

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD**

APRIL 18, 2013

7:15 AM

CALL MEETING TO ORDER:

Chairperson Farrell called the meeting to order at 7:18 a.m.

ROLL CALL:

PRESENT: Trustees Michael Erfourth, Ronald Pearsall, Mark Sedlak, Vice Chairperson Mark Mitchell and Chairperson Wilfred Farrell.

ABSENT: Trustees Thomas Cook and Michael McCloskey.

ALSO

PRESENT: City Attorney William C. Brown; Franklin Templeton Portfolio Manager Warren Keyser; City Clerk Amy K. Kirkland; Merrill Lynch Advisor Maral Thomas; former Retirement Board member James Treadway; and Merrill Lynch Investment Consultant Marie Vanerian;

APPROVE AGENDA:

Motion by Trustee Erfourth to approve the Agenda with the following additions to the Consent Agenda:

Approve Statements:

- b. MD Sass
As of March 31, 2013
- c. Russell Investments
As of March 31, 2013

Payment Authorizations:

- d. Atlanta Capital
For period 04/01/2013 through 06/30/2013
- e. Franklin Templeton Investments
For period 01/01/2013 through 03/31/2013
- f. Franklin Templeton Investments – SIK
For period 01/01/2013 through 03/31/2013
- g. NFJ Allianz
For period 04/01/2013 through 06/30/2013

Motion supported by Vice Chairperson Mitchell and concurred in by unanimous vote.

APPROVE MINUTES OF FEBRUARY 21, 2013 REGULAR MEETING:

Motion by Vice Chairperson Mitchell to accept the minutes of the February 21, 2013 Regular Meeting as presented.

Motion supported by Trustee Pearsall 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. February 2013 | \$ 182,958.55 |
| b. March 2013 | \$ 177,279.34 |

2. Approve Statements:

- a. City of Owosso Employees Retirement Fund
February 28, 2013
- b. MD Sass
As of March 31, 2013
- c. Russell Investments
As of March 31, 2013

3. Payment Authorizations:

- | | |
|--|--------------|
| a. <u>Rehmann Accounting, LLC</u>
FY 2011-12 Annual Audit | \$ 1,800.00 |
| b. <u>Ronald J. Tobey, City Treasurer</u>
Report of Checks Written – February 2013 | \$229,412.86 |
| c. <u>Ronald J. Tobey, City Treasurer</u>
Report of Checks Written – March 2013 | \$179,129.23 |
| d. <u>Atlanta Capital</u>
For period 04/01/2013 through 06/30/2013 | \$ 5,874.97 |
| e. <u>Franklin Templeton Investments</u>
For period 01/01/2013 through 03/31/2013 | \$ 8,921.83 |
| f. <u>Franklin Templeton Investments</u> (former Fifth Third equities)
For period 01/01/2013 through 03/31/2013 | \$ 300.00 |
| g. <u>NFJ Allianz</u>
For period 04/01/2013 through 06/30/2013 | \$ 3,092.52 |

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

COMMUNICATIONS:

- William C. Brown, City Attorney: Letter to M. Boudreau regarding the request to remove funds from the System
- Loomis Sayles: MAPERS Conference dinner invitation
- Hirayama Investments – *International Global Commentary*
- Gabriel Roeder & Smith – *NewsScan February 18, 2013*
- Gabriel Roeder & Smith – *NewsScan March 6, 2013*
- Gabriel Roeder & Smith – *NewsScan March 26, 2013*

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, 2012 Q4 DVD*

Chairperson Farrell inquired if the letter to Mr. Boudreau had elicited a response. It was indicated it had not. City Attorney Brown suggested that since no amount of communication seemed to gain a reply the Board could simply send him back his money to resolve the issue.

Motion by Trustee Sedlak to send Mark Boudreau the balance owed him in the Retirement System via certified mail.

Motion supported by Vice Chairperson Mitchell and concurred in by unanimous vote.

MONEY MANAGER REVIEW:

FRANKLIN TEMPLETON - WARREN KEYSER, PORTFOLIO MANAGER

Merrill Lynch Consultant Marie Vanerian indicated she had asked Mr. Keyser to speak about how the company has gone about the business of transitioning from the former Fifth Third equities they inherited as well as their prescription for the future given the anticipated changes in the bond market.

Mr. Keyser indicated the firm had taken over the former Fifth Third portfolio in early 2007. Many of the securities in the portfolio were mortgage backed securities held in untradeable size positions. It was decided at that point that it would be more prudent to sit on the bonds in question rather than sell them immediately at fire sale prices. In the beginning the bonds had a serious negative impact on the overall portfolio but since have recovered quite nicely. Also some of those bonds have reached maturity and the proceeds have been incorporated into the actively managed portion of the System's portfolio. At the current time approximately \$700,000 of the original securities remain and Mr. Keyser recommended keeping them intact until they reach maturity or an acceptable price can be obtained.

Mr. Keyser went on to say that the outlook for the U.S. economy remained the same with a low level of growth and persistent unemployment. The firm was taking the position that interest rates would rise in the next months but they felt the increase would be slow because the Fed had a distinct interest in not allowing a rapid rise in interest rates to kill an already weak recovery. It was their feeling that interest rates would rise slowly enough for them to react accordingly. And a shift to shorter term bonds was already underway in an effort to ensure the portfolio was flexible enough to respond to the anticipated rise in interest rates. He noted the Board could consider adding some securities with a lower credit quality as those of higher quality may not bring in the desired returns.

There was discussion regarding adding new sectors to the portfolio, what percentage of the portfolio should be encompassed by any new sectors, what current sectors the money should be pulled from, and how long it may be before the Fifth Third equities have run their course. Merrill Lynch Consultant Vanerian said that while she was not opposed to adding additional sectors to the portfolio she cautioned that any new sectors would have to be in compliance with Act 341 and the Board would have to pay close attention to the fees involved in moving into new sectors. She went on to suggest stress test modeling for any sectors the Board may consider adding so that they would have an idea how a particular sector may react in a given set of circumstances. Finally she reminded the Board that the fixed income sector of the System's overall portfolio was designed to be conservative and care should be taken to maintain that balance.

OLD BUSINESS:

MERRILL LYNCH STATUS REPORT

Merrill Lynch Investment Consultant Vanerian indicated there was nothing new to report. She said earnings were up for the quarter.

NEW BUSINESS:

APPLICATION FOR RETIREMENT - SANDY DUFFIELD

Motion by Vice Chairperson Mitchell to approve the application for retirement for Sandy Duffield.

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

MAPERS 2013 SPRING CONFERENCE

It was noted that because no one attended the fall session there remained in the budget enough money to send two members should there be interest.

Motion by Trustee Erfourth to authorize sending two members to the MAPERS 2013 Spring Conference.

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

FEE COMPARISON AND ANALYSIS

Ms. Vanerian distributed a chart showing each of the System's money managers as well as the fees paid to each manager divided into service categories as follows:

City of Owosso

April 18, 2013

	4/11/2013	Platform	ML Fee	Manager Fee	Total Fee	Performance Reporting*	Admin/Record	Trans**	Investment Fiduciary
Atlanta	\$ 2,458,592	Consults	0.30%	0.35%	0.65%	-	Merrill Lynch	Included	Merrill Lynch
Franklin	\$11,799,092	Direct	-	0.32%	0.32%	\$ 1,750	Manager		Manager
NFJ	\$ 1,287,136	UMA	0.30%	0.35%	0.65%	-	Merrill Lynch	Included	Merrill Lynch
Loomis	\$ 5,460,138	UMA	0.30%	0.28%	0.58%	-	Merrill Lynch	Included	Merrill Lynch
MD Sass	\$ 7,175,770	Direct	-	0.65%	0.65%	\$ 2,000	Manager		Manager
Wentworth	\$ 1,753,336	Direct	-	1.00%	1.00%	\$ 5,250	Manager		Manager
Composite						\$ 2,850			
Cash Account	\$ 204,576								
Total	\$30,138,640				0.54%	\$ 11,850			

She indicated that the fees were distributed among various participants based on the tasks they were responsible for. In total the System pays approximately 54 basis points for management of the portfolio. She noted that state pension plans pay an average of 45 basis points for management fees, though it must be remembered they are many, many times the size of the Owosso System. Overall she felt the fees were reasonable.

She also pointed out that the analysis had brought a fee savings to light in that the hire of Loomis Sayles had pushed the System over the minimum for the UMA program and as such could consider adding MD

Sass to the platform and saving 7 basis points. Doing so would potentially reduce the overall fee number to 52 for the system.

Lastly she indicated that the analysis had shown that there may be room for a reduction in the performance measurement fee for Wentworth, which she will explore further.

Motion by Trustee Erfourth to move the MD Sass account from a direct management relationship to the Merrill Lynch UMA platform.

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

INVESTMENT CONSULTANT REPORT:

1ST QUARTER 2013 EXECUTIVE SUMMARY REPORT

(This item was to be distributed should the 1st quarter results be reported in time. As of the time of the meeting the results were reported but the report had not yet been generated.)

CITIZENS COMMENT:

There were no citizen comments.

Vice Chairperson Mitchell raised a question about the invoice for Rehmann Accounting saying he did not recall paying a fee for the annual audit in the past. It was noted that indeed the System had been charged for its portion of the annual audit. Question remained whether the System had realized the savings the City gained in changing auditors two years ago.

NEXT BOARD MEETING:

The next board meeting is scheduled for June 20, 2013 at 7:15am

ADJOURNMENT:

Motion by Vice Chairperson Mitchell for adjournment at 8:33 a.m.

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

Amy K. Kirkland, City Clerk