

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

**FEBRUARY 17, 2016**

**7:15 AM**

**CALL MEETING TO ORDER:**

Chairperson Farrell called the meeting to order at 7:21 a.m.

**ROLL CALL:**

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

**ABSENT:** Trustee Paul Kleeman.

**ALSO**

**PRESENT:** City Attorney William C. Brown; Graystone Consultant Michael Holycross; City Clerk Amy K. Kirkland; City Treasurer Ronald J. Tobey.

**CITIZEN COMMENTS:**

There were no citizen comments.

**NEW BUSINESS:**

Motion by Trustee Fox to approve payment of following the Morgan Stanley-Graystone Consulting invoices:

**1. Payment Authorization: Morgan Stanley – Graystone Consulting.**

- |    |  |              |
|----|--|--------------|
| a. | For period 10/01/2015 through 12/31/2015 | \$ 16,883.02 |
|    | Consulting Fee                           | \$ 15,587.08 |
|    | UMA Fee – Atlanta                        | \$ 1,734.69  |
|    | UMA Fee – WHV                            | \$ (438.75)  |
| b. | For period 01/01/2016 through 03/31/2016 | \$ 17,742.86 |
|    | Consulting Fee                           | \$ 15,887.78 |
|    | UMA Fee – Atlanta                        | \$ 1,855.08  |

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

**NEW BUSINESS:**

Graystone Consultant Holycross prepped the Board prior to the first interview reminding them that the firm they choose would be serving as a complement to NFJ. He briefly went over the interview booklets highlighting the comparison of both candidate firms with the current international money manager.

**INTERNATIONAL GROWTH MONEY MANAGER SEARCH**

**RENAISSANCE INVESTMENT MANAGEMENT(7:15am)**

**Presenter: Michael Fedorovich, Vice President & Regional Manager for AMG**

Mr. Fedorovich noted the firm was founded in 1978 and their international growth strategy started in 1994. The firm currently manages about \$200 billion in municipal assets. They are a boutique firm with 22 total employees. Historically there has been very little turnover in key personnel. Joe G. Bruening is the lead portfolio manager. Decision making power lies in his hands, though Michael E. Schroer could step in if necessary.

The philosophy of this strategy is to hold conservative, high quality, growth equities that have good fundamental growth characteristics, strong earnings momentum, and reasonable valuations. They approximately 50-60 positions in the portfolio and tend to be more heavily weighted in mid-large cap equities, but are not averse to owning a good small-cap equity. Annual turnover in the portfolio is approximately 40%-60% and they typically hold a stock for 2-3 years. They use a bottom-up approach to choosing stocks starting with a universe of American Depositary Receipts and U.S. Listed Shares of Foreign Companies from which they choose companies with solid balance sheets, highly liquid stock, and that conform to GAP accounting principles. From there they concentrate on the top quartile for selection. The portfolio is equally weighted with no single security dominating. They can have up to 33% of the portfolio invested in emerging markets, a maximum of 40% in any given sector, and exposure in approximately 20-25 countries at any given time. They will not purchase a stock simply to represent a sector of the market. They have a rigorous sell discipline that is structured to remove the human element from the decision. They will sell a stock if they wouldn't purchase that stock today, the stock reaches a high valuation, the earnings growth rate slows, or there are negative earnings estimates.

Mr. Fedorovich noted that when financial fundamentals are rewarded they do really well, and when they are not they tend to be under the benchmark. He summarized by saying the firm looks for high quality investments and strong fundamentals and couples that with an emphasis on risk control.

The Board inquired about the relationship between Renaissance and AMG. Mr. Fedorovich indicated AMG partners with smaller boutique managers to market them, provide assistance with compliance and legal issues, and provide consistency when key personnel retire or move on. And while AMG always maintains a majority in the company they encourage the firms to run themselves as if they were independently owned. AMG offers its partners access to various administrative services so the firm can concentrate on investing. AMG owns approximately 60% of Renaissance and is Mr. Fedorovich's direct employer.

#### **HARDING LOEVNER LP (7:35am)**

**Presenter: Whitney Stewart, CFA, Assistant Vice President-Portfolio Research for AMG**

Mr. Stewart introduced himself and briefly detailed the ownership of the firm saying AMG owns approximately 60% of the firm (the relationship appears identical to AMG's relationship with Renaissance). He went on to say the firm was founded in 1989 and they target high quality growth companies using a very specific framework of analysis, monitoring, and sell discipline. They employ a multi-national staff of in-house analysts that are extremely familiar with the countries they cover, and whose compensation is based in part on the accuracy of their analysis. They include approximately 4,250 ADRs in their research universe ending with approximately 30-60 stocks chosen for the portfolio. The field is first narrowed according to analyst insights about specific industries and companies, they then sort the companies by apparent business quality and growth prospects, only those companies that display a competitive advantage, sustainable growth, financial strength, and quality management are scheduled for in-depth analysis. In-depth analysis involves examining company securities to build a comprehensive forecast, estimate fair values, and rate the stocks. They also define business mileposts that the companies must meet, as well as buy/sell orders, providing defined metrics to determine whether a security is kept in the portfolio. The ultimate portfolio is a 50%/50% combination of the two individual portfolios developed by the two co-managers. These co-portfolio managers have the final buy/sell authority. As an added risk control three other partners in the firm develop their own "paper" portfolios based on the analyst's recommendations. These paper portfolios then serve as a track record for the partners should one of the co-portfolio managers need to be replaced. The firm further employs strategy guidelines to ensure diversification of the portfolio and limit risk. The maximum holding in any one security is 5%, the minimum number of markets in the portfolio is 15, the maximum holding in a single

industry is 15%, and the maximum in one sector is 25%. The firm has also developed a series of ranges limiting the level of investment in any geographic area of the world.

**DISCUSSION:**

Consultant Holycross indicated his recommendation was for Harding Loevner, they have a deeper team, more people overseeing the portfolio, and they seem to be a good complement to our existing International Value money manager NFJ.

Chairperson Farrell liked the fact that Harding works to protect the downside and that they complement NFJ well.

City Attorney Brown indicated he liked the fact that Harding has three partners prepared to step up to manage the portfolio at any time.

Trustee Brewbaker noted that the performance record for both firms was good.

Motion by Trustee Fox to approve a contract with Harding Loevner investing in their International Equity ADR strategy.

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

City Attorney Brown inquired how long it would take to bring them on-board. Consultant Holycross said they could easily be working for the System within 30-60 days.

**NEXT BOARD MEETING:**

The next board meeting is scheduled for February 24, 2016 at 7:15am

**ADJOURNMENT:**

The meeting adjourned at 9:06 a.m.

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Amy K. Kirkland, City Clerk