
MEETING MINUTES
EMPLOYEE PENSION & TRUST INVESTMENT COMMITTEE
CITY OF FRANKLIN, TENNESSEE
CITY HALL BOARD ROOM
MONDAY, OCTOBER 10, 2011 @ 2:00 PM

Committee Members

Alderman Clyde Barnhill, Chair
Mayor Ken Moore
Ed Cagle, Citizen
Marcia Williams, Citizen
Mark Paris, Employee
David Edge, Employee
Shirley Harmon, Human Resources Director

Other Attendees

P	Barry Bryant, Dahab Associates	P
P	David Kays, Acuff & Associates	P
P	Andrew Elbon, Bradley Arant Boult Cummings	A
P	Kristen Corn, Staff Attorney	P
P	Russ Truell, Finance Director	P
P	Eric Stuckey, City Administrator	P
P	Linda Fulwider, Board Recording Secretary	P

1. Call to Order

Alderman Barnhill, Chair, called the meeting to order at 2:00 p.m.

2. Approval of the Minutes

Ed Cagle moved to approve the August 8, 2011 minutes as presented. Seconded by David Edge. Motion carried unanimously.

3. Interview with Current Money Manager

Penn Capital Management

- ♦ **Stephen Loizeaux**
- ♦ **Paulo Silva, Senior Portfolio Manager/Partner**

Prior to speaking with Penn, Barry Bryant provided a brief summary of Penn Capital's performance, using the Total Portfolio Quarterly Performance Summary as of June 30, 2011. They were 4.2 under the benchmark (Russell 2500). Mr. Bryant noted there are grounds to dismiss this manager, but there is a chance they could do better in a better economic environment. They are a higher risk manager. They underperformed when the market was down and should have added value in a down market. On the other hand, in 18 total quarters observed, they were at or above the benchmark 10 times, and 8 quarters they were below the benchmark for a batting average of .556. They lost 50% in the third quarter of 2008. Without that quarter they did well.

Mr. Loizeaux and Paulo Silva joined the conversation via telephone. Mr. Bryant asked them to explain the underperformance. (SMID Equity Review City of Franklin Employees' Pension Fund was provided)

They said there had been no changes in personnel or process since taking the account in October 2006, but there have been two significant credit events. Periods of underperformance have occurred only during severe credit events: 1998 Long Term Capital failure and the Russian Ruble default; 2002 – 9/11, Enron and World com; 2007 & 2008 – Sub-prime/CDS; 2011 – European Sovereign Debt. The problem now is in foreign markets and not the United States. They believe the August 2011 European financial crisis will be resolved within months.

Mr. Bryant asked why they think the European debt crisis is close to the bottom as he doesn't see the crisis going away in a couple of months, and thinks it will spread.

Mr. Silva gave a lengthy response saying in part the solution is to nationalize French banks. Penn will outperform coming out of the crisis. He wants the City to sit tight. Today is the wrong time to sell Penn as would be the next two or three years of recovery.

Discussion following termination of the telephone interview:

- ♦ The question of why they expect resolution in a couple of months was not answered well
- ♦ Taxpayer money is used in the retirement program; therefore, less risk in investments is preferred
- ♦ Conservative approach favored

Mr. Bryant said if the committee decides to fire this manager, he would urge it be done tomorrow and put the money into ETF or something until another manager is engaged, empowering Mr. Truell to select where the money should be placed in the interim. The portfolio is about \$6 million.

Marcia Williams moved to exit the relationship with Penn Capital Management and empower Russ Truell, with the assistance of Dahab (Mr. Bryant) to place the funds in ETF, or other appropriate fund for the interim. Seconded by Shirley Harmon. Motion carried unanimously.

4- Interview with Timber Managers

Prior to the interviews, Mr. Bryant provided information on each firm. FIA buys little pieces and is more diverse. RNS buys larger tracts. The fee structures are different. RMS numbers are slightly better.

Firm	Forest Investment Associates	Resource Management Service
Product	Partners II Fund	Forest Growth III
Location	Atlanta, GA	Birmingham, AL
Contact	V. Scott Bond	Eric Schwefler
Affiliation	Independent	Independent
Founded	1986	1950
Total Assets	\$3.3B	\$4.2B
Total Timber Assets	\$3.2B	\$4.2B
Timberland Acreage	2.0mm acres	2.6mm acres
Overview	Opportunistic acquisitions of diversified timberland through the U.S. across all ages and species	Make investments in high-quality, investment grade timberland properties and/or long-term timberland leaseholds
Geographical Distribution	South: 89%, Northeast 4%, Pacific Northwest 4%, Great Lakes 3%	U.S. South
Investment Vehicle	U.S.-Based Partnership	Commingled Fund
Purchase/Lease	Mixed	Mixed
Fund Target Size	\$200mm	\$300mm
Amount Committed	\$118mm	\$160mm
Expected Closing Date	End of Year	Beginning 2012
Term of Fund	10 years, following 4-year investment period, with three- 1-year extensions	15 years w/possible 2-year extension
Leverage	Up to 25%	<25%
Minimum Investment	\$5mm, negotiable	\$5mm, negotiable
Fees	Comingled Fund: Management Fee: 1% of capital called and 0.25% of uncalled Preferred Return: 7% Carried Interest: 20%	Commingled Fund: Management Fee: 1.05% on capital called Preferred Return: 5% Carried Interest: 20%

Firm	Forest Investment Associates	Resource Management Service	NCREIF Timberland
2001	-9.74	--	-5.25
2002	2.02	--	1.88
2003	7.57	--	7.66
2004	9.77	--	11.20
2005	10.59	16.91	19.35
2006	7.33	4.73	13.68
2007	21.11	20.25	18.43
2008	10.21	12.16	9.52
2009	-8.31	-0.25	-4.76
2010	2.50	8.70	-0.15
1Q 2011	0.40	0.87	0.71
2Q 2011	1.13	0.21	0.66
3 Year	0.71	3.27	0.03
5 Year	5.80	6.41	6.08

Forest Investment Associates

- ♦ **Scott Bond, Vice President – Director of Marketing and Client Relations**
- ♦ **Patrick Nolan, Marketing Analyst**

Mr. Bond explained that Mr. Nolan is a junior staff member and is part of the succession plan.

Overview:

- ▲ 48 employees – heavily employee owned with almost no turnover
- ▲ Senior foresters have an average of 25 years' experience
- ▲ 12 mid-level foresters on average have 14 years experience
- ▲ Separate Accounts equal 75% of assets under management
- ▲ Commingled Funds equal 25% of assets under management

Investment Objective: Generate long-term returns 6% to 8% above inflation

Current Fund Offering – FIA Timber Partners II – Key Terms	
Objective	Acquire core U.S. timberland through disciplined acquisitions and maximize returns via hands-on forestry management. Expected nominal return of 8.0%-10.0%. Reasonable Expected Cash Distribution of 4%-5%
Target Size	\$200 million
Term	10 year initial term, to commence after end of investment period. Three 1 year extensions at GP election (provided 66-2/3% in interest of investors do not object). Subsequent extensions based on GP recommendation, to be approved by majority in interest of the in investors.
Structure	Limited Partnership
Investment Period	Through January 2015
GP Investment	1% of commitments
Management Fees	25bps on committed but not contributed capital, 100bps on contributed capital
Performance Fees	20% of profits after a 7% return on total portfolio No other fees paid to the General Partner

Mr. Bryant asked what distinguishes FIA from other providers. The response was experience, employee ownership, and culture. Mr. Bryant asked if the size of properties they buy is different from other providers to which they responded, not necessarily, but they prefer to buy smaller properties on the average of 20,000 to 30,000 acres. Smaller acquisitions are more focused.

Resource Management Service

- ♦ **Eric Schwefler, Resource Management Service**

Overview:

- ▲ Experienced senior management team
- ▲ 60+ year history of timberland management
- ▲ 160 employees
- ▲ Broad employee ownership - 77.8%
- ▲ Former CEO/Founder/Board Member - 6.8%
- ▲ Outside Investors – 15.4%
- ▲ Forestry-centered company with fiduciary culture
- ▲ Philosophy of transparency and open communication
- ▲ Well positioned in US South with 2.6 million acres
- ▲ 4.2 billion assets under management
- ▲ 43 client relationships
- ▲ 100 people in the trees doing forestry work

RMS Forest Growth III, L.P. – Summary of Terms	
Company	RMS Forest Growth III, L.P., a Delaware corporation
Investment Objective	<ul style="list-style-type: none"> ◦ Establish a timberland portfolio targeting pine plantation assets in the US South, diversified by geography, timber and land market, age and product ◦ Preserve investment capital while generating a balance of return from long-term capital appreciation and current income
Target Investment Region	Southern US: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas and Virginia
Offering Size	Target \$250 million
Minimum Investment	\$5 million; Lesser amounts may be accepted at the sole discretion of the General Partner
Fund Term	The initial term will expire on December 31, 2025, subject to one 2-year extension with the consent of the Investor Board
Subscription Closing Date	Final Closing 4Q2011
Management Fee	"All-in" fee equal to 0.85% annually of the lesser of aggregate capital invested, adjusted for timberland sales and inflation, or the fair market value of the portfolio. Fee covers all RMS vertically-integrated operations. Approximate allocation to Investment Management (25-35 bps) and Property Management (50-60 bps)
Performance Incentive Fee	20% of profits in excess of 5% real, net of all fees and expenses
GP Co-investment	Resource Management Service, LLC will co-invest an amount equal to 0.5% of the aggregate investments by the Limited Partners
Tax Structure	The investments will be acquired by a subsidiary of the fund which will qualify as a real estate investment trust, or "REIT", for tax purposes

Discussion:

- ♦ Fee is on called capital only
- ♦ Term of fund longer than average to add value.
- ♦ Repair/remodel market on the uptick
- ♦ Legacy corporate accounts: no outside actual commitments as these are the first clients that they manage; no new money accepted.
- ♦ Foresters on the ground with RMS differ from foresters on staff, such as FIA who contracts with others to work the land and oversee timber sales.
- ♦ Properties are not insured, they get around by using diversification.

Discussion following termination of interviews:

- ♦ FIA does insure. RMS assess on per property basis
- ♦ Invest at least \$1 million
- ♦ Choose vendor today and determine allocation later
- ♦ RMS fees are better
- ♦ Keep allocation as fully funded as possible

Marcia Williams moved to engage Resource Management Service, LLC for additional timber investment and allow Russ Truell and Barry Bryant of Dahab to determine the amount to allocate. Seconded by Shirley Harmon. Motion carried unanimously.

5. Other Business

Additional Discussion Regarding Penn Capital

It was determined that Barry Bryant would contact Steve Loizeaux of Penn Capital and instruct him to liquidate the portfolio within two weeks (10 business days). A transition manager contract will be developed for future situations similar to Penn Capital. BOMA approval required.

Risk Management Pool

Shirley Harmon said the risk management pool does not cover fiduciaries. It would cost \$9,200 per year to cover Pension Committee members and trustees. Errors and Omissions Policy does not cover this group. BOMA approval required. Marcia Williams thought it wise to purchase the insurance. Ms. Harmon will provide information at the November meeting.

Next Meeting

Monday, November 14, 2011 @ 2:00 p.m. in the Board Room.

6.

Adjourn

Shirley Harmon moved to adjourn.

Meeting adjourned @ 4:28 p.m.

Clyde Barnhill, Chair

Minutes prepared by Linda Fulwider, Board Recording Secretary, City Administrator's Office - 11/22/2011 3:35 PM