

**CITY OF OWOSSO  
EMPLOYEES RETIREMENT SYSTEM BOARD**

**FEBRUARY 17, 2011**

**7:15 AM**

**CALL MEETING TO ORDER:**

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

**ROLL CALL:**

**PRESENT:** Trustees Michael Erfourth, Benjamin Frederick, Mark Mitchell, James Treadway, Vice Chairperson Frances Kukulis, and Chairperson Wilfred Farrell.

**ABSENT:** Trustee Michael McCloskey.

**ALSO**

**PRESENT:** City Attorney William C. Brown; Franklin Templeton Investments Portfolio Manager Warren Kaiser; City Clerk Amy K. Kirkland; Merrill Lynch Advisor Maral Thomas; City Treasurer Ronald J. Tobey; Merrill Lynch Investment Consultant Marie Vanerian; and Franklin Templeton Investments Vice President & Regional Director Michael Wasz.

**APPROVE AGENDA:**

Motion by Trustee Frederick to approve the Agenda as presented.

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

**APPROVE MINUTES OF DECEMBER 16, 2010 REGULAR MEETING:**

Motion by Trustee Erfourth to accept the minutes of the December 16, 2010 Regular Meeting as presented.

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

**CITIZEN COMMENTS:**

There were no citizens comments.

**CONSENT AGENDA:**

Motion by Vice Chairperson Kukulis to approve the consent agenda as follows:

1. Approve Pension Check Reports:
  - a. December 2010 \$ 146,444.38
  - b. January 2011 \$ 147,402.81
  
2. Approve Statements:
  - a. Alliance Bernstein  
As of December 31, 2010
  
  - b. Atlanta Capital  
As of December 31, 2010

- c. Aletheia  
As of December 31, 2010
- d. MD Sass  
As of December 31, 2010
- e. Franklin Templeton Investments  
As of December 31, 2010
- f. Russell Investments  
As of December 31, 2010
- g. Bank of New York – ConvergEx Group  
As of November 30, 2010
- h. Bank of New York – ConvergEx Group  
As of December 31, 2010
- i. City of Owosso Employees Retirement Fund  
December 31, 2010

3. Payment Authorizations:

a. <u>M.D. Sass</u> For period 10/01/10 through 12/31/10	\$ 10,199.26
b. <u>Franklin Templeton Investments</u> For period 10/01/10 through 12/31/10	\$ 8,723.50
c. <u>Franklin Templeton Investments – former Fifth Third equities</u> For period 10/01/10 through 12/31/10	\$ 300.00
d. <u>Merrill Lynch - AllianceBernstein</u> For period 01/01/11 through 03/31/11	\$ 2,887.43
e. <u>Merrill Lynch – Atlanta Capital</u> For period 01/01/11 through 03/31/11	\$ 5,964.67
f. <u>Wentworth, Hauser, and Violich</u> For period 10/01/10 through 12/31/10	\$ 4,389.00
g. <u>Merrill Lynch</u> For period 01/01/10 through 12/31/10	\$ 11,850.00
h. <u>Ronald J. Tobey, City Treasurer</u> Report of Checks Written – December 2010	\$148,153.09
i. <u>Ronald J. Tobey, City Treasurer</u> Report of Checks Written – January 2011	\$148,945.80

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

**COMMUNICATIONS:**

- o Gabriel Roeder & Smith – *Research Memorandum – Pension Transparency Act*

- Gabriel Roeder & Smith – *NewsScan November/December 2010*
- Merrill Lynch – *Market Focus, 4<sup>th</sup> Quarter 2010*

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

- MD Sass – *2011 Investment Outlook & Strategy Commentary*
- BlackRock: *BIF Money Fund Semi-Annual Report September 30, 2010*

There was a brief discussion regarding the potential passage of the Pension Transparency Act and how it would its requirements would be implemented.

**MONEY MANAGER REPORT:**

**FRANKLIN TEMPLETON INVESTMENTS – Warren Kaiser, Portfolio Manager  
Michael Wasz, Vice President & Regional Director**

Mr. Kaiser highlighted the quarterly report saying the market was seeing better economic growth on a more consistent basis. He went on to say that he was starting to move the portfolio to a more defensive position due to anticipated interest rate exposures. The former 5/3 securities the company oversees for us have created decent returns over the last year, though they continue to be illiquid. In general Mr. Kaiser anticipated continued issues with European sovereign debt as well as unemployment here in the U.S. in the future. On a positive note he indicated the company is anticipating favorable corporate returns for the year as well as some movement to shore up the Fanny Mae and Freddie Mac situation.

**OLD BUSINESS:**

**MERRILL LYNCH STATUS REPORT**

Merrill Lynch Consultant Vanerian indicated there were no changes to report in the status of Bank of America. She went on to note her office will be moving to Troy on March 4<sup>th</sup>.

**HISTORICAL FEE ANALYSIS**

In December 2010 the Board had requested an historical fee analysis to help determine whether the hire of new money managers was indeed netting the system better returns. Merrill Lynch Consultant Vanerian compiled the requested information and noted the analysis was complex as it was difficult to attempt to quantify all of the moving parts.

The system change incurring the most cost was moving the asset allocation from 50% fixed income to 40% fixed income. This is due to the fact equity managers tend to charge higher fees than fixed income managers. She estimated our fixed income manager’s fees amounted to approximately 30 basis points while our equity managers ranged anywhere from 55 to 100 basis points.

She relayed the following information on the portfolio and summarized by saying the system had grown approximately \$930,000 from 2008-2010 with a corresponding increase in fees approximating \$30,000 - \$40,000:

<b>Year</b>	<b>Total System Fees</b>	<b>Size of Portfolio</b>	<b>Notes</b>
2008	55	\$25,000,000	
2009	58	\$28,000,000	Additional income of approximately \$568,000 as a result of changes in asset allocation
2010	68	\$30,400,000	Additional income of approximately \$362,000 as a result of continued changes in asset allocation

**NEW BUSINESS:**

**DISCUSSION OF PROPOSED 2011-2012 BUDGET**

City Treasurer Ronald Tobey was on hand to discuss the proposed budget for the coming year. He highlighted the largest change from the previous year saying he had budgeted \$15,000 to pay management fees no longer covered by soft dollars. In previous years this money had been budgeted to pay for a money manager search.

There was discussion whether actuarial fees charged for police transfers could be charged back to the police department as the system incurs such costs as the result of collective bargaining agreements. Mr. Tobey indicated he would look into the matter but reminded the Board that the System typically finds there is a discrepancy favoring the System when a police member transfers to the MERS system.

There was further discussion regarding reducing the conference budget to allow one member instead of two to attend each of the MAPERS conferences. The members noted that while education is important there were other avenues to obtain conference information.

Motion by Vice Chairperson Kukulis to approve the 2011-2012 Retirement budget as proposed amending the conference budget to \$2000, for a grand total of \$42,700 as follows:

<b>Line Item</b>	<b>Amount</b>
Checks printed, etc.	300.00
Audit cost	5,900.00
Actuary Fee	19,500.00
Conference Expenses	2,000.00
Counseling Fee – Merrill Lynch	15,000.00
<b>Total</b>	<b>\$42,700.00</b>

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

**INVESTMENT CONSULTANT REPORT – 4<sup>th</sup> QUARTER 2010**

Merrill Lynch Consultant Marie Vanerian noted that equities had ended the year up 15% though the year had many ups and downs. The portfolio was up 7.4% with a value of \$31,000,000. She said many issues that dragged the economy down had not yet been fully addressed including unemployment, European sovereign debt, and deflationary pressures here in the U.S.

She predicted the economy would grow approximately 3.5% in 2011, the government would retract the money supply, 2-3 million jobs would be created, and equities would experience double digit returns.

Ms. Vanerian presented an overview of the following for the 4<sup>th</sup> quarter of 2010:

***Total Portfolio Performance Summary for Period Ending 12/31/2010***

	<b>Source of Funds</b>		
	<b>Thousands of Dollars</b>		
	<b>Quarter</b>		<b>Cumulative 12/91-12/10</b>
Beginning Market Value	28,828		16,702
Net Contributions	-493		-15,513
Investment Earnings	2,110		29,256
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<b>Ending Market Value</b>	<b>30,446</b>		<b>30,446</b>

City Attorney Brown presented the Board with a copy of his opinion on the Reciprocal Retirement Act indicating he had been asked by the City Treasurer for clarification on credited service. It was his opinion that time served at a participating unit would account toward time served at the current unit.

**CITIZENS COMMENT:**

There were no citizen comments.

**NEXT BOARD MEETING:**

The next board meeting is scheduled for April 21, 2011 at 7:15am

**ADJOURNMENT:**

Motion by Vice Chairperson Kukulis for adjournment at 9:17 a.m.

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

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Amy K. Kirkland, City Clerk