

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD
SPECIAL MEETING**

OCTOBER 18, 2006

6:45 A.M.

CALL MEETING TO ORDER

Chairperson Robertson called the meeting to order at 6:55 am.

ROLL CALL

PRESENT: Chairperson Linda Robertson, Vice Chairperson Frances Kukulis, Trustees Wilfred A. Farrell, Michael C. McCloskey, Mark Mitchell, Mark Owen, and James Treadway.

ABSENT: None.

ALSO

PRESENT: City Attorney William C. Brown; City Clerk Amy K. Kohagen; City Treasurer Ronald J. Tobey; Merrill Lynch Investment Consultant Marie Vanerian; and Finance Director Richard C. Williams.

CITIZEN COMMENTS

There were no citizen comments.

Merrill Lynch Consultant Vanerian commented on what the Board should be looking for during the interviews. She gave the following list as items of importance: know the philosophy of each company, what is the process they go through to make investments for the City of Owosso, how do they construct their universe of securities, how do they obtain their research, how will individual securities be selected for us, how will our portfolio differ from their composite portfolio, how do they plan on communicating w/ us if we select them, how often can we expect regular statements, what is their past performance, and how do they ensure consistent performance.

**INTERVIEW – NEUBERGER BERMAN
James Barclay, Regional Vice President**

Mr. Barclay indicated he is based out of Chicago and would be our contact person with the company. The investment team is made up of 6 members and manages approximately \$5 billion in assets. Recent history indicates they've captured 95% of upside markets and 66% of downside markets as compared to the Russell 1000 Growth Index.

Mr. Barclay connected the Board with Neal Groom in New York, one of the investment team members by conference call. Mr. Groom detailed the portfolio and how it was established. He indicated the company has a bottom up approach to picking stocks, choosing individual companies not sectors of the market. He indicated they look for companies with positive growth and try to determine the catalyst for such growth. He also indicated they have a strong exit strategy to prevent losses, preferring to sell a stock early and preserve money. The typical portfolio will have between 55 and 65 stocks with approximately 80% to 100% turnover, using medium growth trends as a guide.

Mr. Groom commented on the extensive Lehman Brothers research department the company has access to, indicating they interview as many as 2 to 3 companies per day. Investment team members all work in the same office and have daily contact with one another. Three members have veto power.

**INTERVIEW – SANTA BARBARA
John Gomez, Institutional Sales**

Mr. Gomez indicated he is based out of Chicago and would be our contact person with the company which is based in California (he visits CA quarterly). The top five members of the company have voting privileges in voting a stock in or out of the portfolio. The company keeps stocks 3 to 5 years on average (approximately 50% of the portfolio has been kept over 10 years), with a 94%-113% upside capture and a 67%-72% downside capture as compared to the Russell 1000 Index. When owning a stock they prefer to ride out rough times instead of liquidating.

Mr. Gomez detailed what the company looks for in an investment. All analysts within the company are generalists to prevent limitations in their investment universe. They are looking for companies in the middle ground with stable growth and consistency of growth. They do not pursue IPO's, mature companies with growth matching the GDP, or companies with very high growth rates with the thought these types of companies are too unstable. The portfolio will typically have 50 stocks with approximately 50% turnover.

Mr. Gomez commented on Santa Barbara's bottom up philosophy to choosing stocks. He indicated that they intentionally do not look at the general state of the economy first when picking a stock. The company's primary research is proprietary, with Wall Street research used for verification. Santa Barbara will not invest in a company until it has spoken with company management.

There was general discussion regarding the differing philosophies of Neuberger Berman and Santa Barbara, the lack of history with Santa Barbara, and Santa Barbara specializing only in Growth investments.

INTERVIEW – RIGEL CAPITAL
TODD JESSUP, SENIOR VICE PRESIDENT

Mr. Jessup indicated he will be our contact person and will be based out of Seattle, Washington. The company has a strong commitment to risk protection, with a manager devoted only to assessing risk in various investments. They are also committed to remaining a small independent company that is employee owned. Currently 25% of the company is owned by CALPERS, with their ownership being phased out in 2007. The CEO concentrates entirely on investing, day to day operations are managed by the President. Their process has been developed over a 30 year period with an aim toward constant improvement. They take a bottom up approach to buying and rely little on company interviews feeling they provide little new information than what can be publicly accessed.

The company looks for stocks with momentum and examines what is behind the momentum. When purchasing new stock they tend to buy in small increments and move in slowly. They develop a distinct review price with each new purchase to trigger review of a stock to discover if its position is deteriorating. Communication within the company is very open, having no separate offices to provide for ease in communication.

Being risk averse and small in size the company has developed a succession plan for top members in the organization.

There was general discussion regarding what candidates Board members felt most comfortable with. There was further discussion regarding using a small investment firm vs. a large one, possible disadvantages to the firm being a large distance away, allegiance with CALPERS, obtaining fee structures and contracts for the individual candidates.

In an informal poll most Board members indicated they felt comfortable with Rigel Capital.

ADJOURNMENT

Meeting adjourned 10:33 am.

Amy K. Kohagen, City Clerk