

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

NOVEMBER 1, 2006

7:00 A.M.

CALL MEETING TO ORDER

Chairperson Robertson called the meeting to order at 7:00 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; and Merrill Lynch Investment Consultant Marie Vanerian.

CITIZEN COMMENTS

There were no citizen comments.

Merrill Lynch Consultant Vanerian reminded the Board of items of importance they should be looking for during the day's interviews including, process, communication, and past performance.

INTERVIEW – FRANKLIN TEMPLETON INSTITUTIONAL

**Warren Keyser, Senior Vice President (portfolio manager)
Michael Wasz, Vice President**

It was indicated that Franklin Templeton has fixed income managers around the world and they manage over \$50 billion in municipal investments. They excel at sector rotation.

Process: The company has a top down/bottom up approach to investing. They view the economy, the outlook on long term interest rates and FED funds first, then factor in bottom up research functions. The company focuses on traditional sectors of the market (core) but does not neglect non-traditional sectors (core plus) for money making opportunities. They employ a nine member risk analysis team that works for the entire organization to monitor risk.

Research: The company believes their large size and deep resources can be used to their advantage. They perform research overseas and monitor how foreign economies affect our own. They have strong formal communications, hosting monthly and weekly video conference meetings with overseas managers and clients to remain up to date. The company believes good research has enabled them to have good downside capture ratios.

Our main contact with the company would be Michael Wasz. Mr. Wasz lives and works in Chicago and is familiar with the MAPERS organization. He considers it his responsibility to advise the Board on areas where they could improve including investment policy improvements. He indicated he would probably ask the Board to change its investment policy to allow investing in foreign dollars as he feels this will be necessary in the near future due to the falling dollar.

Recessed at 7:49 AM.

Returned at 8:03 AM.

INTERVIEW – CHEMICAL BANK

Kirk Fisher, CFA, Vice President, Trust Investment Officer

The company has approximately \$2.2 billion in assets with about 50 municipal investors. Our contact would continue to be Kirk Fisher. Mr. Fisher indicated that Chemical Bank has performed under the benchmark in earnings but also under the benchmark in risk for the last 6 years.

Process: The company focuses on a 1-3 year period, looking at trends. They have a top down approach to investing. The 10 member trust committee meets once per month they have final say as to what is in portfolio. The trust committee formally evaluates the portfolio twice per year, Mr. Fisher would monitor our portfolio everyday. They have a conservative approach. They look at investments over the long term and are wary of transaction costs. Turnover is very low, at approximately 13%.

Research: The company contracts out to research providers. The analysts used are not associated with an investment firm and are thus unbiased.

Mr. Fisher indicated his supervisor would perform in his place if needed. He also indicated that there is a low risk of Chemical Bank being purchased as CEO has indicated he wishes to remain independent.

Recessed at 8:51 am.

Returned at 9:03 am.

INTERVIEW – WEDGE CAPITAL MANAGEMENT, LLP

Leah Long, Executive Vice President

Peter Bridge, Executive Partner

The company currently manages just under \$1 billion in fixed income, 10% of those assets are public entities. The company is risk averse, allowing less risk over time than the benchmark. The portfolio contains up to 70 high quality securities for diversification. The company is committed to independence, developing a repeatable process and focusing on customer service.

Our contacts at the company would be Peter Bridge and Leah Long, both work out of Charlotte, North Carolina.

Process: The company views itself as value bond managers, they use risk control as a guiding force and position the portfolio to take advantage of long term trends. To find undervalued securities the company compares a bond relative to history over time, compares it to other bonds in that sector, compares it to other bonds in the universe, and also looks at credit quality of the organization. Our portfolio would follow the company model unless restricted. It was noted that the company's profit comes from the following areas: 60% from undervalued bonds, 25% from long term trends, and 15% from adjusting maturity structure.

Research: The company uses independent, third party research using a bottom up then top down approach.

It was noted that the company feels volatility will increase in the future and they are currently investing in very stable securities to compensate.

DISCUSSION

There was general discussion regarding the following: the past performance of Chemical Bank, the favorable performance of Franklin Templeton and WEDGE, the use of world wide economic information by Franklin Templeton, the uncomplicated approach of Chemical Bank, turnover for Franklin Templeton, and fees for all the companies.

Motion by Trustee Owen to hire Franklin Templeton as the new fixed income manager for the City of Owosso Employees' Retirement System.

Motion supported by Trustee Treadway.

Roll Call Vote.

AYES: Vice Chairperson Kukulis, Trustees Farrell, McCloskey Mitchell, Owen, Treadway, and Chairperson Robertson.

NAYS: None.

There was further discussion regarding transaction costs for moving funds to different companies and how the funds will be transferred to the new managers.

Merrill Lynch Consultant Vanerian distributed her notes from the meeting of October 18, 2006 to facilitate discussion on choosing a growth manager.

There was discussion regarding which companies Board members felt strongly about. In general, most Board members felt comfortable with both Rigel and Aletheia, though there was some concern regarding the length of time each had been in business.

Motion by Trustee Owen to hire Rigel Capital, LLC as the new large cap growth manager for the City of Owosso Employees' Retirement System.

Motion supported by Vice Chairperson Kukulis.

Roll Call Vote.

AYES: Vice Chairperson Kukulis, Trustees Farrell, McCloskey, Mitchell, Owen, Treadway, and Chairperson Robertson.

NAYS: None.

After brief comments there was a general consensus among Board members the top two choices for the large cap value manager were Aletheia and MD Sass. There was discussion regarding the length of time Aletheia has been in business, the age of the upper management employees at MD Sass, and splitting assets between the two companies. There was an informal poll among Board members indicating a majority felt more comfortable with MD Sass, a few members indicated they would be happy with either company. Merrill Lynch consultant Vanerian indicated she would closely monitor all the managers the Board interviewed in the future to maintain current knowledge of those companies in the event the Board wished to replace one of the new managers.

Motion by Vice Chairperson Kukulis to hire M.D. Sass as the large cap value manager for the City of Owosso Employees' Retirement System.

Motion supported by Trustee Farrell.

Roll Call Vote.

AYES: Vice Chairperson Kukulis, Trustee Farrell, McCloskey, Mitchell, Owen, Treadway, and Chairperson Robertson.

NAYS: None.

Merrill Lynch consultant Vanerian indicated she would be approaching the companies to negotiate fees. City Attorney William C. Brown indicated he would be reviewing contracts for the companies. Target date for money transfer is January 2, 2007.

ADJOURNMENT

Meeting adjourned 10:46 am.

Amy K. Kohagen, City Clerk