

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD**

FEBRUARY 16, 2006

7:00 A.M.

PRESENT: Vice Chairperson Frances Kukulis, Trustees William Blanchett, Wilfred A. Farrell, Mark Mitchell, Mark D. Owen and James Treadway.

ABSENT: Chairperson Linda Robertson.

ALSO

PRESENT: Merrill Lynch Investment Consultant Marie Vanerian, Deputy City Clerk Amy K. Kohagen, City Manager Gregg G. Guetschow, and City Treasurer Ronald J. Tobey.

CALL MEETING TO ORDER

Vice Chairperson Kukulis called the meeting to order at 7:07 a.m.

APPROVE AGENDA

Motion by Trustee Treadway to approve the Agenda as presented.

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

APPROVE MINUTES OF DECEMBER 15, 2005 REGULAR MEETING

Motion by Trustee Treadway to approve the Minutes of the December 15, 2005 Regular Meeting as presented.

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

APPROVE MINUTES OF DECEMBER 22, 2005 SPECIAL MEETING

Motion by Trustee Farrell to approve the Minutes of the December 22, 2005 Special Meeting as presented.

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

CITIZEN COMMENTS

There were no citizen comments.

CONSENT AGENDA

Motion by Trustee Mitchell to approve the Consent Agenda as follows:

1. Approve Pension Check Reports:

- | | |
|-------------------|-------------|
| a. December, 2005 | \$96,892.38 |
| b. January, 2006 | \$95,384.96 |

2. Approve Statements:
 - a. Chemical Bank and Trust Company
December, 2005 – January, 2006
 - b. Fifth Third Bank
December, 2005
 - c. Tom Johnson Investment Management, Inc.
December 31, 2005
 - d. City of Owosso Employees Retirement Fund
December, 2005

3. Payment Authorizations:

- a. Fifth Third Bank
Investment Management Services
For Period 10/01/05 through 12/31/05 \$ 6,773.89
- b. Tom Johnson Investment Management, Inc.
Investment Management Services
For Period 10/01/05 through 12/31/05 \$ 9,508.85
- c. Ronald J. Tobey, City Treasurer
Report of Checks Written – December, 2005 \$122,456.08
Report of Checks Written – January, 2006 \$ 96,539.01

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

COMMUNICATIONS

The following communications, publications and conference announcements were placed on file:

- Gregg G. Guetschow, City Manager. Copy of memo to City Council regarding Pension Ordinance Amendment.
- William C. Brown, City Attorney and Gail L. Schultz, City Clerk. Copy of letter sent to Fifth Third Asset Management, Inc. regarding termination of equity relationship.
- John A. Campbell, Miller, Canfield, Paddock and Stone, PLC. Response to questions from Vice Chairperson Kukulis regarding the ordinance revision.
- The Schluckebier Team, A.G. Edwards & Sons, Inc. Money management services.
- Stephanie S. Thomas, Fifth Third Asset Management, Inc. Change in management team.
- Merrill Lynch. Consulting Services Disclosure Statement.
- Michigan Association of Public Employee Retirement Systems. Winter 2005 newsletter.

Trustee Farrell asked Marie Vanerian if she had received any response from Fifth Third Asset Management regarding the termination of the equity relationship. Ms. Vanerian commented that they had been working well with her on the transition.

Ms. Vanerian also commented that she will speak with City Attorney Brown regarding his review of the Consulting Services Disclosure Statement prior to the next meeting.

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

- Gabriel, Roeder, Smith & Company: *News Scan and Research Memo*
- Miller, Canfield, Paddock & Stone, LLC: Hot Points Winter 2005 Bulletin
- PlanSponsor: December, 2005 and January, 2006.
- Miscellaneous Conference Announcements

OLD BUSINESS

Done Away Fees Resolution Report

Ms. Vanerian reported that she had credited the November and December Done Away Fees. The October fees of \$275 still need to be credited and that the open \$750 account fees are being credited back automatically from January. Ms. Vanerian also reiterated that Merrill Lynch has committed to covering the done away fees through the end of the 2005 year and that she is not sure how it will be handled going forward from January.

She asked that the matter be placed on the April meeting agenda for further consideration.

**Expense Account Detail –
Reimbursement To The Retirement System Status Report**

City Treasurer Ronald Tobey reported that reimbursement had been made in January.

NEW BUSINESS

MAPERS Spring Conference

Motion by Trustee Treadway to send two members to the Spring MAPERS Conference.

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

The City Clerk will forward conference registration information to the Trustees when it arrives.

Application for Retirement-Charles Schaufele

Motion by Trustee Treadway to approve the Application for Retirement from Charles Schaufele effective March 4, 2006.

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

Proposed 2006-2007 Budget Review

Motion by Trustee Farrell to recommend the Retirement System budget proposal for 2006-2007 to the City Council as follows:

Line Item	Amount
Checks printed, etc.	300.00
Audit cost	5,000.00
Actuary Fee	10,000.00
Conference Expenses	3,000.00
Counseling Fee – Merrill Lynch	15,000.00
Total	\$33,300.00

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

Pension Fund Structure

City Manager Guetschow commented regarding the need for a change in the structure of Pension Fund from open to closed system for actuarial purposes.

Mr. Guetschow proposed that this Board authorize a change to go from an open to a closed structure that, basically, will segregate each of these individual component units—the fire, the police patrol, the general city, and the others and then allocate the overfunding across all of them so that they end up with their share of the overfunding. In summary, he asked that the Board authorize this change from an open structure to a closed structure.

City Treasurer Ronald Tobey commented regarding his conversation with Jim Koss, representative from Gabriel, Roeder, Smith & Company, related to the current system structure. He reported that Mr. Koss indicated that this was being done currently.

Trustee Owen commented regarding the need to verify whether the system is set up as necessary. Trustee Farrell inquired about the allocation of overfunding.

Motion by Trustee Owen that it is the Pension Board's desire to have a segregated pension system.

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

City Treasurer Tobey will communicate that information immediately to the actuaries that are currently at work in preparing our actuarial valuations. The next valuation statement that you see should show an allocation to the individual segments of the pension system of that overfunding.

Status Report – Fifth Third Asset Management

Ms. Vanerian reported that the equity exposure with Fifth Third Asset Management was terminated on January 9, 2006. She also reported that, as far as she could see, everything went smoothly and that they were very good working with her.

Status Report - Review of Investment Managers

Ms. Vanerian addressed the Board regarding the future structure of our portfolio. She reported that the City has committed to paying for one search and that Merrill Lynch will charge the System one fee of \$12,500 for the remaining searches.

There was Board discussion regarding current core equity managers, two searches-fixed income and core equity, three searches-fixed, value and growth, current asset allocation and the possible need to “tweak” our allocation formula.

Ms. Vanerian said that she will run asset allocation numbers to see if we need to “tweak” our allocation formula.

There was further discussion regarding the option of one or two equity managers and when the Board decides how many managers to have. Ms. Vanerian commented that with value and growth styles, it is preferable to have two managers; three optimum. She also reported that you should never put the all the equity funds in one manager's hands.

City Manager Guetschow commented regarding the asset allocation within the fund; changes that are being made that affect the system; and a more mature system. Ms. Vanerian recommended that the Board look at what we need to do to get the 7.5 – 8.5% annualized rate of return and make a little bit more.

There was Board discussion regarding the overfunded portion of the fund. It was stated that the employer owns the overfunded portion of the fund.

Ms. Vanerian reported that soft dollars have been generating amounts exceeding \$10,000 and are available to offset the search costs. The cost can be spread over three years.

Ms. Vanerian asked for Board direction on the type of search to conduct. It was Board consensus to conduct a core manager search and also look at fixed income and current managers.

INVESTMENT CONSULTANT REPORT

Merrill Lynch Investment Managers-Fourth Quarter 2005 Performance Report

Ms. Vanerian discussed the important events of the fourth quarter that effected investments: Hurricane Katrina, interest rates/yield curve, and the markets.

Ms. Vanerian presented an overview of the following:

Total Portfolio Performance Summary for Period Ending 12/31/2005

	Source of Funds Thousands of Dollars		
	Quarter	Year to Date	Cumulative 12/91-12/05
Beginning Market Value	30,123	30,140	16,702
Net Contributions	-254	-872	-9,226
Investment Earnings	395	996	22,788
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Ending Market Value	30,265	30,265	30,265

CITIZEN COMMENTS

There were no citizen comments.

NEXT BOARD MEETING

The next regular Board Meeting is scheduled for April 20, 2006 at 7:00 a.m.

ADJOURNMENT

Motion by Trustee Owen to adjourn the meeting at 9:28 a.m.

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

Gail L. Schultz, Owosso City Clerk