

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD**

OCTOBER 17, 2013

7:15 AM

CALL MEETING TO ORDER:

Vice Chairperson Mitchell called the meeting to order at 7:15 a.m.

ROLL CALL:

PRESENT: Trustees Thomas Cook (arrived at 7:23 a.m.), Michael Erfourth, Paul Kleeman, Ronald Pearsall, Mark Sedlak, and Vice Chairperson Mark Mitchell.

ABSENT: Chairperson Wilfred Farrell.

ALSO

PRESENT: City Clerk Amy K. Kirkland; Attorney Matthew Stuart (serving in the absence of City Attorney William Brown); Merrill Lynch Advisor Maral Thomas; City Treasurer Ronald J. Tobey; and Merrill Lynch Investment Consultant Marie Vanerian;

APPROVE AGENDA:

Motion by Trustee Erfourth to approve the Agenda with the addition of the following invoices received since the packet was distributed to Payment Authorizations:

<u>Merrill Lynch – NFJ Allianz</u> Adjustment for period 01/01/13 through 03/31/13	\$ 76.58
<u>Franklin Templeton Investments</u> For period 07/01/13 through 09/30/13	\$ 8,698.01
<u>Franklin Templeton Investments – former Fifth Third equities</u> For period 07/01/13 through 09/30/13	\$ 300.00
<u>Merrill Lynch – Loomis Sayles</u> For period 10/01/13 through 12/31/13	\$ 10,728.20
<u>Merrill Lynch – MD Sass</u> For period 10/01/13 through 12/31/13	\$ 10,602.96
<u>Merrill Lynch – NFJ Allianz</u> For period 10/01/13 through 12/31/13	\$ 2,265.93

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

APPROVE MINUTES OF AUGUST 15, 2013 ORGANIZATIONAL MEETING:

Motion by Trustee Erfourth to accept the minutes of the August 15, 2013 Organizational Meeting as presented.

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

APPROVE MINUTES OF AUGUST 15, 2013 REGULAR MEETING:

Motion by Trustee Erfourth to accept the minutes of the August 15, 2013 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 Erfourth to approve the consent agenda as follows:

1. Approve Pension Check Reports:

- | | |
|-------------------|---------------|
| a. August 2013 | \$ 193,825.76 |
| b. September 2013 | \$ 199,842.92 |

2. Approve Statements:

- a. Atlanta Capital
As of June 28, 2013
- b. Loomis Sayles
As of June 28, 2013
- c. NFJ Allianz
As of June 28, 2013
- d. City of Owosso Employees Retirement Fund
July 31, 2013
- e. City of Owosso Employees Retirement Fund
August 31, 2013
- f. City of Owosso Employees Retirement Fund
September 30, 2013

3. Payment Authorizations:

- | | |
|--|--------------|
| a. <u>Merrill Lynch – NFJ Allianz</u> (added)
Adjustment for period 01/01/13 through 03/31/13 | \$ 76.58 |
| b. <u>Ronald J. Tobey, City Treasurer</u>
Report of Checks Written – August 2013 | \$253,812.57 |
| c. <u>Ronald J. Tobey, City Treasurer</u>
Report of Checks Written – September 2013 | \$201,560.66 |
| d. <u>Franklin Templeton Investments</u> (added)
For period 07/01/13 through 09/30/13 | \$ 8,698.01 |
| e. <u>Franklin Templeton Investments</u> – former Fifth Third equities (added)
For period 07/01/13 through 09/30/13 | \$ 300.00 |

- | | | |
|----|--|--------------|
| f. | <u>Merrill Lynch – Loomis Sayles</u> (added)
For period 10/01/13 through 12/31/13 | \$ 10,728.20 |
| g. | <u>Merrill Lynch – MD Sass</u> (added)
For period 10/01/13 through 12/31/13 | \$ 10,602.96 |
| h. | <u>Merrill Lynch – NFJ Allianz</u> (added)
For period 10/01/13 through 12/31/13 | \$ 2,265.93 |

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

COMMUNICATIONS:

- o Merrill Lynch – *Market Focus, 2nd Quarter 2013*
- o Gabriel Roeder & Smith – *NewsScan August 26, 2013*
- o Gabriel Roeder & Smith – *NewsScan September 13, 2013*
- o Gabriel Roeder & Smith – *NewsScan September 30, 2013*

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: *Comprehensive AIM Report, Q2 DVD*
- Gabriel Roeder Smith: *Actuarial Methods and Public Pension Funding Objectives: An Empirical Examination*

Trustee Cook arrives at 7:23 p.m.

OLD BUSINESS:

MERRILL LYNCH STATUS REPORT

Merrill Lynch Investment Consultant Marie Vanerian indicated the third quarter report for Merrill Lynch came out yesterday and was quite positive. She indicated the firm was getting stronger all the time.

NEW BUSINESS:

ASSET ALLOCATION STUDY REVIEW

(This item was carried over from the August 15, 2013 meeting at the request of the Board.)

Merrill Lynch Consultant Vanerian briefly detailed the difference between strategic asset allocation and tactical asset allocation, the effects of adding a new asset class, how cash on hand is used to accommodate distributions from the system, and how to look for asset classes that have a low correlation.

She went on to explain that the biggest asset allocation of concern is fixed income. Given the fact that interest rates are artificially low it is widely felt that rates will rise in the coming years to the detriment of bond prices. The System currently allocates between 35%-45% of its funds to fixed income investments, with a target of 41%. Due to the strains on the bond market the System is currently holding only 36% in fixed income and its fixed income manager, Franklin Templeton, is working to maintain capital through this period by foregoing long-term bonds and sticking to mid-term and short-term investments. Despite the fact that the bond market is strained at best and the fact that revisions to PA 347 now allow municipalities to reduce their fixed income exposures to nothing she did not recommend the System make such a drastic move.

The study proposed four different allocation breakdowns with a five year time horizon: moderate, moderate-aggressive, moderate with alternate investments, and moderate-aggressive with alternate

investments (with alternate investments being real estate and other investments). In light of the fact that Trustees Cook and Erfourth had significant financial experience and the fact their Council terms would be ending in November Vice Chairperson Mitchell inquired about their thoughts on the study and their recommendations for the Board.

Trustee Erfourth said he thought the economy was now in an upswing and the Board could see significant results by moving to a more aggressive allocation but he cautioned that any moves to do so would need to be countered at the right time in the future when the market ebbs again. He said he would feel comfortable scaling fixed income investments back to 30% and would be comfortable going as low as 20%-25%.

Trustee Cook said he felt it made sense to reduce exposure to bonds, but the bigger question was where to put the money that would be made available in the reduction. He recommended the Board consider diversifying the portfolio, but at the same time cautioned them that some alternative investments have a much higher rate of volatility.

Ms. Vanerian indicated she too was in favor of expanding the System's diversity, saying the System already owned far more equities than most public pension plans.

Motion by Trustee Erfourth to set the target for the fixed income allocation at 30%, with a range of 25%-35%.

Motion supported by Trustee Pearsall.

Roll call vote.

AYES: Vice Chairperson Mitchell, Trustees Cook, Erfourth, Kleeman, Pearsall, and Sedlak.

NAYS: None.

ABSENT: Chairperson Farrell.

Merrill Lynch Consultant Vanerian indicated that now that the Board had decided on a new allocation she would put together examples of different mixes of investments for the Board to consider at the next meeting. She indicated that adding an asset class will do one of two things: reduce risk or increase returns. And the Board would need to think about which of those results they felt more comfortable with.

Trustee Erfourth left the meeting at 8:22 a.m.

Ms. Vanerian said distributions would continue to be taken from the fixed income allocation to further reduce the exposure while the Board examines their options for adding another asset class in the next couple of months.

SCHEDULE MONEY MANAGER REVIEW

Vice Chairperson Mitchell inquired whether any members had a preference as to which manager presented in December.

There was discussion regarding bringing Atlanta Capital in since the Board has not visited with them since their hire. It was suggested Atlanta be approached but for the February meeting to allow ample time for a continuation of the asset allocation discussion in December.

It was agreed that Atlanta Capital would be invited to attend the February 2014 meeting.

Merrill Lynch Consultant Vanerian indicated that WHV had just executed an agreement with Merrill Lynch to offer their services on one of Merrill's platforms. As such fees for their services could be reduced by as

much as \$9,000 per year if the Board authorizes a switch from direct billing to a UMA account, similar to that for NFJ and Loomis Sayles.

Motion by Trustee Cook to amend the agreement with WHV from direct billing to the Merrill Lynch UMA platform.

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

CITIZENS COMMENT:

There were no citizen comments.

NEXT BOARD MEETING:

The next board meeting is scheduled for December 19, 2013 at 7:15am

ADJOURNMENT:

Motion by Trustee Pearsall for adjournment at 8:34 a.m.

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

Amy K. Kirkland, City Clerk