

**CITY OF OWOSSO  
EMPLOYEES RETIREMENT SYSTEM BOARD**

**DECEMBER 19, 2013**

**7:15 AM**

**CALL MEETING TO ORDER:**

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

**ROLL CALL:**

**PRESENT:** Trustees Burton Fox, Paul Kleeman, Ronald Pearsall, Mark Sedlak, Bobbi Jo Williams, and Chairperson Wilfred Farrell.

**ABSENT:** None. (One vacancy.)

**ALSO**

**PRESENT:** Firefighters Patrick Bradley and Rick Brewbaker; City Attorney William C. Brown; City Clerk Amy K. Kirkland; Merrill Lynch Advisor Maral Thomas; and City Treasurer Ronald J. Tobey.

**APPROVE AGENDA:**

Motion by Trustee Fox to approve the Agenda with the following addition of New Business #9:

Actuarial Method Change Consideration

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

**APPROVE MINUTES OF JUNE 13, 2012 SPECIAL MEETING:**

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

Motion supported Trustee Sedlak and concurred in by unanimous vote.

**CITIZEN COMMENTS:**

There were no citizen comments.

**CONSENT AGENDA:**

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

1. Approve Pension Check Reports:

- |                  |               |
|------------------|---------------|
| a. October 2013  | \$ 196,907.44 |
| b. November 2013 | \$ 195,975.11 |

2. Approve Statements:

- a. Atlanta Capital  
As of September 30, 2013
  
- b. Franklin Templeton Investments  
As of September 30, 2013

- c. Loomis Sayles  
As of September 30, 2013
- d. MD Sass  
As of September 30, 2013
- e. NFJ/Allianz  
As of September 30, 2013
- f. WHV  
As of September 30, 2013
- g. Russell Investments – Commission Recapture  
As of September 30, 2013
- h. City of Owosso Employees Retirement Fund  
October 31, 2013
- i. City of Owosso Employees Retirement Fund  
November 30, 2013

3. Payment Authorizations:

- a. Merrill Lynch – Atlanta Capital  
For period 10/01/13 through 12/31/13 \$ 4,724.76
- b. Merrill Lynch - WHV  
For period 10/17/13 through 12/31/13 \$ 2,488.76
- c. WHV  
For period 07/01/13 through 09/30/13 \$ 4,524.00
- d. WHV  
For period 10/01/13 through 10/16/13 \$ 801.00
- e. Ronald J. Tobey, City Treasurer  
Report of Checks Written – October 2013 \$231,296.86
- f. Ronald J. Tobey, City Treasurer  
Report of Checks Written – November 2013 \$197,692.85

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

**COMMUNICATIONS:**

- o Rodwan Consulting – *Maximum Benefit and Contribution Limits for 2014*
- o Hirayama Investments – *International Global Commentary*
- o Merrill Lynch – *Market Focus, 3<sup>rd</sup> Quarter 2013*
- o Russell Investments – *The impact of rising rates on expected contributions*
- o TIAA Cref – *DOMA decision requires action from plan sponsors*
- o Gabriel Roeder & Smith – *NewsScan October 21, 2013*
- o Gabriel Roeder & Smith – *NewsScan November 7, 2013*
- o Gabriel Roeder & Smith – *NewsScan November 25, 2013*

**OLD BUSINESS:**

**MERRILL LYNCH STATUS REPORT**

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

**ASSET ALLOCATION DISCUSSION POSTPONEMENT**

Chairperson Farrell noted that at the last couple of meetings the Board has been discussing asset allocation. In August the Board voted to lower the level of funds in the Fixed Income allocation due to anticipated pressures in the bond market. Since that time the Board has been discussing where to invest the funds, but because of the large number of new members and the continued vacancy on the Board Chairperson Farrell recommended the discussion be postponed until a full complement of members are seated.

City Attorney Brown inquired where the funds would be invested in the mean-time. Merrill Lynch Consultant Maral Thomas indicated that the fixed income allocation currently sits at 35%, which is still in line with the newly adopted reduced range for the allocation. And any disbursements needed in the coming months will be taken from the fixed asset account to ensure it stays within the newly adopted range. Ms. Thomas went on to say that Merrill Lynch Consultant Vanerian had stated that she felt no sense of urgency to move the funds to a place-holder investment. Chairperson Farrell indicated the Board will continue down that road unless someone objects.

**NEW BUSINESS:**

**ELECT VICE CHAIRPERSON**

Chairperson Farrell asked if Trustee Sedlak would be interested in the position since Trustee Pearsall is retiring he will be the longest standing member of the Board next to himself. Trustee Sedlak indicated he would accept the position.

Motion by Trustee Fox to appoint Trustee Sedlak as the Vice Chairperson.

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

**APPLICATION FOR RETIREMENT – B. GROLL**

Motion by Vice Chairperson Sedlak to approve the application for retirement from Bradley Groll effective December 28, 2013.

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

**APPLICATION FOR RETIREMENT – M. BUSH**

Motion by Vice Chairperson Sedlak to approve the application for retirement from Michael Bush effective December 28, 2013.

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

**APPLICATION FOR RETIREMENT – R. PEARSALL**

Chairperson Farrell thanked Trustee Pearsall for his service on the Board.

Trustee Pearsall said he had enjoyed his term on the Board and wished he had joined the Board earlier.

Motion by Trustee Williams to approve the application for retirement from Ronald Pearsall effective December 28, 2013.

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

### **RETIREE SERVICE ON THE BOARD OF TRUSTEES**

Chairperson Farrell indicated that the Board has had brief discussions regarding allowing retirees to serve on the Board in the past but the recent heavy turnover on the Board and the fact that the number of employees eligible to serve continues to dwindle has brought the conversation to the forefront.

There was discussion regarding what group a retiree Trustee would represent, whether a retiree would serve in place of an employee representative or whether the size of the Board would increase, how long it would take to affect such changes, and how retirees would be elected/appointed. Chairperson Farrell inquired whether Merrill Lynch Consultant Thomas was aware of any other pension boards that allowed retirees to serve, she indicated she was not.

Chairperson Farrell noted the ideas discussed and said that today's discussion was simply an effort to gauge the feelings of the Board and gather facts to frame a potential future discussion that would be more substantive.

City Attorney Brown indicated that any changes to the make-up of the Board would require an ordinance amendment approved by City Council and a written opinion from him regarding the legality of retirees serving on the Board.

The Board was in consensus that the idea should be explored further. Chairperson asked that the item be added to the February agenda.

### **EDUCATION BUDGET**

Chairperson Farrell prepped the topic saying the Board sets a budget annually and part of that budget is a line item to fund training for board members. The Michigan Association of Public Employee Retirement Systems hosts two conferences each year that offer excellent training opportunities, specifically the session for new board members. Past practice has been to budget enough to allow two board members to attend a conference each year but in light of the fact that so many of the Board members are new he felt it was prudent to consider increasing the training budget to allow more Trustees to attend.

Trustee Pearsall, Chairperson Farrell and City Attorney Brown, as past attendees, encouraged the Board members to attend one of the conferences.

Merrill Lynch Consultant Thomas indicated that MAPERS posts information from its conference sessions on its web page if members wanted to explore the conference a little further.

Chairperson Farrell asked that this discussion be taken into consideration when the budget for the Board is presented in February.

### **PA 347**

Merrill Lynch Consultant Thomas distributed handouts containing the text of PA 314 which governs public pension systems with the amendments from PA 347 highlighted. She encouraged everyone to look over the legislation in preparation for a discussion during the February meeting. She also distributed business cards with phone and email contacts should anyone have any questions.

## **FEBRUARY MEETING DATE CHANGE**

Ms. Thomas indicated that her firm has a week-long conference scheduled the week of the Board's February meeting and the conference unfortunately could not be rescheduled.

There was discussion about when to meet and what to place on the agenda.

It was agreed the meeting would be shifted to Thursday, February 13, 2014 at 7:15 a.m. and the money manager review with Atlanta Capital would be included if at all possible.

## **ACTUARIAL METHOD CHANGE** (Added to the agenda.)

Chairperson Farrell noted that GASB rules implemented last year will require the System to use the Entry Age Actuarial Cost Method to report and expense benefits starting in 2015. The System currently uses the Aggregate Actuarial Cost funding method for all closed groups and the Entry Age Method for open groups. If the Board were to continue to use the Aggregate Method the System will incur greater costs for the actuarial report each year as many of the calculations will have to be performed twice. And there is further advantage in using the Entry Age Method for all groups in that it will result in a more even funding contribution on behalf of the City, allowing them to better budget for its annual contribution. The proposal before the Board today would be to consider changing to the Entry Age Method for all groups for the 2013 actuarial valuation. He went on to say that he recommended the change and didn't see any issues with it. (Later reference noted the actuaries had recommended the change.)

Motion by Vice Chairperson Sedlak to change the actuarial valuation method to the Entry Age Method for all groups in the Retirement System.

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

## **INVESTMENT CONSULTANT REPORT**

City Attorney Brown asked Merrill Lynch Consultant Thomas to explain the roles of the consultant and the money managers for the new members.

Ms. Thomas indicated that Merrill Lynch works as the liaison between the Plan/Board and the money managers, while the money managers do the actual investing. She explained that the System has hired 6 managers to invest its money each having gone through a vetting process with Merrill Lynch and having been interviewed, questioned, and selected by the Board. All investments are governed by the System's Investment Policy which sets limits for the types of investments the System can hold and the mix of investment types. She indicated it may be helpful to conduct an overview of the investment policy at the February meeting.

She went on to present the quarterly report detailing each section of the report for the benefit of the new members.

City Attorney Brown gave a brief history of Merrill Lynch's involvement with the Board saying that when he came on board in the early 1990's all of the System's money was invested with Old Kent Bank. Around that time the System's actuary reported that, unbeknownst to the Board, Old Kent Bank had sold all of the System's investments and were in the process of investing in other things. The Board questioned the Bank but did not receive satisfactory answers and so moved the advisory/investment capacity to Merrill Lynch. Ms. Thomas indicated that unlike the Bank Merrill Lynch does not directly invest the System's funds but assists the Board in hiring and managing professional money managers to do the investing. They constantly monitor all of the managers and report any significant activity to the Board chair. At this point Chairperson Farrell indicated it may be beneficial for Merrill Lynch to be prepared to share its fee structure to the new members at the next meeting. He went on to note that there are many other consulting firms in the universe and Board members may receive solicitations from other firms and the Board is free to act on those solicitations if they feel it is prudent.

**Total Portfolio Performance Summary for Period Ending 09/30/2013**

	Source of Funds Thousands of Dollars		
	Quarter		Cumulative 3/93-06/13
Beginning Market Value	29,657		18,746
Net Contributions	-4		-19,596
Investment Earnings	1,764		32,267
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<b>Ending Market Value</b>	<b>31,418</b>		<b>31,418</b>

**CITIZEN COMMENTS:**

Fireman Rick Brewbaker inquired whether there would be an additional seat added to the Board for a retiree representative or if a retiree would just serve in place of an active employee. Chairperson Farrell indicated that the question was difficult to answer without first exploring all of the options, but he thought that a retiree would serve only if an active employee was unavailable.

Former Board Vice Chairperson Mark Mitchell inquired how the markets would react to the Fed backing off on their bond buying activities. Ms. Thomas reported that the markets responded quite well to the news rising 300 points the previous day. Mr. Mitchell continued, speaking directly to the new members saying they should trust the Board chair and Merrill Lynch as they have both served the System well.

Chairperson Farrell thanked Mark Mitchell and Ron Pearsall for their contributions to the Board. He noted the learning curve that is present for all new members and the challenges that the Board will face with a slate of new members.

**NEXT BOARD MEETING:**

The next board meeting is scheduled for February 20, 2014 at 7:15am

**ADJOURNMENT:**

Motion by Trustee Pearsall for adjournment at 8:33 a.m.

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

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Amy K. Kirkland, City Clerk