

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD**

JUNE 19, 2014

7:15 AM

CALL MEETING TO ORDER:

Vice Chairperson Sedlak called the meeting to order at 7:18 a.m.

ROLL CALL:

PRESENT: Trustees Richard Brewbaker, Burton Fox, Elaine Greenway, Paul Kleeman, Bobbi Jo Perry, and Vice Chairperson Mark Sedlak.

ABSENT: Chairperson Wilfred Farrell.

ALSO

PRESENT: Gabriel Roeder Smith Actuary Kenneth Alberts; City Attorney William C. Brown; City Clerk Amy K. Kirkland; Gabriel Roeder Smith Actuary Laura Pfeffer; Merrill Lynch Advisor Maral Thomas; City Treasurer Ronald J. Tobey; and Atlanta Capital representative John Ullman.

APPROVE AGENDA:

Motion by Trustee Fox to approve the Agenda as presented.

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

APPROVE MINUTES OF APRIL 23, 2014 REGULAR MEETING:

Motion by Trustee Fox to accept the minutes of the April 23, 2014 Regular Meeting as presented.

Motion supported Trustee Perry and concurred in by unanimous vote.

CITIZEN COMMENTS:

There were no citizen comments.

CONSENT AGENDA:

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

1. Approve Pension Check Reports:

- | | |
|---------------|---------------|
| a. April 2014 | \$ 203,586.35 |
| b. May 2014 | \$ 203,586.35 |

2. Approve Statements:

- a. Atlanta Capital
As of March 31, 2014
- b. MD Sass
As of March 31, 2014

- c. Franklin Templeton Investments
As of March 31, 2014
- d. NFJ
As of March 31, 2014
- e. WHV
As of March 31, 2014
- f. City of Owosso Employees Retirement Fund
April 30, 2014
- g. City of Owosso Employees Retirement Fund
May 31, 2014

3. Payment Authorizations:

- a. Franklin Templeton Investments
For period 01/01/14 through 03/31/14 \$ 8,005.80
- b. Franklin Templeton Investments – former Fifth Third equities
For period 01/01/14 through 03/31/14 \$ 300.00
- c. Gabriel Roeder Smith & Company
For period 07/01/2013 through 06/30/2014 \$ 31,800.00
- d. Ronald J. Tobey, City Treasurer
Report of Checks Written – April 2014 \$214,641.27
- e. Ronald J. Tobey, City Treasurer
Report of Checks Written – May 2014 \$233,492.54

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

COMMUNICATIONS:

- o Amy K. Kirkland, City Clerk – General City Non-Union Representative Election Results
- o Kenneth Alberts, Gabriel Roeder & Smith – 2014-15 projected actuarial fees
- o Merrill Lynch – *Market Focus, 1st Quarter 2014*
- o Gabriel Roeder & Smith – *NewsScan April 30, 2014*
- o Gabriel Roeder & Smith – *NewsScan May 14, 2014*
- o Gabriel Roeder & Smith – *NewsScan May 30, 2014*

Motion by Trustee Perry to accept the communications as presented.

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

MONEY MANAGER REVIEW:

**SMALL CAP EQUITIES MANAGER: ATLANTA CAPITAL
JOHN ULLMAN, VICE PRESIDENT & NATIONAL ACCOUNT MANAGER FOR RETAIL MANAGED
ACCOUNTS**

Mr. Ullman indicated the firm had been in business over 40 years and had over \$17 billion in assets under management. Their investments are limited to small and mid-cap stocks. They invest in high quality stocks, employ a valuation discipline, and pride themselves on their downside protection. He

acknowledged that because of their philosophy they will tend to lag the benchmark slightly in strong positive markets. He briefly detailed how they choose stocks, using a bottom up philosophy. They like to find overlooked and under-followed companies to gain value for their customers. They hold 50-60 stocks in the portfolio, with no individual stock comprising more than 5% of the portfolio. They also limit sector weights to 30%. The firm employs a strong sell discipline and will sell a stock when there is a change in management or business strategy, there is deterioration of financial quality, they are experiencing excessive valuation, or a more compelling investment candidate materializes. They look for firms that have a track record of solid positive performance and are focused on long term growth. They feel that small cap equities are generally over-valued right now as compared to large-cap companies. They find large-cap equities to be a better investment right now and are encouraging customers to move to the low end of the small-cap investment range and move to large-cap to maximize returns. Lastly Mr. Ullman said he feels the economy will continue to slowly grow over the next few years and the firm will win by not losing.

City Attorney Brown asked if he was advising the Board cut back on small-cap equities, and if so, how it should be done? Merrill Lynch Advisor Thomas indicated the Board had already taken the suggested action by changing the asset allocation, partially in response to just the factors Mr. Ullman highlighted today.

OLD BUSINESS:

ACTUARY 101

Mr. Alberts did a reprise of his June 2013 presentation entitled Actuarial 101. The presentation detailed actuarial theory and how it is applied to determine valuations for the System. (A Copy of the PowerPoint slides will be included with the permanently retained materials for this meeting.)

NEW BUSINESS:

RETURN OF FUNDS – J. EHLEN

City Treasurer Tobey explained that Mr. Ehlen was not eligible for a pension, nor was he eligible to transfer his retirement funds via the Reciprocal Act and as such had been asked to remove his funds from the System. Receiving no response after multiple attempts Mr. Tobey was seeking the Board's permission to refund Mr. Ehlen's money.

There was discussion regarding whether the check should be sent by certified mail and what should be done should Mr. Ehlen refuse to sign for the check. It was decided the check would be sent initially via certified mail, then sent via first class mail should it be returned after the first attempt.

Motion by Trustee Fox to return the funds of Joseph Ehlen via certified mail.

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

2013 SUMMARY ANNUAL REPORT

City Treasurer Tobey briefly detailed the summary report noting it was somewhat different this year due to new reporting requirements.

Motion by Trustee Perry to accept the 2013 Summary Annual Report, changing the name of Bobbi Jo Williams to reflect her maiden name, and authorizing distribution of the report to all plan members as follows:

CITY OF OWOSSO EMPLOYEES RETIREMENT SYSTEM

2013 Summary Annual Report
(and formerly 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 2013.

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

- | | |
|----------------------|---|
| BOARD OF TRUSTEES: | Wilfred Farrell
Burton Fox
Paul Kleeman
Ronald Pearsall
Mark Sedlak
Bobbi Jo Perry (Williams)
One Vacancy |
| INVESTMENT MANAGERS: | Atlanta Capital
Franklin Templeton
Loomis LCG
M D Sass
NFJ Allianz
WHV |
| INVESTMENT ADVISOR: | Merrill Lynch Wealth Management |
| ACTUARY: | Gabriel Roeder Smith & Company |
| AUDITOR: | Rehmann Robson |
| MEDICAL DIRECTOR: | Dr. Fred VanAlstine |

As reported in the actuarial valuation for the annual period ending December 31, 2013 the Retirement System's valuation assets were \$31,913,449 and its actuarial accrued liabilities were \$35,821,262, which produced a funded ratio of 89.1.

For the annual period ending December 31, 2013 the Retirement System's investment performance on a mark to market basis (gross of manager fees and net of transaction costs) was 19.8%. The system's investment performance, net of fees, on a rolling calendar-year basis is as follows:

	1 Year	3 Year	5 Year	7 Year	10 Year
Total Portfolio	19.5%	8.0%	11.2%	5.0%	5.7%

On December 31, 2013 the market value of the assets was \$33,392,670. The change in net plan assets from December 31, 2012 was \$3,622,434.

For the annual period ending December 31, 2013 the Retirement System's non-soft dollar expenses were \$200,000 and benefit payments and member refunds were \$2,253,656. No expenses were paid by soft dollars during the year. There were no expenditures for professional training and education for this year. Employer contributions required for the year covered by the report total \$600,769.

The adopted budget for the city fiscal year beginning July 1, 2013 included the following items:

Checks printed, etc.	\$ 300
Audit Costs	\$ 2,500
Actuary Fee	\$23,000
Conference Expenses	\$ 2,000
Counseling Fee-Merrill Lynch	<u>\$27,000</u>
	\$54,800

Additional items required for inclusion in the report are:

The number of active members: 64
The number of retirees and beneficiaries: 83
The average annual retirement allowance: \$27,812
The total annual retirement allowance being paid: \$2,253,656
The valuation payroll: \$3,108,992
The employers computed normal cost of benefits (expressed as a percentage of valuation payroll):
General 7.38%; Police 3.41%; Fire 9.93%
The employers total contribution rate (expressed as a percentage of valuation payroll):
General 29.27%; Police 5.50%; Fire 12.28%; overall weighted 19.06%
The weighted average of member contributions, if any: \$49,785
The actuarial assumed rate of investment return: 7.25%
The actuarial assumed rate of long-term wage inflation: 3.0%
The smoothing method and period utilized for funding the system's unfunded actuarial accrued liabilities,
if any: 4-year smoothed market; Closed-15 year amortization
The system's actuarial cost method: Entry-age
Whether system membership is open or closed to specific groups of employees:
General-closed; Police-open; Fire-open

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

CONSIDERATION OF INTEREST RATE ON EMPLOYEE CONTRIBUTIONS

City Treasurer Tobey explained the interest rate is the amount of interest credited on employee contributions when an employee removes their money from the system prior to being fully vested. He noted the rate had historically been set at 5%.

Motion by Trustee Brewbaker to set the interest rate on employee contributions at 5% for the 2014-2015 fiscal year.

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

INVESTMENT CONSULTANT REPORT 1st QUARTER 2014

Merrill Lynch Advisor Thomas detailed the report for the new members. She indicated the value of the portfolio as of today was \$33.6 million. She also pointed out that the portfolio is almost always in line with the asset allocation policy because each month the distributions made from the system are taken from any overweighted allocations.

Trustee Perry inquired whether there was a funded ratio in the investment policy. Ms. Thomas indicated that a funded ratio was not something that was frequently found in an investment policy in her experience.

Ms. Thomas presented an overview of the following:

Total Portfolio Performance Summary for Period Ending 03/31/2014

	Source of Funds Thousands of Dollars		Cumulative 3/93-03/14
	Quarter		
Beginning Market Value	33,341		18,137
Net Contributions	-320		-20,176
Investment Earnings	502		35,262
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Ending Market Value	33,224		33,224

CITIZEN COMMENTS:

There were no citizen comments.

Trustee Kleeman inquired whether the Board was going to discuss the "smoothing the smoothing" idea any further. It was decided the item would be added to August agenda. The Board also indicated a desire to discuss changing the System's fiscal year at the August meeting.

NEXT BOARD MEETING:

The next board meeting is scheduled for August 21, 2014 at 7:15 a.m.

ADJOURNMENT:

The Board adjourned at 9:05 a.m.

Amy K. Kirkland, City Clerk