

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD**

AUGUST 16, 2012

7:15 AM

CALL MEETING TO ORDER:

Chairperson Farrell called the meeting to order at 7:16 a.m.

ROLL CALL:

PRESENT: Trustees Thomas Cook, Michael McCloskey, Ronald Pearsall, Mark Sedlak, Vice Chairperson Mark Mitchell and Chairperson Wilfred Farrell.

ABSENT: Trustee Michael Erfourth.

ALSO

PRESENT: Gabriel Roeder Smith & Company Actuary Ken Alberts; City Attorney William C. Brown; City Clerk Amy K. Kirkland; Merrill Lynch Advisor Maral Thomas; City Treasurer Ronald J. Tobey; and Merrill Lynch Investment Consultant Marie Vanerian;

APPROVE AGENDA:

Motion by Vice Chairperson Mitchell to approve the Agenda with the following additions to New Business:

Merrill Lynch Disciplinary Action
Merrill Lynch removal of Aletheia from recommended managers

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

APPROVE MINUTES OF JUNE 13, 2012 SPECIAL MEETING:

Motion by Trustee Cook to accept the minutes of the June 13, 2012 Special Meeting as presented.

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

APPROVE MINUTES OF JUNE 21, 2012 REGULAR MEETING:

Motion by Trustee Cook to accept the minutes of the June 21, 2012 Regular Meeting as presented.

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

CITIZEN COMMENTS:

There were no citizen comments.

CONSENT AGENDA:

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

1. Approve Pension Check Reports:

a. June 2012	\$ 167,647.07
b. July 2012	\$ 167,647.07

2. Approve Statements:

- a. Aletheia
As of June 29, 2012
- b. Atlanta Capital
As of June 29, 2012
- c. MD Sass
As of June 30, 2012
- d. WHV Investment Management
As of June 30, 2012
- e. City of Owosso Employees Retirement Fund
June 30, 2012
- f. City of Owosso Employees Retirement Fund
Year End - June 30, 2012

3. Payment Authorizations:

- | | | |
|----|--|---|
| a. | For period 04/01/12 through 06/30/12 | <u>MD Sass</u>
\$ 9,867.59 |
| b. | <u>WHV Investment Management</u>
For period 04/01/12 through 06/30/12 | \$ 3,878.00 |
| c. | For period 04/01/12 through 06/30/12 | <u>Franklin Templeton Investments</u>
\$ 8,642.07 |
| d. | SIK
For period 04/01/12 through 06/30/12 | <u>Franklin Templeton Investments –</u>
\$ 300.00 |
| e. | For period 07/01/12 through 09/30/12 | <u>Merrill Lynch - Atlanta</u>
\$ 5,224.14 |
| f. | For period 07/01/2011 through 06/30/2012 | <u>Gabriel Roeder Smith & Company</u>
\$ 20,700.00 |
| g. | Report of Checks Written – June 2012 | <u>Ronald J. Tobey, City Treasurer</u>
\$ 232,751.02 |
| h. | Report of Checks Written – July 2012 | <u>Ronald J. Tobey, City Treasurer</u>
\$ 169,281.02 |

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

COMMUNICATIONS:

- Gabriel Roeder & Smith – Letter of proposed fess FY 2012-2013
- Hirayama Investments – *International Global Commentary*
- Merrill Lynch – *Market Focus, 2nd Quarter 2012*
- Gabriel Roeder & Smith – *NewsScan July 2012*
- MD Sass – *Investment Outlook & Strategy Commentary*

OLD BUSINESS:

MERRILL LYNCH STATUS REPORT

Merrill Lynch Investment Consultant Marie Vanerian indicated there was nothing new to report. She said earnings were up for the quarter.

NEW BUSINESS:

CITY OF OWOSSO EMPLOYEES RETIREMENT SYSTEM 67TH ANNUAL ACTUARIAL VALUATION

Ken Alberts, Actuary with Gabriel Roeder Smith & Company, presented the 2011 Actuarial Report. He indicated that in addition to this year's experienced loss of \$812,000 the System is still realizing a portion of the large losses experienced in 2008 meaning contributions will again have to rise to meet funding requirements. This increase was partially offset by the release of 25% of the Contingency Fund.

Mr. Alberts noted that the size of the System is small with 77 active members and 77 retired members and that as the active group gets smaller over time it will become more and more difficult to sustain the contributions that will be required to keep the System fully funded. There was significant discussion regarding the effects of closing the plan, spinning off the groups that remain open to allow a millage supporting their portion of the system to be levied, the effect new accounting rules will have on the plan, and using the same accounting method for all of the groups in the System whether they are open or closed.

Mr. Alberts proposed assembling a preliminary actuarial report utilizing two separate accounting methods to allow the Board to examine the options and make a decision going forward. He anticipated the cost of preparing the additional information would be approximately \$1,000.

The following are comments from the report:

Funding: *The System was closed to Union new entrants effective January 1, 2005 and Non-Union new entrants effective January 1, 2006, except for the Police Patrol and Fire groups. Contributions for groups closed to new entrants are based on the Aggregate Actuarial Cost funding method. Contributions for open groups are based on the Entry Age Actuarial Cost funding method. Under the recently adopted GASB statements, systems and employers will be required to report and expense retirement benefits using the Entry Age Actuarial Cost Method for plan years beginning after 2014 (plan) or 2015 (employer). Although there will be other differences between the funding calculations and the reporting calculations, we recommend that the Board consider moving the funding to the Entry Age Actuarial Cost Method for all groups to minimize the differences between the funding calculations and the reporting calculations. Such a change could be implemented with the 2012 or 2013 annual valuations.*

For the Police Patrol and Fire groups, the difference between the accrued assets (net of the Retiree Contingency Reserve) and the accrued liabilities was amortized over a 10 year period as a level percent of payroll. For the Police Patrol, this had the effect of lowering the computed contributions because accrued assets currently exceed accrued liabilities. For Fire, this had the effect of increasing contributions because accrued liabilities exceeded accrued assets.

The City's contribution rate for the Police Patrol group is limited to 4% of covered payroll. This results in a calculated member rate of 9.90% of payroll for Police Patrol members for the fiscal year beginning July 1, 2012.

Actuarial Experience: *Experience during the year was less favorable than assumed. The primary source of unfavorable experience was investment activity. The funding value of assets recognized rate of return was (1.62)% compared to an assumed rate of 7.5%. This loss was partially offset by gains due to pay increases. Average pays increased by 0.7% compared to an assumed increase of 4.5%. The net*

result is an increase in contributions for each division. For the Police Patrol, the increase is mostly in the employee rate due to the employer cap. For other divisions, the increase is in the employer rate.

Plan Provisions: All plan provisions remain unchanged from the prior valuation.

Contingency Reserve: After much discussion and analysis, the Board decided to transfer ¼ of the contingency reserve to the reserve for employer contributions to mitigate the increase in the contributions that would have otherwise occurred. Page A-4, shows the history of the contingency reserve by group and indicates the value of the contingency reserve as of December 31, 2011 both before and after the transfer.

Looking Ahead: Before accounting for experience in 2012 and any other system or method changes, the contributions rates for 2013 are expected to be very similar to the rates developed for 2012. However, there will be additional upward pressure on contribution rates for 2014 due to the smoothing of past investment gains and losses (see page B-11 for details), unless offset by other experience gains during the next 2 years.

Motion by Trustee McCloskey to accept the 2011 Annual Actuarial Report as presented.

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

Full text of the 2011 City of Owosso Employees Retirement System Actuarial Report is available in the Clerk's Office.

APPLICATION FOR RETIREMENT - DANIEL ROEDEL

Vice Chairperson Mitchell indicated how much the City would miss the contributions made by Mr. Roedel saying he was an extraordinary talent and the City was losing a great asset.

Motion by Vice Chairperson Mitchell to approve the application for retirement for Daniel Roedel.

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

2011 SUMMARY ANNUAL REPORT AND LIST OF EXPENSES PAID BY SOFT DOLLARS REPORT

City Treasurer Ronald J. Tobey indicated that soft dollars are no longer generated and this year's report was generated with what remained of the soft dollars from 2011. He went on to say that the soft dollar portion of the Report would be eliminated going forward.

Motion by Trustee Cook to accept the 2011 Summary Annual Report and List of Expenses Paid by Soft Dollars Report as follows:

CITY OF OWOSSO EMPLOYEES RETIREMENT SYSTEM

2011 Summary Annual Report and List of Expenses Paid by Soft Dollars

The Public Employees Retirement System Investment Act requires the City of Owosso Employees Retirement System to prepare and issue a summary annual report and to publish and make available annually a list of all expenses paid by soft dollars. The following information is provided for the year 2011.

The name of the retirement system is the City of Owosso Employees Retirement System. The Retirement System's investment fiduciaries are:

BOARD OF TRUSTEES:

Thomas Cook
Michael Erfourth
Wilfred Farrell
Frances Kukulis
Michael McCloskey
Mark Mitchell
Ronald Pearsall

INVESTMENT MANAGERS:

Aletheia
Alliance Bernstein
Atlanta Capital
Franklin Templeton
M D Sass
Wentworth Hauser & Violich

As reported in the actuarial valuation for the annual period ending December 31, 2011 the Retirement System's valuation assets were \$29,624,891 and its actuarial accrued liabilities were \$33,523,677, which produced a funded ratio of 88.4.

For the annual period ending December 31, 2011 the Retirement System's investment performance on a mark to market basis (gross of manager fees and net of transaction costs) was -2.3%. On December 31, 2011 the market value of the assets was \$28,253,642.

For the annual period ending December 31, 2011 the Retirement System's non-soft dollar expenses were \$226,661 and benefit payments and member refunds were \$1,963,063. No expenses were paid by soft dollars during the year. Employer contributions required for the year covered by the report total \$829,038.

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

City Attorney William C. Brown inquired whether someone was or should be monitoring class action suits against some of the firms the System may have held in its holdings over time. Merrill Lynch Advisor Marie Vanerian indicated they monitored class action suits as a part of the service package they provide. She indicated she would be happy to generate an annual report summarizing what actions were filed and what monies were received.

ML DISCIPLINARY EVENT (added to the agenda)

The Board had received notice prior to the meeting that Merrill Lynch was being fined and censured by the Financial Industry Regulatory Authority for five issues involving billing oversight systems, reporting violations, and failures to disclose pertinent information to clients. The reported issues were discovered as a part of a self-audit and Merrill Lynch was credited by FINRA for identifying the violations and taking remedial action. Ms. Vanerian addressed the Board on this item saying the violations affected less than 1% of the firm's clients and written confirmation was presented verifying the System was not part of the affected group. She noted impacted clients would be made whole.

ML ALETHEIA REMOVAL

The Board had received notice prior to the meeting that Merrill Lynch was removing Aletheia Large Cap Growth from its Strategic Portfolio Advisor program and ceasing to perform due diligence reviews on the firm. The reasons given for the removal were the ongoing decline of assets under management, adverse market action, underperformance, and client outflows. Review of the client/manager relationship was encouraged to determine whether the System would be comfortable staying with the firm.

Merrill Lynch Advisor Vanerian suggested the loss of assets under management may make it impossible for the firm to generate good returns. She recommended the Board conduct a search for a replacement.

There was discussion regarding the SEC violations the firm garnered last year and why Merrill Lynch continued to recommend them at that time.

Ms. Vanerian posed three options for the Board:

1. Continue with Aletheia as a money manager
2. Move the invested funds to an iShares account while a search for a replacement is undertaken
3. Move the invested funds to an iShares account on a permanent basis

There was discussion regarding the advantages and disadvantages of index funds. Ms. Vanerian suggested moving the money to an index fund as a low-risk, low-cost placeholder while other options are explored.

Motion by Trustee Cook to start a search for a new large cap growth money manager and to move the funds currently invested with Aletheia to and iShares account.

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

City Attorney Brown requested a review of the search completed 2 years ago when Aletheia was hired.

INVESTMENT CONSULTANT REPORT 2ND QUARTER 2012

Global issues such as civil unrest, the Eurozone monetary crisis and unresolved U.S. fiscal problems continue to drag down the economy worldwide. The first quarter of 2012 saw improvements but the 2nd quarter was decidedly down.

She reported that MD Sass, Atlanta, and Aletheia were all trailing the benchmark while Franklin exceeded their benchmark by 50%. The System had earned \$1.2 million for the year.

Trustee Cook inquired about asset allocation and when the last asset allocation study had been performed. It was not the last study was performed 3 years ago and the Board could count on using that allocation for 3-5 years if there were no material changes in the investing environment.

Ms. Vanerian presented an overview of the following:

Total Portfolio Performance Summary for Period Ending 06/30/2012

	Source of Funds Thousands of Dollars		
	Quarter		Cumulative 12/91-06/12
Beginning Market Value	29,524		16,526
Net Contributions	-545		-18,143
Investment Earnings	-1,228		29,366
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Ending Market Value	27,750		27,750

CITIZENS COMMENT:

There were no citizen comments.

NEXT BOARD MEETING:

The next board meeting is scheduled for October 18, 2012 at 7:15am

ADJOURNMENT:

Motion by Trustee Cook for adjournment at 9:09 a.m.

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

Amy K. Kirkland, City Clerk