

**CITY OF OWOSSO  
EMPLOYEES RETIREMENT SYSTEM BOARD**

**FEBRUARY 13, 2014**

**7:15 AM**

**CALL MEETING TO ORDER:**

Chairperson Farrell called the meeting to order at 7:24 a.m.

**ROLL CALL:**

**PRESENT:** Trustees Richard Brewbaker, Burton Fox, Bobbi Jo Perry, Vice Chairperson Mark Sedlak, and Chairperson Wilfred Farrell.

**ABSENT:** Trustee Paul Kleeman. (One vacancy.)

**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 Consultant Marie Vanerian.

**APPROVE AGENDA:**

Motion by Trustee Foxt to approve the Agenda as presented.

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

**APPROVE MINUTES OF DECEMBER 19, 2013 REGULAR MEETING:**

Motion by Vice Chairperson Sedlak to accept the minutes of the December 19, 2013 Regular Meeting as presented.

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

**CITIZEN COMMENTS:**

There were no citizen comments.

**CONSENT AGENDA:**

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

1. Approve Pension Check Reports:

- |                  |               |
|------------------|---------------|
| a. December 2013 | \$ 195,975.11 |
| b. January 2014  | \$ 194,741.72 |

2. Approve Statements:

- a. Atlanta Capital  
As of December 31, 2013
- b. Franklin Templeton Investments  
As of December 31, 2013
- c. Loomis Sayles  
As of December 31, 2013

- d. MD Sass  
As of December 31, 2013
- e. NFJ Allianz  
As of December 31, 2013
- f. Russell Investments  
As of December 31, 2013
- g. City of Owosso Employees Retirement Fund  
December 31, 2013

3. Payment Authorizations:

a. <u>Franklin Templeton Investments</u> For period 10/01/13 through 12/31/13	\$ 8,540.50
b. <u>Franklin Templeton Investments</u> – former Fifth Third equities For period 10/01/13 through 12/31/13	\$ 300.00
c. <u>Merrill Lynch - Atlanta Capital</u> For period 01/01/14 through 03/31/14	\$ 5,097.43
d. <u>Merrill Lynch – Loomis Sayles</u> For period 10/01/13 through 12/31/13	\$ 11,690.58
e. <u>Merrill Lynch - M.D. Sass</u> For period 01/01/14 through 03/31/14	\$ 11,892.32
f. <u>Merrill Lynch - NFJ</u> For period 10/01/13 through 12/31/13	\$ 2,268.08
g. <u>Merrill Lynch - WHV</u> For period 01/01/14 through 03/31/14	\$ 3,338.75
h. <u>Merrill Lynch Consulting Services</u> For period 01/01/13 through 12/31/13	\$ 4,600.00
i. <u>City of Owosso</u> Annual Audit – FY 12/13	\$ 1,800.00
j. <u>Ronald J. Tobey, City Treasurer</u> Report of Checks Written – December 2013	\$210,337.17
k. <u>Ronald J. Tobey, City Treasurer</u> Report of Checks Written – January 2014	\$196,244.34

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

**COMMUNICATIONS:**

- o Owosso Employees' Retirement System Investment Policy – *Review for April meeting*
- o PA 347 – *Michigan law amending PA 314 governing public employee retirement systems*
- o WHV/Hirayama Investments – *International Global Commentary*
- o Merrill Lynch – *Market Focus, 4<sup>th</sup> Quarter 2013*
- o Gabriel Roeder & Smith – *NewsScan December 16, 2013*
- o Gabriel Roeder & Smith – *NewsScan January 20, 2014*
- o Russell Investments – *2013 Year End Letter*

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

- Merrill Lynch: *Comprehensive AIM Report, 2013 Q3 DVD*
- Russell Investments: *The \$20 billion club in 2013*
- BlackRock: *Semi-Annual Report, October 31, 2013*

Chairperson Farrell indicated he would like to review the investment policy at the April meeting. Merrill Lynch Consultant Marie Vanerian noted that any changes to the asset allocation the Board may approve at today's meeting will appear on page 8 of the current investment policy.

Ms. Vanerian went on to give a brief overview of PA 347, saying the Act amended PA 314 which governs how public pension funds are invested. She said that while most of the changes brought about by PA 347 are administrative in nature the Board would be asked to adopt both an ethics policy and a travel & education policy in order to comply with the amended law. She suggested reviewing the policies adopted by other public pension plans as a starting point.

Motion by Trustee Fox to instruct staff to bring the System into compliance with PA 347.

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

#### **OLD BUSINESS:**

#### **MERRILL LYNCH STATUS REPORT**

Merrill Lynch Investment Consultant Marie Vanerian indicated there was nothing new to report.

#### **RETIREE SERVICE ON THE PENSION BOARD**

System Attorney William C. Brown highlighted the formal opinion he had written regarding the legality of retirees serving on the Retirement System Board saying he felt it would be legal to have a retiree serve on the Board. He went on to say that while legal, this possibility presented numerous questions and concerns, including how it would affect the make-up of the board and thus how members are represented. He suggested the Board continue to monitor the number of active members in each group and when the number of members eligible to serve dwindles to a critical level the Board should consider acting to recommend a change. Any changes to the make-up of the Board would need to be approved by City Council.

#### **ASSET ALLOCATION DISCUSSION**

Ms. Vanerian stepped to the podium and explained the concept of asset allocation to the new members, saying asset allocation determines the returns of the portfolio and the risk that is undertaken to achieve those returns. She explained strategic asset allocation and tactical asset allocation as well and indicated the Board would use both techniques to reach their final asset allocation.

Ms. Vanerian went on to remind the Board that a move was made recently to decrease bond holdings by 10% in anticipation of declines in bond prices. She went on to walk the Board through the asset allocation booklet that was distributed for the December 2013 meeting, explaining standard deviation and returns. She noted the work that Merrill Lynch and her staff had done prior to assembly of the analysis, examining various kinds of alternative investments such as real estate, hedge funds and private equity to see if they fit with the priorities of the Board. Being a very risk averse system they reached the conclusion that no new asset classes would be recommended at this time. The Board held a discussion regarding the various allocations presented.

Motion by Trustee Brewbaker to authorize the following asset allocation going forward:

<u>Asset Class</u>	<u>Target</u>	<u>Former Target</u>
Large Cap Growth	24.75%	20.65%
Large Cap Value	24.75%	20.65%
Small Cap	5.5%	7.5%
International	12%	10%
Fixed Income	30%	41.3%

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

**NEW BUSINESS:**

**2014-15 BUDGET**

City Treasurer Ronald Tobey presented the budget to the Board. He indicated that the Board tends not to spend all of the funds allocated in the budget but he tries to leave some room for flexibility. He noted that he continues to budget funds for a money manager study (if needed) and that actuarial fees are trending upward due to new laws requiring more activity on their part. He also noted that more people are looking at retiring and the studies they request for planning purposes are an additional cost. Lastly, he noted that he had doubled the education budget from years past per the direction of the Board.

With City Treasurer Tobey's mention of the actuary City Attorney William C. Brown defined the duties of the actuary for the new members.

Motion by Trustee Fox to approve the 2014-2015 Retirement Board budget as follows:

<b>Proposed Retirement Board 2014-2015 Budget</b>	
Checks, etc.	150
Audit	2,200
Actuary Fee	24,000
Conference Exp.	4,000
<u>Counseling Fee</u>	<u>27,000</u>
<b>Total</b>	<b>\$57,350</b>

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

**FEE STRUCTURE OVERVIEW**

Ms. Vanerian distributed a chart listing the System's money managers, the fees they charge, and the fiduciary responsibilities. She noted that the System pays approximately 50 basis points in collective fees while the State of Michigan pays approximately 65 basis points in fees despite the fact that their system is many times the size of the City's.

Vice Chairperson Sedlak leaves the meeting at 8:32 am.

**INVESTMENT CONSULTANT REPORT**

Detailing the fourth quarter report Ms. Vanerian noted that 2013 had turned out to be a fabulous year returning 19.8% for the year. She projected the economy to grow approximately 3% in 2014, but she also felt the market was in for a correction of up to 10%. She went on to detail the report for the new members.

The returns for the quarter were as follows:

**Total Portfolio Performance Summary for Period Ending 12/31/2013**

	Source of Funds Thousands of Dollars		
	Quarter		Cumulative 12/93-12/13
Beginning Market Value	31,418		18,829
Net Contributions	-265		-19,705
Investment Earnings	2,187		34,216
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<b>Ending Market Value</b>	<b>33,341</b>		<b>33,341</b>

**CITIZENS COMMENT:**

There were no citizen comments.

Trustee Perry inquired whether the City carried fiduciary liability insurance to protect the members of the Board. City Attorney Brown indicated he believed the Trustees would be covered by the City insurance policy but he would need to check with Finance Director Richard Williams to be sure.

Trustee Perry also inquired whether those retirees receiving disability pensions needed to be recertified. City Treasurer Tobey indicated he thought that provision of the ordinance had been removed. He also noted there are several disability retirements that are currently active. City Attorney Brown indicated he would look into the matter.

**NEXT BOARD MEETING:**

The next board meeting is scheduled for April 17, 2014 at 7:15am

**ADJOURNMENT:**

Motion by Trustee Perry for adjournment at 9:08 a.m.

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

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Amy K. Kirkland, City Clerk