

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD
THE WROUGHT IRON GRILL
317 SOUTH ELM STREET**

JANUARY 28, 2009

6:00 P.M.

CALL MEETING TO ORDER

Chairperson Farrell called the meeting to order at 6:09 p.m.

ROLL CALL

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

ABSENT: Trustee Michael Bruff.

ALSO

PRESENT: City Attorney William C. Brown; City Clerk Amy K. Kohagen; Merrill Lynch Investment Consultant Michael Muirhead; and Merrill Lynch Investment Consultant Marie Vanerian.

CITIZENS COMMENTS

There were no citizen comments.

DISCUSSION – SMALL CAP MONEY MANAGER SEARCH

Merrill Lynch Investment Consultant Marie Vanerian described how the search process was performed starting with her completion of an extensive questionnaire detailing the needs and specifics of the Owosso Employees' Retirement System. The Merrill Lynch research department then searches their data base for managers that could fit out needs. In searching for potential investment firms to include in the report they are looking for not only good returns but a repeatable process. Ms. Vanerian added that a review of each firms' forth quarter numbers would be key in determining which firm to hire.

There are six managers included in the search: Allegiant Small Cap Core, Atlanta Capital Small Cap Core, Denver Investment Advisors Small Cap Core, Gannett Welsh Small Cap Core, Messner & Smith Small Cap Core, and Messner & Smith Small/Mid Cap Core. Ms. Vanerian noted that small cap firms tend to have a shorter life span due to the nature of the business. She also noted that good small cap money managers are frequently targeted for acquisition, encouraging the board not to dismiss managers that have been frequently bought and sold.

Ms. Vanerian indicated the Board needed to decide whether they would feel better about a firm that earns great returns in an up market or a firm that preserves capital on the downside. It was noted the Board has been comfortable with firms of a more conservative nature in the past. Board members expressed an immediate interest in both Gannet Welsh and Atlanta Capital, noting they seemed to have the best results over time and the best capital retention on the downside. Ms. Vanerian encouraged the Board to select a third candidate for interview to give them a better perspective on what is available. She also cautioned the Board that 4th quarter 2008 numbers would severely skew the results and the interviews would give the Board the opportunity to get a better feeling for the individual characteristics of each firm.

The Board discussed interviewing Gannet Welsh, Atlanta Capital, and Messner & Smith. Ms. Vanerian had the following to say in regard to each firm:

Gannett Welsh has a good mix of older and younger managers. The key to their success is their stock selection. Their process involves examining the Russell 2000, screening each company's management,

the position of the company, growth prospects and the valuation of the business. They typically have between 50-75 different equities in their portfolio and the turnover rate is about 30% per year.

Atlanta Capital has a very stable team of investors. They focus their searches on quality companies with at least a 10 year history of reported financials and good growth potential. Their portfolio consists of approximately 50-60 stocks. It was also noted the firm seems to do well in the down market by preserving capital.

Messner & Smith is a small boutique firm that uses both a bottom up and a top down approach to picking stocks. They look for firms with free cash flow and good management. They have approximately 40 equities in a portfolio that has relatively low turnover.

Motion by Trustee Owen to invite Gannett, Welsh & Kotler, Atlanta Capital Management Company, LLC, and Messner & Smith for interviews in April.

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

Ms. Vanerian indicated Rigel Capital would be present at the February meeting to make its annual presentation and answer any questions from the Board, including detailing the recent news the founder of the organization would be stepping down from day to day activities. The Board requested the presence of Franklin Templeton Investments at the June meeting.

There was a brief discussion regarding the effects of inflation on the bond portfolio held by Franklin Templeton. Ms. Vanerian indicated she did not want to see any changes in their process as it has proven itself over time.

City Attorney William C. Brown inquired that, in light of the Bank of America take over, what would happen if Merrill Lynch were to declare bankruptcy. He further inquired about the custody of our funds in the event of a stay on the funds. Ms. Vanerian indicated that City funds are not commingled with funds from Merrill Lynch or Bank of America. The law requires client funds be segregated and placed in a federal depository. Ms. Vanerian offered to forward the Board a letter from Merrill Lynch explaining the custody and security of funds. It was noted that in the event of a stay it is possible the City would be unable to immediately access its funds, though it was pointed out that given the economic situation there is very little the City could do to mitigate that risk as all investment firms carry the same risk. As a way of keeping the Board informed, Mr. Brown asked the stability status of Merrill Lynch be a standing item of business until further notice.

NEXT BOARD MEETING

The next board meeting is scheduled for February 19, 2009 at 7:00 a.m.

ADJOURNMENT

Motion by Vice Chairperson Kukulis for adjournment at 7:44 p.m.

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

Amy K. Kohagen, Owosso City Clerk