

**CITY OF OWOSSO
EMPLOYEES' RETIREMENT SYSTEM BOARD OF TRUSTEES
REGULAR MEETING
OWOSSO CITY HALL COUNCIL CHAMBER**

AUGUST 24, 2016

7:15 AM

CALL MEETING TO ORDER:

Chairperson Farrell called the meeting to order at 7:39 a.m.

ROLL CALL:

PRESENT: Trustees Richard Brewbaker, Burton Fox, Elaine Greenway, Andrew Reed, Mark Sedlak, Vice Chairperson Bobbi Jo Perry, and Chairperson Wilfred Farrell.

ABSENT: None.

ALSO

PRESENT: City Attorney William C. Brown; Graystone Institutional Analyst Jimmy Chan; Graystone Institutional Consultant Michael Holycross; City Clerk Amy K. Kirkland; City Treasurer Andrea K. Smith.

APPROVE AGENDA:

Motion by Trustee Fox to approve the Agenda with the following change:

Move New Business before Old Business

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

APPROVE MINUTES OF JUNE 22, 2016 REGULAR MEETING:

Motion by Trustee Brewbaker to accept the minutes of the June 22, 2016 Regular Meeting as presented.

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

CITIZEN COMMENTS:

There were no citizen comments.

CONSENT AGENDA:

Motion by Trustee Greenway to approve the consent agenda as follows:

Approve Pension Check Reports:

a. June 2016	\$ 215,375.09
b. July 2016	\$ 221,428.17

Approve Statements:

- a. Consolidated Statement
For Period 07/01/2016 through 07/31/2016
- b. Atlanta Capital (found under Tab III in the Performance Measurement Report)
2Q 2016
- c. Franklin Templeton Investments (This item was distributed at the meeting.)
2Q 2016
- d. Harding Loevner
2Q 2016
- e. Loomis Sayles/Natixis
2Q 2016
- f. MD Sass
2Q 2016
- g. NFJ/Allianz (found under Tab III in the Performance Measurement Report)
2Q 2016
- h. City of Owosso Employees Retirement Fund
As of June 30, 2016
- i. City of Owosso Employees Retirement Fund
As of June 30, 2016 – after closing entries
- j. City of Owosso Employees Retirement Fund
As of July 31, 2016

Payment Authorizations:

- a. Franklin Templeton Investments
For period 04/01/16 through 06/30/16 \$ 6,724.42
- b. Franklin Templeton Investments – former Fifth Third equities
For period 04/01/16 through 06/30/16 \$ 300.00
- c. Loomis Sayles/Natixis
For period 07/01/16 through 09/30/16 \$ 13,108.18
- d. M.D. Sass
For period 04/01/16 through 06/30/16 \$ 10,836.81
- e. Morgan Stanley – Graystone Consulting
For period 07/01/2016 through 09/30/2016 \$ 19,582.55
- f. Gabriel Roeder Smith & Company
Preparation of 2015 GASB 67/68 valuation \$ 16,000.00
- g. Andrea K. Smith, City Treasurer
Report of Checks Written – June 2016 \$ 300,575.95
- h. Andrea K. Smith, City Treasurer
Report of Checks Written – July 2016 \$ 233,866.19

Death Acknowledgements:

None.

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

COMMUNICATIONS:

- Morgan Stanley – *Reminder regarding managers not covered by GIMA*
- Morgan Stanley – *On the Markets, August 2016*
- Morgan Stanley – *Market Outlook & Commentary, 2Q 2016*
- MD Sass – *Mid-Year 2016 Outlook*

Chairperson Farrell inquired about the communication regarding managers not covered by GIMA. Ms. Kirkland explained that managers not covered by GIMA are firms that are not regularly scrutinized and monitored by Morgan Stanley. The only manager employed by the Board and not covered under GIMA is Franklin Templeton. She went on to say that she felt the firm had done well by the System, handling the former Fifth Third holdings and the navigating the volatile bond market well given the circumstances. The Board was queried to see if anyone was uncomfortable with maintaining Franklin Templeton despite the fact they are not monitored by Morgan Stanley. There were no objections.

NEW BUSINESS:

Application for Retirement – T. Brown

Motion by Trustee Sedlak to approve the application for retirement from Thomas Brown effective September 17, 2016.

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

Chairperson Farrell noted that Trustee Sedlak would be retiring soon as would a number of other current employees leaving few active employees eligible to serve on the Board, particularly in the General City Non-Union group. Now may be the time to take action to formally consider retirees to serve on the Board.

City Attorney Brown said an ordinance amendment would be required and he suggested the Board approve a resolution recommending action by City Council. He went on to say that the Board would need to carefully consider the circumstances under which a retiree could serve as well as which member group they should be selected from. Trustee Sedlak indicated his preference was to replace an active employee representative with a retiree from the same group. For example, if the Board had a vacancy for the General City Union representative seat it could potentially be filled by a General City Union retiree. Vice Chairperson Perry inquired whether Mr. Holycross had any experience with retirees serving on pension boards.

The topic of retiree service on the board was scheduled for discussion at the October meeting.

Morgan Stanley Consultant Michael Holycross and Institutional Analyst Jimmy Chan arrived at approximately 7:55am.

The Board briefly recessed from 7:57am until 7:59am in preparation for money manager interviews.

OLD BUSINESS:

Large Cap Value Manager Interviews

MD SASS (8:00am)**Presenter: Craig C. Barney, Jr., Portfolio Manager**

Prior to the interview Mr. Holycross reminded the Board that MD Sass is solely responsible for the overall underperformance of the entire portfolio.

Mr. Barney introduced himself, saying he had made the initial presentation to the Board ten years ago and that the firm had maintained the same personnel, the same philosophy, and the same process during that time. He openly admitted the performance of the last twelve months has been very disappointing, the firm's worst since the tech stock bubble of the 1990's. He said this type of underperformance can be expected from time to time with their strategy of intentionally choosing stocks for companies that are beaten up but otherwise good then waiting for their value to grow. MD Sass continues to have confidence in their stock picks and feels they are headed for a sustained period of out-performance. That being said, they continue to work their process, talking and debating the stocks in the portfolio each week, constantly trimming or buying when the process calls for it.

Mr. Holycross inquired about succession planning, risk controls, how and when they re-evaluate the portfolio, and how they select new stocks. Finally he asked Mr. Barney why MD Sass hasn't performed as well as some of their peers in the past 12 months. Mr. Barney indicated they are long term investors that prefer a stable market.

There was discussion after Mr. Barney exited the room. Mr. Holycross indicated that despite the market conditions the firm's peers had beaten the benchmark with better stock selection. Vice Chairperson Perry inquired whether it was normal for a manager to stay the course even when they're underperforming. Mr. Holycross said most firms will stick to their process knowing that the market is cyclical and favorable conditions will eventually return.

ARISTOTLE (8:30am)**Presenters: Sandra Incontro, CFA Client Portfolio Manager
Will Averill, Director of Institutional Sales**

Mr. Averill introduced himself and Ms. Incontro then moved directly into the presentation. He indicated that the value strategy is the flagship of their firm with the philosophy and process started over 25 years ago. The company is an independent employee-owned firm and employees are allowed to invest, and do invest, in the portfolio. They use a focused approach averaging between 35-45 positions with a long term horizon of 3 to 5 years. Stock selection drives what they do and turnover is low at approximately 15% - 20%. The portfolio is up 12.3% year to date and has been among the top quartile of large cap value managers for most of the last 15 years. The firm has a 16 member investment team that, by design, consists of a diverse set of individuals of different ages and perspectives that are unified by their goal to outperform the benchmark by 1.5% - 2.5% every day.

The firm believes in investing in quality firms that will weather the inevitable storm and protect the downside. They conduct very deep research into each company and the management of each firm they own. They look for companies with strong balance sheets, strong brand names, and strong management teams. The stocks of target companies need to be undervalued and have event(s) on the horizon that are within management's control that will cause the value of the firm to grow. Risk management is accomplished with diversification and a very disciplined approach to position and sector weightings, the firm will start reviewing a stock pick long before it reaches one of the preset limits. The firm will sell a position when it reaches the preset price target, the catalyst event is realized, fundamentals deteriorate or a better alternative is found. The firm tends to struggle when junk stocks are highly valued.

Consultant Holycross inquired about turnover on the team. Ms. Incontro noted that since 2010 only one analyst has left the firm. She further noted that staff positions were added to the firm over the same period.

Trustee Fox inquired about the number of client accounts the firm gained or lost over the last three years. Mr. Averill indicated he was not aware of any institutional level clients that had terminated their arrangement with the firm, rather the firm has added over 10 new clients.

Ms. Incontro and Mr. Averill were thanked for their presentation and dismissed from the room.

Mr. Holycross noted for the Board that MD Sass and Aristotle shared only 2 stocks in common in their respective portfolios.

DELAWARE INVESTMENTS (9:00am)

**Presenters: Marcus Anderson, Regional Director
Carl Rice, Senior Investment Specialist (via telephone)**

Delaware Investments dates back to 1929 and joined with the Macquarie Group of Australia in 2010. The firm has 9 independent investment teams, of which the Large Cap Value team came to the firm as a group from Merrill Lynch in 2004. The process, strategy and philosophy have changed little since its inception in 1978. The portfolio is condensed with only 33 stocks, they employ a long-term approach holding most stocks for 3 to 5 years, and try to find opportunities when others are in doubt. They believe stock prices are influenced by human emotion and crowd psychology and seek to capitalize on the discrepancy they create, buying at times of excessive pessimism and selling at times of undue optimism. The firm uses a true team-based decision making model where the majority rules, employs a disciplined multi-factor screening process for potential stocks, and mandates diversification of the portfolio across all 10 economic sectors. The team performs extensive in-house research on all prospective firms, spending 2 to 3 months researching each potential holding. Stocks that make it into the portfolio start at 3% and max out at 5%. The team will sell an equity when it reaches its price target, when there are better opportunities elsewhere, when a company's or industry's fundamentals change, when a stock reaches 5% of the portfolio (diversification), and when the team determines a change in sector weights is appropriate.

In closing they noted the portfolio was up 2.8% year to date, though they are looking at taking a more defensive stance in the coming months. Sensing that the market is currently at full value they feel the next 5 to 7 years will bring lower expected returns, thus they are moving to reduce downside risk.

Mr. Anderson and Mr. Rice were thanked for their presentation.

Discussion:

Trustee Brewbaker started off the discussion remarking that he liked both Delaware and Aristotle.

Morgan Stanley Analyst Chan remarked that Delaware and Aristotle were great values, particularly when their fee structures are factored in. He went on to say that MD Sass wasn't a bad firm, but he preferred a manager with more consistent returns. Consultant Holycross indicated that while MD Sass is on the list of managers that clients can hire his firm currently does not work with MD Sass with any of their other clients.

Chairperson Farrell said that while he liked Aristotle he wondered if it was prudent to liquidate the System's MD Sass holdings if they are on the cusp of snapping back. Mr. Holycross suggested the Board blend Sass with another firm, saying he viewed blend as a means of reducing volatility for the overall portfolio as Sass provides more volatility than he would recommend to a client. He further pointed out that while Sass has outperformed the benchmark over the course of the time the System has employed the firm they beat only 40% of their peers over a ten year span.

City Attorney Brown noted that the Board is faced with a tough decision, saying if it were his money he wouldn't liquidate the Sass holdings entirely but would blend Sass with one of the other firms. Consultant Holycross indicated he would be comfortable with a 50%/50% blend. Chairperson Farrell and Trustees Brewbaker and Sedlak expressed a preference for blending. Vice Chairperson Perry and Trustees Fox

and Greenway expressed an interest in replacing MD Sass with Aristotle entirely. Chairperson Farrell asked City Clerk Kirkland her preference as a Retirement System member. She indicated she preferred a blended approach using MD Sass and Aristotle.

City Attorney Brown suggested monitoring MD Sass until the end of the year before making a decision on complete liquidation. He also suggested placing an item on the October and December agendas to discuss their performance. Consultant Holycross said he would put an extra tab in their performance report for the next few meeting. Analyst Chan suggested the Board ask MD Sass for a concession in their fee due to their underperformance.

Motion by Trustee Sedlak to add Aristotle to the portfolio as a large cap value manager, splitting the current allocation 50%/50% between MD Sass and Aristotle, and schedule a review of the blend in the near future.

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

INVESTMENT CONSULTANT REPORT:

2nd Quarter 2016 Performance Measurement Report

Consultant Holycross noted that the portfolio was up 4.25% for the 2nd quarter, though overall it was still down due to the drag caused by MD Sass. Also, Mr. Chan will be talking with NFJ in the coming days regarding their lack of performance over the last few months. Despite these concerns he did not propose or recommend any immediate changes. On a positive note he said it looked like the possibility of a global recession had receded and the markets were responding positively.

CITIZEN COMMENTS:

There were no citizen comments.

NEXT BOARD MEETING:

The next board meeting is scheduled for October 26, 2016 at 7:15am

ADJOURNMENT:

The meeting was adjourned at 10:46 a.m.

Amy K. Kirkland, City Clerk