

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD**

JUNE 21, 2012

7:15 AM

CALL MEETING TO ORDER:

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

ROLL CALL:

PRESENT: Trustees Michael Erfourth, Mark Mitchell, Ronald Pearsall, Mark Sedlak, and Chairperson Wilfred Farrell.

ABSENT: Trustees Thomas Cook and Michael McCloskey.

ALSO

PRESENT: 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 Trustee Erfourth to approve the Agenda with the following additions to New Business:

Contingency Fund Discussion
MAPERS Conference Attendance

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

APPROVE MINUTES OF APRIL 19, 2012 REGULAR MEETING:

Motion by Trustee Mitchell to accept the minutes of the April 19, 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 Erfourth to approve the consent agenda as follows:

1. Approve Pension Check Reports:

a. April 2012	\$ 173,487.46
b. May 2012	\$ 167,647.07

2. Approve Statements:

a. Aletheia
As of March 30, 2012

b. Atlanta Capital
As of March 30, 2012

- b. Franklin Templeton Investments
As of March 31, 2012
- c. WHV Investment Management
As of March 31, 2012
- d. City of Owosso Employees Retirement Fund
April 30, 2012
- e. City of Owosso Employees Retirement Fund
May 31, 2012

3. Payment Authorizations:

- a. WHV Investment Management (formerly Wentworth, Hauser, and Violich)
For period 01/01/12 through 03/31/12 \$ 4,110.00
- b. Ronald J. Tobey, City Treasurer
Report of Checks Written – April 2012 \$190,752.61
- c. Ronald J. Tobey, City Treasurer
Report of Checks Written – May 2012 \$179,089.90

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

COMMUNICATIONS:

- Gabriel Roeder Smith: *News Scan, April 16, 2012*
- Gabriel Roeder Smith: *News Scan, May 5, 2012*
- Gabriel Roeder Smith: *News Scan, June 4, 2012*
- Hirayama Investments: *Global Commentary, 1Q 2012*
- MD Sass: *Investment Outlook & Strategy Commentary, 1Q 2012*
- Merrill Lynch: *Market Focus, 1Q 2012*

The following communications, publications and conference announcements are on file with the City Clerk – if you would like to read them, please contact her:

- WHV Investment Management, Inc.: Annual Disclosure Statements

OLD BUSINESS:

MERRILL LYNCH STATUS REPORT

Merrill Lynch Investment Associate Maral Thomas indicated she thought things were running smoothly. She also indicated she had recently celebrated her 35th anniversary with Merrill Lynch.

NEW BUSINESS:

CHERRY TRANSFER

City Treasurer Tobey indicated the City was employing the same process we've used in the past for transfers to MERS. He said the request for funds should fully fund the employee in question according to MERS parameters.

City Attorney Brown noted for the Board that the command unit requested a meeting to attempt to rectify the disparity in contributions between command and patrol (27% and 12% respectively). There was discussion about the command unit returning to the City system, though this would require a vote of the

people. He indicated nothing was decided as a result of the meeting but another meeting was tentatively scheduled and he felt the Board should be kept apprised of the issue.

There was a brief discussion regarding the command unit returning to the system, their original decision to leave the system, management's concern with the disparity in contributions, and the chances of such a request succeeding with voters.

Motion by Trustee Pearsall to approve the transfer of \$58,960 to the MERS system for Sergeant Eric Cherry.

Motion supported by Vice Chairperson Mitchell 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 to employee contributions when an employee removes their money from the system prior to retirement. Further he indicated the amount is not used in the calculation of final average compensation.

There was a very brief discussion regarding tying the interest rate to an index figure. City Treasurer Tobey indicated this would be much too complicated when calculating how much an employee should receive if they leave the system.

Motion by Vice Chairperson Mitchell to set the interest rate on employee contributions at 5% for the 2012-2013 fiscal year.

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

It was noted that the 5% interest rate would apply when an employee transfers to MERS.

CONTINGENCY FUND DISCUSSION (continued from the special meeting of June 13, 2012)

Chairperson Farrell explained that no definitive decision needed to be reached today, though should the Board not act today the 2011 actuarial report would not reflect any potential changes, such as to contribution rates.

City Treasurer Tobey indicated a transfer from the Contingency Fund to the employee portion of the system would directly affect the contribution rate for the police patrol unit and the contribution for the City in the next year. He went on to say that City Finance Director Richard Williams had opined there would be no negative side in releasing the funds. He further suggested 25% of the fund be released each year over the course of the next 4 years to act as a smoothing agent.

There was discussion regarding whether to deal with the entire \$1.7 million fund now or establish a policy for handling the fund in the future and reviewing the fund each year as a part of the actuarial review. Most members seemed receptive to the idea of establishing a policy that would govern use of the funds in the future.

Motion by Vice Chairperson Mitchell to move 25% of the Contingency Fund to the appropriate units to offset contributions and further re-examine the issue next year at this time if a policy has not been developed in the interim.

Motion supported by Commissioner Erfourth and concurred in by unanimous vote.

MAPERS 2012 FALL CONFERENCE

Commissioner Pearsall expressed an interest in attending the conference.

Motion by Trustee Erfourth to authorize Commissioner Pearsall to attend the 2012 MAPERS Fall Conference.

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

MONEY MANAGER INTERVIEWS

NFJ INTERNATIONAL VALUE (ALLIANZ GLOBAL INVESTORS)

Senior Portfolio Specialist James Hartnett, CFA, joined the group via telephone to give an overview of NFJ's process and philosophy. He indicated the firm had been in existence for 24 years and was currently owned by Allianz though all staffing and investing decisions remained with NFJ. They manage \$36 billion in assets spread over 10 styles. The firm is located in Dallas and has 45 employees.

Their philosophy is to identify undervalued stocks that have historically been good performers. They rely on information such as dividends, valuations, price momentum and PE multiples for their cues. They will not hold or purchase a stock that does not pay dividends each year as they feel this is a strong indicator of stability and quality. They will sacrifice price momentum to obtain a stock at a value.

The firm uses a bottom up screening process to limit their universe of 1200 to approximately 50 stocks then proceed to research each company in the screened group. The portfolio typically consists of 40-60 stocks with any one position occupying up to 4% of the portfolio. They do not choose a stock based on a hot industry or sector. They sell when the price of the stock starts to rise to equal the market or the prices of their peers, when quality starts to deteriorate, dividends are cut or problems arise with the balance sheet of a company. Stocks in the portfolio are checked each day to ensure they continue to measure up to their standards. Adding and removing stocks is the collective decision of the investment team and turnover for the portfolio averages between 30%-40% per year.

The company will invest up to 50% in emerging markets, though they have ranged anywhere from 18%-46% in the past, with 25% of the portfolio currently in emerging markets. All the firms they consider in emerging markets have lengthy histories, use ADR's, and follow U.S. accounting standards for reporting. The firm has no restrictions on sector or country weightings other than the emerging market percentage.

DEL RAY GLOBAL INVESTORS

National Sales and Marketing Vice President Dean Phillips joined the group via telephone to give an overview of Del Ray's philosophy and process. The firm is located in Los Angeles privately held by employees and one capital investment company. While the firm itself was formed in 2009 the founder has over 18 years of experience. The firm manages \$2.4 billion in assets currently.

Their philosophy is to attempt to capitalize on market inefficiencies that allow one to purchase a stock below its true value. They look for strong companies that are selling below their value. They do not work to the benchmark but prefer to determine sector weightings from a risk/return standpoint. They have a disciplined investment process that assesses both risk and reward.

The firm uses a bottom up process to screen large cap companies. They typically have 40-50 names in their portfolio and like to hold stocks for a full market cycle of 3-4 years. Turnover ranges around 25%-30% per year. They like to hold some cash for flexibility but not more than 10%. No single stock can represent more than 5% of the portfolio at the time of purchase, no single sector represents more than 30% of the portfolio, and no single country represents more than 35%. Finally they limit emerging markets to 20% of the portfolio. Almost all of the firms represented in the portfolio are international companies using ADR's though a few are based in the U.S.

The primaries of the firm sit down 3 times per week to discuss the portfolio. Analysts are free to bring ideas forward but found Paul Hechmer has the final say on any decisions affecting the portfolio.

There was discussion following the interview regarding concerns with Del Ray including the fact they are so new, the fact that Paul Hechmer has the final say on all decisions, and concerns with the quality of the companies they are holding. Merrill Lynch Consultant Marie Vanerian noted that while the firm is new it comes with Mr. Hechmer's 18 years of history in investing. Further it was suggested that should anything happen to Mr. Hechmer that removes him from the firm the Board should strongly consider leaving the company. Finally Ms. Vanerian noted that it is typical for value firms to focus on companies that seem to be struggling as a means of capturing unrealized value.

JP MORGAN ASSET MANAGEMENT

Executive Director/Client Portfolio Manager Francisco "Kit" Rodrigo joined the group via telephone to give an overview of JP Morgan's international value philosophy and process. He started off his overview by saying the structure of the fund is very different from most other funds with approximately 60% of the fund held in ADR's and the remaining 40% held in a no-load mutual fund. The purpose of the mutual fund is to expand their universe to include non-ADR companies. He went on to say that while these companies are not listed on the U.S. Stock Exchange they tend to be multinational companies that use International Accounting Standards that are similar to GAP standards.

The philosophy of the firm is to stick closely with their benchmark, the EAFE Value Index while finding added value to ultimately beat the benchmark. They try to stay within 5% of the benchmark in sector weighting and leave country weighting as a byproduct of the stock selection process. They are cautious about the risk in emerging markets, saying they have helped the value of the portfolio overtime but they are not responsible for a large portion of returns. They feel they see a majority of their returns from stock selection.

The portfolio is managed by a 3-person team which has managed this fund since its inception in 2003. The team is supported by 16 analysts with an average of 17 years of experience.

Their process has each analyst following 30-40 companies and creating forecast models for each. A value for each company is determined by these models and each company is then ranked according to this value. Analysts look for the valuation of a stock and a high level of conviction in the earnings forecast when assigning this number. Those companies in the top 40% of the rankings are then more closely examined for a catalyst that could potentially drive values upward. Mr. Rodrigo said this valuation model has been used for decades and has outperformed the benchmark on a consistent basis.

After the interview there was discussion regarding the value in hiring a manager like JP Morgan when they simply target the benchmark. Ms. Vanerian noted that while they may not beat the benchmark by much each quarter they have shown that over the long run they consistently beat the benchmark and earn good returns.

PHILADELPHIA INTERNATIONAL ADVISORS

Analyst Robert Benthem de Grave presented a brief overview of the firm's philosophy and process. Their approach is long-term and risk aware. They try to purchase undervalued stocks and do not employ market timing techniques such as futures or hedges.

Their process involves ranking ADR firms with a value over \$900 million. Each company is ranked based on the following formula: 70% valuation, 20% profitability, and 10% earning catalysts.

The portfolio is limited to two positions per industry, per country. It is fully invested with little cash holdings and holds an average of 45-55 names. Individual positions are limited to 5% of the portfolio and emerging market exposure is limited to 20%. Their sell discipline involves analyzing a position to determine if a more attractive position or market has emerged or a company has come forward with an unfavorable earnings surprise.

They have beaten the EAFE Index 4.52% to 3.19% since inception in 1999.

Chief Investment Officer and Portfolio Manager Andrew Williams has the final decision on stocks though there is usually a consensus between he and Mr. Williams. Discussions of the portfolio are conducted every day.

Mr. Benthem de Grave responded to questions regarding the plan should something happen to Mr. Williams that removes his from participation in the company. He noted that while there is no concrete plan in place he felt that either he or Director of Quantitative Research/Portfolio Manager Scott Decatur would take over the helm.

DISCUSSION

There was discussion regarding whether there were any firms the Board wished to remove from further discussion based on the interview. It was noted that Del Ray Global was not the first choice of any of the Board members. Each member present went on to rank the remaining firms. All members present mentioned NFJ as being their first choice. After NFJ members seemed torn between JP Morgan and Philadelphia noting JP Morgan was very similar to the benchmark.

Merrill Lynch Consultant Vanerian pointed out that NFJ is disciplined and diversified though the Board needed to remember they can go up to 50% in emerging markets (this has only happened once historically). She tempered her caution further saying the firm required stocks to pay a dividend despite the fact they are in an emerging market.

Motion by Trustee Pearsall to hire NFJ as the System's International Value Equity manager.

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

Ms. Vanerian noted that she would like to complete the requisite paperwork for the transaction as soon as possible to ensure the new manager could take over as of July 1. She explained they would be given the iShares held by the System as a place holder for this asset class to liquidate as they saw fit. She further noted the fee structure for NFJ was between 90-100 basis points which was slightly less than that charged by AllianceBernstein whom NFJ is replacing.

INVESTMENT CONSULTANT REPORT

The 1st Quarter report was distributed to members but was not directly discussed due to the late hour.

CITIZENS COMMENT:

There were no citizen comments.

Vice Chairperson Mitchell thanked everyone for the time they've dedicated to the System and the group of individuals it benefits.

NEXT BOARD MEETING:

The next board meeting is scheduled for August 16, 2012 at 7:15am

ADJOURNMENT:

Motion by Trustee Erfourth for adjournment at 11:05 a.m.

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

Amy K. Kirkland, City Clerk