Investments – *International Global Commentary*
- Merrill Lynch – *Market Focus, 4<sup>th</sup> Quarter 2012*
- Gabriel Roeder & Smith – *NewsScan January 16, 2013*
- MD Sass – *Investment Outlook & Strategy Commentary*

The following communications, publications and conference announcements are on file with the City Clerk – if you would like to read them, please contact her:

- Merrill Lynch: *Comprehensive AIM Report, Q3 DVD*

There was significant discussion regarding the communications, specifically the items regarding WHV's hire of a new president and CEO, the RIABiz article about Merrill Lynch advisors moving out of the public retirement sector, and Merrill Lynch changes to methodology. Merrill Lynch Consultant Marie Vanerian addressed each item in turn.

WHV New president and CEO – Ms. Vanerian reported that the president and CEO have nothing to do with the management of the portfolio. Further she said that there was no change in the employment of Portfolio Manager Richard Hirayama and Merrill Lynch's due diligence team had reviewed the change in leadership and given their stamp of approval.

Merrill Lynch pulls public pension managers – Ms. Vanerian explained that more than two years ago Merrill Lynch came to the conclusion that public pensions were sensitive in nature and as such needed to be handled with extra care and training. Steps were taken to provide tighter oversight of such funds including allowing only those consultants that achieved certification to a strict set of standards to manage public funds. Those consultants that did not achieve certification and those that felt the new oversight was too restrictive moved away from managing public funds for Merrill Lynch, and in some cases moved away from Merrill Lynch entirely. She went on to indicate that her firm is one of approximately 10 in the Merrill Lynch family that is certified to advise public pension plans (at this point she distributed a copy of a letter from Merrill Lynch denoting her certification as a public pension consultant). Chairperson Farrell asked that Ms. Vanerian inform the Board immediately should she become aware of another article similar to the RIABiz article.

There was a brief discussion regarding how Merrill Lynch was hired at the System consultant and whether that agreement should be reviewed as a matter of diligence on the part of the Board.

Merrill Lynch changes methodology – Ms. Vanerian indicated the change was simply to better define how often investing firms would be reviewed, changing the term "periodically" to "quarterly".

City Attorney William C. Brown reminded the Board of the discussion held at the last regular meeting regarding the status of the funds of a short time Police Department employee that would never be eligible for a pension, nor the transfer of funds to another municipality via the Reciprocal Act, but to this point had refused to remove his funds from the System. He indicated he had written a letter to the party in question requesting he remove his funds from the System.

### **OLD BUSINESS:**

### **MERRILL LYNCH STATUS REPORT**

Ms. Vanerian indicated her division of Merrill Lynch had recently received a new director in Dennis Drenikowski. She further indicated she would be inviting him to join a future meeting of the Board so the Trustees could meet him.

Vice Chairperson Mitchell inquired how often Merrill Lynch changes division directors. Ms. Vanerian indicated that directors are moved at will by the firm and this particular director had been with the company for over 25 years.

### **LARGE CAP GROWTH MANAGER FEE REVIEW & DECISION**

Ms. Vanerian inquired whether there were any further thoughts on the decision of a large cap money manager. The Trustees indicated they felt the discussion during the January 25<sup>th</sup> special meeting was thorough and sentiment had not changed since that time.

Trustee Sedlak said he thought the process was much easier when the candidates were present at the meeting rather than over the phone.

Ms. Vanerian distributed information on the fee schedules for the top three candidates. She noted that two of the firms had declared minimums above the System's availability in funds but both firms had agreed to take on business despite this fact. Two of the firms had two different fee options based on whether the Board wanted to have a direct relationship or whether they were willing use Merrill Lynch as a conduit. Fees using Merrill Lynch as a conduit presented an advantage to a direct relationship by at least 3 basis points.

As the fee structure using Merrill Lynch created no differential between the fees for Loomis and Montag the Board requested a brief review of the firms to try and confirm which firm best fit.

Motion by Vice Chairperson Mitchell to hire Loomis Sayles using the Merrill Lynch platform.

Motion supported by Trustee Cook and concurred in by unanimous vote.

Ms. Vanerian indicated she would be bringing a breakdown of all of the fees paid by the System to the April meeting, along with a comparison to state pension plan fees and commission recapture information.

### **NEW BUSINESS:**

#### **DISCUSSION OF PROPOSED 2013-2014 BUDGET**

The budget proposed noted little change from the 2012-2013 budget, an increase of \$1,000 was included in the Actuary Fee to accommodate anticipated increases in the cost of the actuarial report. \$15,000 was once again budgeted for use should the Board decide another money manager search is necessary.

Motion by Vice Chairperson Mitchell to approve the 2013-2014 Retirement Board budget as follows:

<b>Proposed Retirement Board 2013-2014 Budget</b>	
Checks, etc.	300
Audit	2,500
Actuary Fee	23,000
Conference Exp.	2,000
Counseling Fee	27,000
<b>Total</b>	<b>\$54,800</b>

Motion supported by Trustee Pearsall and concurred in by unanimous vote.

### **ASSET ALLOCATION REVIEW**

Ms. Vanerian distributed a graph denoting the System's current asset allocation, average return and standard deviation, as well as the optional mixes that were considered when the asset allocation was last reviewed in 2008. As all indications are pointing to potential trouble in the fixed income market she suggested the Board hold off on making any changes to the current allocation until they have had the chance to hear from their fixed income manager Franklin Templeton.

Trustee Cook inquired why the System had set percentages for each allocation rather than a range. Ms. Vanerian noted that a range is utilized to ensure the portfolio stays proportional, but due to the fact the portfolio is balanced each month it gives the appearance of a set percentage.

Ms. Vanerian indicated Franklin Templeton would be on hand to speak to the Board during the April meeting. She further indicated she would ask that they come with examples of what may happen to the portfolio should certain events take place.

### **CHANGE TO COMMISSION RECAPTURE SERVICES WITH CONVERGEX**

The Board was in receipt of a communication from ConvergEx which seemed to indicate the Board should consider altering their current service agreement with the firm to better take advantage of available recaptures. Ms. Vanerian noted that the communication in question came to the Board simply as a reminder of the types of services ConvergEx has available and was not intended as a recommendation to alter services. She went on to say that she would reach out to the System's current managers to remind them to try to use ConvergEx for their trades when possible so as to best benefit the System.

On a separate subject Chairperson Farrell revisited the questions surrounding the re-hire of retirees and whether this practice represented a threat to the System's qualifications as a pre-tax investment vehicle. City Attorney William C. Brown indicated he felt the arrangements with former retirees that are currently represented no threat to the System. He said that the MERS system used a 30-day separation policy to ensure its members did not pose a threat to the organizations that agreed to rehire them and he felt the City would be safe in practicing the same policy. The one instance where this separation was not held to 30 days the City had documentation showing the intent of the retiree was to cease working but they had agreed to return for a named period of time to assist in the transition to new personnel. He ended his comments by saying he felt the crux of the issue was the intent of the retiree.

Vice Chairperson Mitchell said he hoped that none of the decisions made by the City Manager in relation to the re-employment of retirees would come to harm the System.

Trustee Sedlak noted that none of the retirees that have been hired back have continued to contribute to the System, thus there was no possibility of double dipping.

### **INVESTMENT CONSULTANT REPORT – 4<sup>th</sup> QUARTER 2012**

Merrill Lynch Consultant Marie Vanerian noted that the Presidential election and the fiscal cliff talks had dominated the end of the year while monetary issues in Europe seemed to lose some influence. The practice of fracking has the potential to dramatically change the domestic production of oil reducing the nation's need to rely on oil deposits in the Middle East.

Corporate profits grew for the year, corporate cash holdings are at a 50-year high, and stocks had a decent year overall. She felt there would be steep pressure on fixed income investments in the coming year because interest rates could not be kept artificially low for too long without negatively affecting the market.

Ms. Vanerian presented an overview of the following:

**Total Portfolio Performance Summary for Period Ending 12/31/2012**

	Source of Funds Thousands of Dollars		
	Quarter		Cumulative 12/91-12/12
Beginning Market Value	29,017		17,774
Net Contributions	-360		-18,546
Investment Earnings	433		29,861
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<b>Ending Market Value</b>	<b>29,090</b>		<b>29,090</b>

**CITIZENS COMMENT:**

There were no citizen comments.

**NEXT BOARD MEETING:**

The next board meeting is scheduled for April 18, 2013 at 7:15am

**ADJOURNMENT:**

Motion by Vice Chairperson Mitchell for adjournment at 9:00 a.m.

Motion supported by Trustee Pearsall and concurred in by unanimous vote.

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Amy K. Kirkland, City Clerk