

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD**

APRIL 16, 2009

7:00 A.M.

CALL MEETING TO ORDER

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

ROLL CALL

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

ABSENT: Trustee Mark Mitchell.

ALSO

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

APPROVE AGENDA

Motion by Trustee Owen to approve the Agenda as presented with the addition of the March 2009 City of Owosso Employees Retirement Fund Statement and the Rigel Capital 2nd Quarter bill.

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

APPROVE MINUTES OF FEBRUARY 19, 2009 REGULAR MEETING

Motion by Trustee Treadway to approve the Minutes of the February 19, 2009 Regular Meeting as presented.

Motion supported by Trustee McCloskey 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. February 2009 | \$ 123,084.01 |
| b. March 2009 | \$ 123,084.01 |

Approve Statements:

- a. Merrill Lynch Consulting Services
January 31, 2009 Year to Date Summary
- b. Merrill Lynch Consulting Services
February 28, 2009 Year to Date Summary
- c. City of Owosso Employees Retirement Fund
February 28, 2009

d. City of Owosso Employees Retirement Fund
March 31, 2009

Payment Authorizations:

| Payee | Amount |
|--|---------------|
| <u>Rigel Capital, LLC</u> For period 01/01/09 through 06/30/09 | \$ 15,265.96 |
| <u>Ronald J. Tobey, City Treasurer</u> Report of Checks Written – February 2009 | \$153,477.23 |
| <u>Ronald J. Tobey, City Treasurer</u> Report of Checks Written – March 2009 | \$125,367.62 |

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

COMMUNICATIONS

- Merrill Lynch – Direct brokerage coverage of consulting fees for 2009
- Merrill Lynch – Ruling relating to Florida investment advisory representatives

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

- Merrill Lynch: *Fourth Quarter 2008 Report - CD*
- Institutional Investor: *February & March 2009*

OLD BUSINESS

MERRILL LYNCH STATUS REPORT

Merrill Lynch Consultant Vanerian indicated no changes were proposed at the company and things seem to be settling down somewhat.

SMALL CAP MONEY MANAGER SEARCH

Ms. Vanerian indicated the Board would be interviewing three money managers today. She encouraged them to try to understand the philosophy of each company along with their process and performance. She went on to say that the Board needs to find a company that fits the retirement system and has a proven track record of exceeding the benchmark.

NEW BUSINESS

APPLICATION FOR RETIREMENT – FREDRICK DERY

Motion by Trustee Owen to approve the application for retirement from Frederick C. Dery.

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

DIRECTED BROKERAGE AGREEMENT

Ms. Vanerian explained that commission dollars accomplish two things for the system, execute trades and offset consulting fees. She went on to say the SEC had never viewed directed brokerage agreements favorably because it is difficult to track the dollars involved and determine if they were used properly. In anticipation of an SEC ruling eliminating directed brokerage

agreements Merrill Lynch will terminate its directed brokerage agreements with clients on June 30, 2009.

She indicated Merrill Lynch had looked into entering into a commission recapture program which involves a third party directing the soft dollars earned to provide educational opportunities for the Board, pay consulting fees, or issue a check to the system. She went on to say that Merrill Lynch had examined entering into such a relationship with three other financial institutions: Bank of New York, Russell Investment Group, and Knight Capital Group, with Bank of New York and Russell being their first choices.

Ms. Vanerian indicated that under the directed brokerage agreement the system has no consulting fees due for 2009 and it is anticipated there will be approximately \$9000 in soft dollars to carry over into 2010. She suggested the Board consider a commission recapture program and to provide more oversight use the payment option to pay her for her services rather than have the funds directed to her automatically. She went on to say she would ensure any such agreement would be fee neutral to the system and we would not be subject to trade done away fees. She would also remind our money managers to make their trades where the value is best, not necessarily restricting trades to only the Bank of New York and Russell because of the agreement.

Ms. Vanerian said she would have language drafted to ensure the system would not be subject to trade done away fees. She further indicated she would forward on to the Board information on all three of the institutions Merrill Lynch is considering for its commission recapture program and she would speak with all of our current money managers to make sure they could function within such a program.

There was a brief recess at 7:36 a.m., the session resumed at 7:42 a.m.

SMALL CAP MONEY MANAGER INTERVIEWS

GANNETT WELSH & KOTLER, LLC – Regional Director Brian King

Mr. King indicated the company was founded in 1974 and had approximately \$7.5 billion in assets under management. The three founders of the company still participate in the day to day operations of the company. They view themselves as a small conservative company that prides itself on customer service. They look for company stocks with long term sustainable growth potential, free cash flow and low debt. They feel tenured high quality management is a must in any company they purchase. They use a bottom up philosophy and focus on the fundamentals of a company, in addition they pay attention to whether a stock is under/over valued and what people are saying about it. Individual positions will hold no more than 3% of the portfolio. They also cap the value of a company at \$5 billion. They usually maintain between 55-75 names in the portfolio, but are currently in the process of increasing the breadth of the portfolio by adding positions at smaller percentages. Their cash holdings range from 0-5%. Their return on assets is 7.4% compared to the Russell 2000 index at 3.5%. They have 81 total employees and are entirely owned by Affiliated Managers Group.

Mr. King indicated his company would communicate with the Board in any fashion they chose, whether it would be in person or by telephone. The Board would also have the option of choosing with whom they would like to speak.

ATLANTA CAPITAL MANAGEMENT COMPANY, LLC – Vice President of Marketing & Client Service Thomas John Ullman & Portfolio Manager W. Matthew Hereford via telephone

Mr. Ullman indicated the company was founded in 1969 and has approximately \$6 billion under management with small and small to midcap strategies accounting for approximately \$1.3 billion. They are owned by both employees and Eaton Vance Corporation. They aim to exceed client objectives and provide great service.

Mr. Hereford indicated they have a 3-man portfolio team that concentrates on purchasing high quality stocks at a value. They look for companies that have demonstrated long term growth, high return on capital and free cash flow. They take a long term approach to investing and try hard to protect funds on the downside. They use the Russell 2000 as their benchmark. They have a bottom up approach to choosing stocks. They make it a practice to visit each potential company on site and talk to competitors prior to purchasing a stock. History has shown they have been able to capture 80-85% of the upside and 50% of the downside. They will sell stocks if there is a change in management within the company, the company has shown a deterioration in financial quality or they have excessive valuation. Cash holdings are kept to a minimum at 2-5%.

Mr. Ullman indicated the company would be willing to communicate to the Board via conference call or an annual personal visit by a portfolio manager as the Board so chooses.

There was a brief recess.

MESSNER & SMITH INVESTMENT MANAGEMENT LTD – Portfolio Manager Ellis Smith & Director of Marketing Christopher Schrobilgen via telephone

Mr. Schrobilgen indicated the firm was founded in 1984 and they have approximately \$165 million under management. The firm is a small employee owned company that considers itself a boutique firm serving a number of institutional clients and wealthy families. They typically have 35-45 stocks in the portfolio and hold those stocks for 3-5 years. They use a top down, bottom up approach use extensive research to spot themes and trends. They use demographics, technology and societal trends, and explore conferences and trade shows to form these trends. They do not consider themselves benchmark driven. They look for companies with free cash flow and a competitive advantage. They will sell an equity when it grows to more than 10% of the value of the portfolio.

As the founders continue to age they have a succession plan in place to hand the company down to Mrs Schrobilgen and Dukesherer, though Mr. Ellis professes no intention on retiring any time in the near future.

DISCUSSION

There was discussion regarding how each company differed in their approach to purchasing and holding stocks. It was noted Atlanta Capital seemed to have the most experience with pension systems, they also gave a good presentation. There was also discussion regarding Messner & Smith regarding the number of employees they have and their proposed succession plan.

Motion by Trustee Treadway to hire Atlanta Capital Management Company, LLC as the Retirement System's small cap money manager.

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

Trustee Owen noted he was impressed by Messner & Smith because they were underweighted in financials last year and seemed to thing more about their cash position.

CITIZENS COMMENTS

There were no citizen comments.

Gabriel Roeder Smith and Franklin Templeton Investments will present at the upcoming June meeting.

Ms. Vanerian also noted her intention of inquiring with our actuaries about lengthening the smoothing period for City contributions to the System.

NEXT BOARD MEETING

The next board meeting is scheduled for June 18, 2009 at 7:00 a.m.

ADJOURNMENT

Motion by Trustee Owen for adjournment at 10:06 a.m.

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

Amy K. Kohagen, Owosso City Clerk