**CITY OF OWOSSO**
**EMPLOYEES RETIREMENT SYSTEM BOARD**

**JANUARY 25, 2013** **7:15 AM**

**CALL MEETING TO ORDER:**

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

**ROLL CALL:**

**PRESENT:** Trustees Thomas Cook, Michael Erfourth, Michael McCloskey, Mark Sedlak, Vice Chairperson Mark Mitchell and Chairperson Wilfred Farrell.

**ABSENT:** Trustee Ronald Pearsall.

**ALSO PRESENT:** City Attorney William C. Brown; City Clerk Amy K. Kirkland; Merrill Lynch Advisor Maral Thomas; and Merrill Lynch Investment Consultant Marie Vanerian;

**LARGE CAP GROWTH MONEY MANAGER INTERVIEWS:**

Merrill Lynch Consultant Marie Vanerian introduced the topic saying all three managers up for interview were very good and she hoped the interview process would help the Board understand the people behind the organizations and bring them to a consensus as to who best fits the System.

**Loomis Sayles** **David Sowerby, Vice President & Portfolio Manager**

Loomis Sayles is a large firm with over $186 billion in assets under management, with a large cap growth representation of $2.9 billion. They have an office in Bloomfield Hills and have more than 20 municipal clients in Michigan alone. The firm uses a team approach having hired the current team intact from another firm a little over 2 years ago. Their philosophy involves choosing quality stocks that have potential growth but low risk so as to protect capital on the downside. They believe a smaller portfolio gains them an edge as no position becomes diluted. And they take the perspective that the portfolio should look different from the benchmark in its holdings to gain long-term outperformance. Stock picking is key to their process and they feel it is responsible for 75% of their outperformance. They prefer firms with long standing CEO's or CEO/Founders that are trading around 50% below their value. The portfolio typically contains 35 stocks, with 2-4 stocks moving in and out each year. The firm typically holds a stock for about 5 years though there is no time limit, nor a limit to the number of stocks in the portfolio. They will sell a stock if they believe it has reached its intrinsic value even if it means missing out on the peak of the stock. They will also sell if they feel their initial investment thesis has changed or they feel the risk/reward opportunity is better with another stock.

The Board had questions regarding the investment process as well as the reasons for the change in the management team. (It was noted the firm approved of their investment philosophy and felt they better fit their clientele.

Lastly, Mr. Sowerby noted the firm's fees and minimum account sizes, but indicated he did not want their fee structure to get in the way of their employment.

**Montag & Caldwell, LLC** **James Francis, Vice President &**
**James Deming, Portfolio Manager**

Montag & Caldwell is a long standing small investment firm that is 100% employee owned. They have approximately $13 billion in assets under management. The firm uses a 15 person team to manage their large cap growth fund. The team uses a bottom up approach to stock picking with researchers reviewing stocks and making recommendations to the portfolio managers. A discount rate is developed for each stock and is assigned a score to compare them to other stocks. They review stocks with a long term vision in mind preferring companies with a projected 10% growth rate over the next 10 years that are trading at a 10% - 20% discount, and growth rates must be supported by definitive earnings catalysts. The portfolio typically has between 30-40 stocks and will not typically mirror the sector weightings of the benchmark. They seek to protect capital on the downside preferring protection to large gains on the upside. The firm will sell a stock once it reaches 120% price/present value or when it exceeds more than 5% of the portfolio. Further they will sell when the weighting for any particular sector rises above 40% of the portfolio. Due in large part to these restrictions the portfolio averages 20% turnover in any given year with the trimming or increasing of existing names.

Lastly, they noted each client works directly with one of the portfolio managers and fees were 65 basis points on the first $25 million invested.

**Edgewood Management, LLC** **James Carrier, Director of Marketing &**
**Nicholas Stephens, Portfolio Manager**

Edgewood Management is a single strategy boutique firm that is privately held and has been in business for 40 years. They have approximately $7 billion in assets under management. The firm has a concentrated portfolio consisting of 22 equities. Stocks are analyzed and selected using a team approach and it is felt that stock selection is the driver of their excess returns. The portfolio has an 8% position cap and a 25% cap per sector with turnover averaging 30% per year much of which is due to capital re-allocation. The firm keeps risk in check through extensive research and monitoring, ensuring stocks in the portfolio are undervalued, and through their “three bucket” approach to the portfolio combining groups of high, mid, and low growth stocks. They look for companies that can finance their operations internally, those with low debt, predictable annual growth of 8%-10%, and a catalyst to promote improvement. Their sell discipline is triggered by two consecutive quarters of earnings disappointment, a major change in the company or industry fundamentals, or a stock that is falling in relation to its peers. When the sell discipline is triggered the equity in question is analyzed by fresh eyes to ensure full objectivity in the decision to sell.

**DISCUSSION:**

There was discussion among the Trustees regarding individual comfort levels with each firm and the fee structure for each firm. Most Trustees expressed a liking for either Loomis or Montag, but debate existed about whether there was an inherent risk in employing a firm with an investment team that had only been with the company a short time (Loomis).

There was a brief discussion regarding possibly splitting the available funds between two firms, though it was decided against as there may not prove to be much value in splitting the funds between two companies that were felt to be similar.

Ms. Vanerian summed up a comparison between Loomis and Montag by saying Montag was a long standing small company whose personnel had long track records with the firm though the company did have some bumps in their track record. She went on to say Loomis was also a long standing company, the firm had good returns, access to the resources of a very large firm, was well known in the state of Michigan, but had only 2+ years of experience with its investment team.

Motion by Trustee McCloskey to hire Loomis Sayles pending information on fee structure, with final confirmation during the February 21st meeting.

Motion supported by Trustee Erfourth and concurred in by voice vote, 5 ayes, 1 nay.

**CITIZENS COMMENT:**

There were no citizen comments.

**NEXT BOARD MEETING:**

The next board meeting is scheduled for February 21, 2013 at 7:15am

**ADJOURNMENT:**

Motion by Vice Chairperson Mitchell for adjournment at 10:07 a.m.

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

___________________________________
Amy K. Kirkland, City Clerk