

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD OF TRUSTEES
SPECIAL MEETING
OWOSSO CITY HALL COUNCIL CHAMBER**

MARCH 26, 2015

7:15 AM

CALL MEETING TO ORDER:

Chairperson Farrell called the meeting to order at 7:20 a.m.

ROLL CALL:

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

ABSENT: Trustee Richard Brewbaker.

ALSO

PRESENT: City Attorney William C. Brown; City Clerk Amy K. Kirkland; City Treasurer Ronald J. Tobey; and City Finance Director Richard C. Williams.

Prior to the interviews Chairperson Farrell explained how the interviews would be conducted saying staff members present would be allowed to ask questions of the candidates if they desired. It was also announced that the System's current consultant Marie Vanerian would not be present today to avoid any lingering legal liability by being involved in the selection of the System's next consultant.

City Attorney Brown noted that he had received a phone call from Paul Schluckebier of the local Wells Fargo branch asking that the Board reconsider including them in the interviews. Mr. Schluckebier felt that 90% of pension plans use a full-discretion philosophy like that employed by Wells Fargo and the Board should not be afraid of this consulting style. Trustee Fox indicated he had been approached this morning by Mr. Schluckebier's business partner regarding the same matter. It was also noted the Mr. Schluckebier had contacted the mayor as well.

INVESTMENT CONSULTANT INTERVIEWS:

THE BOGDAHN GROUP – CHRISTOPHER KUHN 7:30 A.M.

Mr. Kuhn introduced himself and the firm saying he has over 15 years of experience in institutional investing and is a CFA holder. The firm is dedicated to being an independent consulting firm with no financial ties to financial institutions or their products. The currently have \$60 billion under management, with approximately half of those assets belonging to public pension plans. He went on to say that the firm is known for their dedication to customer service and this concentration was one of the reasons he chose to work for the firm.

Mr. Kuhn went on to describe the firm's manager search process, the all-inclusive fee for their services, and his thoughts on the System's Investment Policy, asset allocation, and current money managers. He noted there was some room for negotiation on their fees.

The Board asked about Mr. Kuhn's affiliation with Gray & Company and that firm's troubles with the SEC. Mr. Kuhn noted that the investment questioned by the SEC was for the Pontiac General City Employees' Retirement System, not for the Pontiac Police & Fire Employees' Retirement System that he consulted, which retained him as their consultant after he left Gray & Company. He said his reasons for leaving the firm had more to do with problems in the office and the effect they had on client services than the SEC inquiry into the reporting for that single particular investment.

ASSET STRATEGIES PORTFOLIO SERVICES – KATHERINE GHANNAM & GEORGE VITTA 8:30 A.M.

Mr. Vitta introduced himself and Ms. Ghannam and briefly detailed the firm saying they were based in Auburn Hills and were an independent consulting company with no affiliations with other entities. The firm specializes in public pensions and lists clients all over the state. He went on to say that all consulting firms have access to the same information and it is the experience of the consultants that differentiates one firm from another. He noted that their firm had been in business for 23 years and their average relationship with public clients is 13 years. Further, they are actively involved in MAPERS and she holds her CPA. The firm computes portfolio returns themselves, manager searches are done in-house using independent databases, and their fee is all-inclusive.

The Board inquired whether the candidates had any opinions on the System's current money managers, investment policy, and asset allocation. They indicated they would need to review the items prior to rendering a decision. The Board also inquired whether the firm had any compliance or litigation issues. Mr. Vitta noted that the firm had been included in a suit initiated by a small group of retirees that were not pleased with the performance of their portfolio, the suit was eventually thrown out. He also noted that the firm had been audited once by the SEC and had received the highest possible rating from the organization.

(Mr. Williams left the meeting during the interview for Asset Strategies.)

GRAYSTONE CONSULTING – MICHAEL HOLYCROSS & CHRISTINE WILSON 9:30 A.M.

Mr. Holycross introduced himself and briefly detailed his firm saying they are based out of Birmingham, Michigan and are actively involved in MAPERS with one employee serving the MAPERS Executive Board as a Corporate Advisor and others working on the committee to revise PA 314. The firm has the full resources of Morgan Stanley at the ready, though it was noted that Graystone is a separate company, functioning under the Morgan Stanley umbrella, in an effort to provide conflict free consulting services. Their firm receives only consulting fees as compensation for their services. Mr. Holycross went on to reassure the Board that Morgan Stanley has no plans to move out of the public pension space like Merrill Lynch.

Ms. Wilson introduced herself saying she would be responsible for account support to ease the burden of administrative activities on staff, serving as the point person for questions, and functioning as a "middle man" between the Board and its money managers. She also indicated she is currently a board trustee and as such has experienced the importance of board education and has taken on the additional role of ensuring the Board receives ample educational opportunities.

The firm has clients all over the state from the Upper Peninsula to Southeast Michigan, Morgan Stanley performs all their research, and they have a proven track record of outperforming the benchmark year over year. The firm has an all-inclusive fee of 20 basis points.

The Board inquired about any litigation issues. Mr. Holycross indicated his disclosure noted one issue that involved the violation of a client's investment policy, he was not directly involved but profited from the transaction in question and is now required to disclose this incident. It was asked why this issue was not noted in the RFP. Mr. Holycross indicated the RFP inquired about consulting violations and this incident was not classified as consulting in nature and thus not included.

The interview concluded with a brief assessment of the System's asset allocation and money manager selection by Mr. Holycross.

DISCUSSION:

There was discussion regarding how similar Graystone was to Merrill Lynch, the different personalities of the candidates and which ones inspired confidence in their skills, who backs up Mr. Kuhn at Bogdahn,

whether everyone felt comfortable with the explanations each firm gave regarding any legal issues they may have had, and the feeling that all the candidates were of good caliber and could potentially serve the System.

Chairperson Farrell took a quick poll to determine if any of the candidates had received consistently low rankings from all Trustees and could be removed from the discussion. All members indicated that Asset Strategies was ranked as second or third on their list. There was consensus that the discussion would focus on The Bogdahn Group and Graystone going forward.

City Attorney Brown returned to the issue of whether or not to interview the Wells Fargo team so that he could give Mr. Schluckebier an answer. The Board indicated they were not comfortable with a firm that uses a full-discretion consulting model and had no Michigan public plan clients.

At this point Merrill Lynch Consultant Marie Vanerian joined the conversation via telephone at the request of the Board. Chairperson Farrell sought confirmation from Ms. Vanerian that the System must leave Merrill Lynch's custodial services as well, she indicated that was correct. Chairperson Farrell went on to briefly summarize the Board's conclusions to this point noting the Board's preference for either The Bogdahn Group or Graystone/Morgan Stanley. Ms. Vanerian indicated that both firms would be on par in regard to the negotiation of management and custodial fees. She estimated that custodial fees may run about \$15,000 - \$20,000 per year. There was a question about the depth of personnel at Bogdahn, Board members and staff were concerned as to how things would be handled if Mr. Kuhn were not available. Ms. Vanerian noted that she would find it highly unusual for a firm of their caliber not to have some sort of team that tends to a relationship rather than a single individual. She also noted that she personally found it helpful to have a second associate at meetings to take notes and make sure that they perform all necessary follow-up. She concluded by saying that she felt the Board had done a very thorough job throughout the search process and either firm would do a fine job. Ms. Vanerian wished the Board good luck and ended the call.

Chairperson Farrell inquired whether the Board wanted to vote on the issue now or wait until the April meeting. All indicated they would prefer to vote today.

Chairperson Farrell asked each member of the System that was present at the meeting (Trustees and staff members) how they felt and if they had any preferences. Three members expressed a preference for Graystone, one for Bogdahn, and one said there were positives for both candidates.

The Board agreed to vote by naming the consultant they wished to hire, subject to the negotiation of a contract.

Roll Call Vote.

Vice Chairperson Sedlak – Graystone
Trustee Brewbaker – Absent
Trustee Fox – Graystone
Trustee Greenway – Bogdahn
Trustee Kleeman – Graystone
Trustee Perry – Graystone
Chairperson Farrell - Graystone

Chairperson Farrell noted that it was a difficult decision but he was confident with the outcome.

City Attorney Brown will review the contract and present any issues to the Board in April.

Chairperson Farrell suggested the Board also plan to discuss the custodial search at the April meeting.

City Attorney Brown expressed his concern should video of the meeting be played on the local cable access channel before contact is made with all the candidates. He requested the show be held until a contract is reached.

CITIZENS COMMENT:

There were no citizen comments.

There was discussion regarding whether the motion to select a consultant was simply for consulting services or whether it included custodial services as well. It was noted the motion was for consulting services only. City Attorney Brown suggested a conference call between Graystone, City Clerk Kirkland, and he to clarify what the fees were based on whether or not the Board chooses to custody their assets with Morgan Stanley. He said he hoped to have the contract ready for approval at the April 16th meeting.

There was also discussion regarding whether other firms would follow Merrill Lynch out of the public pension market. City Attorney Brown indicated that he had from other brokers that Merrill Lynch was more worried about potential litigation rather than the conflict of interest it noted as reason for the exit. City Clerk Kirkland noted that Merrill Lynch was a part of Bank of America which had seen a large amount of litigation as a result of its acquisition of various mortgage companies back in 2008-2009 and may fear the same sort of actions from its Merrill Lynch acquisition.

NEXT BOARD MEETING:

The next board meeting is scheduled for April 16, 2015 at 7:15am

ADJOURNMENT:

Motion by Trustee Kleeman for adjournment at 11:23 a.m.

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

Amy K. Kirkland, City Clerk