

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD**

FEBRUARY 19, 2009

7:00 A.M.

CALL MEETING TO ORDER

Chairperson Farrell called the meeting to order at 7:19 a.m.

ROLL CALL

PRESENT: Chairperson Wilfred Farrell, Vice Chairperson Frances Kukulis, Trustees Michael Bruff, Mark Mitchell, and James R. Treadway.

ABSENT: Trustees Michael C. McCloskey and Mark D. Owen.

ALSO

PRESENT: City Attorney William C. Brown; City Clerk Amy K. Kohagen; Merrill Lynch Investment Consultant Michael Miurhead; Rigel Capital, LLC Senior Vice President Christopher Reynolds; and Merrill Lynch Investment Consultant Marie Vanerian.

APPROVE AGENDA

Motion by Trustee Bruff to approve the Agenda as presented.

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

APPROVE MINUTES OF DECEMBER 18, 2008 REGULAR MEETING

Motion by Vice Chairperson Kukulis to approve the Minutes of the December 18, 2008 Regular Meeting as presented.

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

APPROVE MINUTES OF JANUARY 28, 2009 SPECIAL MEETING

Motion by Trustee Treadway to approve the Minutes of the January 28, 2009 Special Meeting as presented.

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

CITIZENS COMMENTS

There were no citizen comments.

CONSENT AGENDA

Motion by Vice Chairperson Kukulis to approve the consent agenda as follows:

Approve Pension Check Reports:

- | | |
|------------------|---------------|
| a. December 2008 | \$ 121,073.50 |
| b. January 2009 | \$ 127,632.37 |

Approve Statements:

- a. AllianceBernstein
As of December 31, 2008
- b. Franklin Templeton Investments
As of December 31, 2008
- c. MD Sass
As of December 31, 2008
- d. Rigel Capital
As of December 31, 2008
- d. Merrill Lynch Consulting Services
November 30, 2008 Year to Date Summary
- e. Merrill Lynch Consulting Services
December 31, 2008 Year to Date Summary
- f. City of Owosso Employees Retirement Fund
December 31, 2008
- g. City of Owosso Employees Retirement Fund
January 31, 2009

Payment Authorizations:

Payee	Amount
<u>Franklin Templeton Investments</u> For period 10/01/08 through 12/31/08	\$ 9,386.13
<u>Franklin Templeton Investments – Custodial Fee</u> For period 10/01/08 through 12/31/08	\$ 300.00
<u>MD Sass</u> For period 10/01/08 through 12/31/08	\$ 7,033.47
<u>Merrill Lynch – AllianceBernstein</u> For period 10/01/08 through 12/31/08	\$ 2,733.17
<u>Wentworth, Hauser, and Violich</u> For period 06/01/08 through 12/31/08	\$ 4,053.00
<u>City of Owosso</u> 2008 Audit Costs	\$ 5,600.00
<u>Ronald J. Tobey, City Treasurer</u> Report of Checks Written – December 2008	\$148,191.37
<u>Ronald J. Tobey, City Treasurer</u> Report of Checks Written – January 2009	\$128,919.82

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

COMMUNICATIONS

- o Rigel Capital, LLC – Announcement of G. Kauffman transition
- o Merrill Lynch – Safety Letter

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

- MD Sass: *Opportunities Amidst the Global Meltdown*
- CMA Money Fund: Semi-Annual Report, September 2008
- Gabriel, Roeder, Smith & Company: NewsScan, December 2008 & January 2009
- National City: *Financial Market Outlook, January 2009*
- Corporate Governance: *1st Quarter 2009*
- Merrill Lynch: *Third Quarter Report - CD*
- Institutional Investor: *November 2008 & December 2008/January 2009*

City Attorney Brown expressed concern over the Merrill Lynch Safety Letter saying it seemed to create more questions than answers in that it seems to conflict with other opinions on the stability of Merrill Lynch, though he did note that Merrill Lynch had always done a good job for the City in the past. Merrill Lynch Investment Consultant Vanerian agreed the letter left some questions unanswered. She indicated she would be requesting more information from the office of General Counsel. She went on to note that Merrill Lynch funds are not commingled with the funds of clients and if the company were to go under City investments would not be subject to liquidation to pay off Merrill Lynch debts. City Attorney Brown pointed out the alternative to using Merrill Lynch would be to use a different consulting company, but he had his doubts that other companies would be in better financial positions due to the state of the banking industry. He went on to suggest the Board establish a standing item of business to update the Board on the status of Merrill Lynch's condition. The Board so agreed.

MONEY MANAGER REPORT – Rigel Capital, LLC

Christopher Reynolds, Rigel Capital, LLC Senior Vice President, presented an overview of the 2008 Rigel returns. He indicated the portfolio outperformed the benchmark in the first half of the year but suffered greatly in the second. He felt the cause of the underperformance was due to the fact the market was not functioning in a rational manner and changes were happening very, very rapidly. He did point out that Rigel returns were still beating the benchmark over a 5 year span, including the 2008 calendar year. He felt that while the market was still slowly losing ground it was behaving in a more rational manner in the beginning of 2009 and the portfolio would likely start seeing some gains, with the earliest solid gains coming in the fourth quarter. He noted that the company has made adjustments in profit distributions and employee bonuses to ensure the company will have adequate capital to continue functioning in the current market environment.

He went on to note that company founder George Kaufman had recently been diagnosed with a serious illness making the rigors of participating in day to day operations very difficult. Doctors advised he step down from a direct management position and he had recently made that transition. He will continue to be a part of the board of trustees. In anticipation of his eventual retirement the company had established an operating committee a few years ago. That committee will oversee day to day functions. The company has also appointed an interim CEO with long term money management experience.

OLD BUSINESS

DISCUSSION OF SMALL CAP MONEY MANAGER SEARCH

Merrill Lynch Consultants Muirhead and Vanerian presented the Board with reports on the money managers involved in the search allowing the Board to gain perspective on their performances without taking the exceptional conditions of 2008 into account. Ms. Vanerian indicated she felt a defensive manager may be the best fit for the system but she felt it was important to examine the entire universe of managers to make sure the decision was sound.

NEW BUSINESS

PROPOSED BUDGET 2009-2010

There was a brief discussion. City Treasurer Ronald Tobey detailed each line item for the Board. He indicated he had budgeted for costs the Board may not actually incur, such as individual actuarial studies and managerial studies performed by Merrill Lynch.

Motion by Vice Chairperson Kukulis to recommend the Retirement System budget proposal for 2009-2010 as follows:

Checks, etc	\$300.00
Audit	\$6,100.00
Actuary Fee	\$17,900.00
Conference Expenses	\$3,000.00
Counseling Fee	<u>\$15,000.00</u>
Total	\$42,300.00

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

MAPERS 2009 SPRING CONFERENCE

Motion by Trustee Treadway to approve the attendance of two Board members to the 2009 MAPERS Spring Conference.

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

Chairperson Farrell and Vice Chairperson Kukulis expressed interest in attending the conference.

Motion by Trustee Mitchell to approve the attendance of Chairperson Farrell and Vice Chairperson Kukulis to the 2009 MAPERS Spring Conference.

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

INVESTMENT CONSULTANT REPORT – 4th QUARTER 2008

Merrill Lynch Consultant Vanerian commented on the poor state of the economy and comparisons to the Great Depression. She said the circumstances surrounding the Great Depression including exclusionary tariff policies, poor tax policy and an overly conservative monetary policy were very different from the economic environment today. It appears the Federal Government is trying to take a lesson from history and not repeat the same mistakes. She indicated the credit markets are starting to thaw, which will lead to market recovery, economic recovery and eventually employment recovery. She indicated inflation will be an issue in the near future due to the government pumping funds into the economy, but she went on to say history indicates a steep recovery may be in store.

Ms. Vanerian detailed a government plan to provide public pension programs with guaranteed 8.5% return on bonds, indicating she will research the program to determine if it would be a good fit for the City.

There was discussion whether Franklin Templeton's returns were hurt by the leftover Fifth Third securities. Ms. Vanerian indicated she instructed Franklin not to liquidate the Fifth Third securities just to get rid of them, telling the Board the market will return and the securities will eventually be able to be liquidated without taking a large loss.

There was further discussion regarding the level of funding of the System due to the current economic conditions. It was noted the value of the System was approximately \$34 million at the end of 2007, since then the City has distributed approximately \$1 million in benefits and approximately \$9 million has been lost to the market. The actuarial report should be available in April to give a definite indication as to the condition of the fund and whether the City will have to contribute a substantial amount to keep the required levels.

Ms. Vanerian presented an overview of the following:

Total Portfolio Performance Summary for Period Ending 12/31/2008

	Source of Funds Thousands of Dollars		
	Quarter		Cumulative 12/91-03/08
Beginning Market Value	29,126		16,702
Net Contributions	-380		-12,815
Investment Earnings	-3,930		20,927
Ending Market Value	24,815		24,815

CITIZENS COMMENTS

There were no citizen comments.

NEXT BOARD MEETING

The next board meeting is scheduled for April 16, 2009 at 7:00 a.m.

ADJOURNMENT

Motion by Trustee Bruff for adjournment at 9:20 a.m.

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

Amy K. Kohagen, Owosso City Clerk