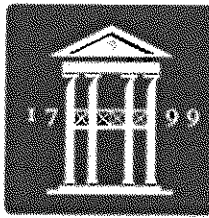


ADMINISTRATION

Russell B. Truell
Assistant City Administrator, CFO
Finance



ITEM #12
BOMA
03/27/2012

Dr. Ken Moore
Mayor

Eric S. Stuckey
City Administrator

H I S T O R I C
F R A N K L I N
T E N N E S S E E

March 9, 2011

TO: Board of Mayor & Aldermen

FROM: Eric Stuckey, City Administrator
Russ Truell, Assistant City Administrator

SUBJECT: Consideration of Agreement with Southern Sun

Purpose

The purpose of this item is to consider an agreement with Southern Sun as a manager for some of the City of Franklin's pension investments.

Background

The Pension Committee, in consultation with our independent investment advisor and after interviewing three finalists for the position, has selected Southern Sun as one of our portfolio managers. Southern Sun has been chosen to manage two-thirds of the allocation to small cap equities. Small cap comprises 15% of the pension portfolio. At the February meeting, the Committee voted overwhelmingly to add Southern Sun, based in Memphis, as a replacement for Penn Capital Management.

Financial Impact

There is no additional financial impact to the City, other than the normal pension contribution determined by actuarial calculation. Funds for this investment will be transferred from the existing small cap fund or cash holdings.

Recommendation

Staff recommends approval of the agreement, subject to modifications recommended by the City Attorney and the counsel to the Pension Plan and approved by the City Administrator.

City of Franklin
SOUTHERNSUN SMID CAP EQUITY PORTFOLIO
Investment Guidelines

Manager: SouthernSun Asset Management (“Investment Manager”)

Investment Strategy

The mandate is to manage an active small/mid capitalization equity portfolio that aims to deliver long term capital appreciation by investing in a portfolio of United States small-sized and mid-sized market capitalization companies.

Benchmark

The Account’s benchmark is the Russell 2500 Index, cap-weighted, unhedged, with net dividends reinvested.

Performance Objective

To achieve a return above the Russell 2500 Index return over a full market cycle, or a period of 3-5 years.

Capitalization

The market capitalization of equity securities purchased will normally be within a similar range to that of the Russell 2500 Index.

Permitted Investments

- a) Equity securities listed on the New York Stock Exchange, the American Stock Exchange, NASDAQ, principal regional exchanges, and over-the-counter market are approved provided there is ready liquidity of the specific security.
- b) Initial Public Offerings (IPOs).
- c) REITS (Real Estate Investment Trusts).
- d) ETFs (Exchange Traded Funds).
- e) ADR’s with respect to companies organized under the laws of countries other than the U.S.
- f) Equity securities of foreign companies trading in the U.S. markets and capable of settlement in the U.S. (ex: Chicago Bridge & Iron Company, ticker: CBI).
- g) Cash or money market funds.

Restrictions

The Account will not:

- a) Invest in futures or options on futures on stock indices.
- b) Engage in short sales.
- c) Invest in commodities or commodity futures.
- d) Invest in securities not readily marketable or without readily ascertainable market value.

- e) Invest in annuities or other insurance contracts.
- f) Invest in direct real estate holdings or commingled private real estate funds.
- g) Pledge and/or hypothecate securities, unless used for hedging purposes.
- h) Be leveraged; however, if the portfolio becomes leveraged or overdrawn due to an operational issue, such as a failing trade or diverging settlement dates, this will be deemed not to be a breach of these Guidelines. The Investment Manager will seek to eliminate the leverage or overdraft as soon as reasonably practicable.
- i) Invest in unlisted securities (other than securities which are to be listed within 60 days and subject to a 2% account limit).
- j) Invest in restricted stock.
- k) No margin purchases, lending, or borrowing of funds or securities.

Account Diversification

- a) Strategy is relatively concentrated, typically consisting of 20 – 30 holdings.
- b) Percentage of Account market value invested in a particular industry should typically not exceed 25%.

Proxy Voting

The Investment Manager is authorized and directed to vote all proxies furnished by portfolio companies.



Client Agreement for SouthernSun Asset Management, LLC

The undersigned ("Client") hereby employs SouthernSun Asset Management, LLC ("SouthernSun") to supervise and manage the assets in the investment account established on behalf of Client (the "Account"), in accordance with the following terms and conditions:

- (1) SouthernSun shall have discretion to supervise, manage and direct the assets in the Account and, as agent and attorney-in-fact with full power and authority on behalf of Client, SouthernSun may, without prior consultation with Client and at such times as SouthernSun deems appropriate, (a) purchase, sell, invest, reinvest, write options, exchange, convert, trade in and otherwise deal with such assets, and (b) place all orders for the purchase or sale of portfolio securities for the Account with or through brokers, dealers or issuers of securities in which assets of the Account may be invested from time to time.
- (2) Client understands that it is SouthernSun's primary objective in allocating securities transactions to securities brokers for the Account, to obtain a favorable execution of orders. In selecting brokers, SouthernSun considers execution capabilities, clearance, settlement, reputation, financial strength and stability and other factors of that nature, and that the brokerage chosen by SouthernSun may not be the one necessarily charging the lowest commission. Client hereby authorizes SouthernSun to allocate brokerage transactions arising from the Account in the manner described.
- (3) The assets in the Account will be placed with such custodian as designated by SouthernSun and Client, and it is understood that SouthernSun shall not, at any time, have physical possession of any cash, securities or other assets of the Account.
- (4) Compensation to SouthernSun for the services provided hereunder shall be in accordance with the Fee Schedule attached to and made part of this Client Agreement as Exhibit A.
- (5) SouthernSun shall not be liable for any losses which Client, or anyone claiming through Client, may sustain, either by reason of SouthernSun's management decisions at any time, including actions taken or omitted prior to the receipt by SouthernSun of written notice of the termination hereof. Except for bad faith, willful malfeasance or gross negligence or the reckless disregard of its obligations and duties hereunder, neither SouthernSun nor any of its officers or employees shall be liable for any errors of judgement in the management of the Account. Management decisions which SouthernSun may make will be based upon information from sources which it regards to be reliable. It is explicitly understood that any information or recommendations supplied Client are to be regarded as confidential and for the Client's personal use only. Nothing set forth in this Paragraph or elsewhere in this Agreement is intended or shall be construed as a waiver of any rights that Client may have under federal or state securities laws.
- (6) It is understood that SouthernSun will be acting in a similar capacity for other customers and that investments and reinvestments for the Account may differ from those made with respect to other accounts and customers even though the investment objectives may be the same or similar. Nothing herein contained shall be construed to prevent SouthernSun or any of its officers, employees and/or affiliates in any way from purchasing or selling any securities for its or their own account prior to, simultaneously with or subsequent to any management decision regarding a Client or impose upon SouthernSun any obligation to purchase or sell, or to recommend for purchase or sale, any security which SouthernSun, its officers, employees and/or affiliates may purchase or sell for its or their own accounts or for the

account of any other client, advisory or otherwise; provided, however, that no such transaction shall be violative of any applicable law.

- (7) Client represents and warrants that it is authorized to enter into this Agreement, that (if the client is not an individual) the appointment of SouthernSun as investment adviser described herein is authorized by law and by corporate action or other appropriate and legally effective action, and that there are no restrictions or limitations on the investment of Client's account, its management or any other activity contemplated by this Agreement other than (i) those imposed on SouthernSun by virtue of its fiduciary obligations to Client, (ii) those required of SouthernSun for it to manage the Account consistent with the style and products SouthernSun has described in the brochures and other written material it has given to Client, and (iii) those communicated from time to time in writing to SouthernSun.
- (8) This Agreement shall be immediately cancelable by either party by written notice to the other and a pro rata refund will be made of all fees paid in advance. In the event of Client's death (if the client is an individual), SouthernSun is hereby authorized to continue managing Client's account as herein provided until receipt by SouthernSun of proper notice of termination from the legal representative of Client's estate.
- (9) This Agreement may not be assigned, in whole or in part, by either party without the prior written consent of the other party.
- (10) By execution of this Agreement, SouthernSun represents and confirms that it is registered as an investment adviser under the Investment Advisers Act of 1940 ("The Act"), as amended.
- (11) By signing below, Client acknowledges that it has received a copy of SouthernSun's Form ADV Part II at least 48 hours prior to entering into this Agreement, as required by Rule 204-3 under The Act, as amended.

_____	By: _____	_____
Client	Client Authorized Signature	Date
_____	_____	_____
Address	Joint Authorized Signature	Date

Address		
_____	By: _____	_____
City, State, Zip	SouthernSun Authorized Signature	Date
_____	_____	
Social Security or Tax ID Number	Title	

Joint Social Security or Tax ID Number		

EXHIBIT A

Fee Schedule

SouthernSun Asset Management

Compensation to SouthernSun shall be based upon a percentage of the assets under management as set forth below. Fees shall be paid quarterly, in advance/arrears, based on the market value as of the last business day of each calendar quarter upon submission of a statement therefore, provided that significant cash flows of ten percent (10%) or greater during the quarter may result in one or more interim calculations and adjustments (upwards or downwards) to the fees for that quarter.

<u>Assets</u>	<u>Fees</u>
All Assets	0.90% (90 basis points)

Signature

Date

Joint Signature

Date



6070 Poplar Avenue
Suite 300
Memphis, Tennessee 38119

RE: Consent to Use Name on Client List

We would like to include your organization's name in our literature under the heading "Representative Client List". Inclusion of your company's name, however, will not be represented as an approval by you of our firm pursuant to SEC regulations.

Please sign and return this letter to me giving your approval if you agree to do so.

Sincerely,

Betty Harper
Operations Manager

Account Name:

Authorized Signature:

Joint Authorized Signature:

Date:



6070 Poplar Avenue
Suite 300
Memphis, Tennessee 38119

Letter of Authorization for Payment of Management Fee

This letter will serve as your authorization to the designated custodian to pay the management fee each calendar quarter earned on your account. The fee will be billed based upon the contract currently in place between client and SouthernSun Asset Management and paid directly to SouthernSun Asset Management from your account.

Please execute this document and return. Thank you again for your trust and confidence in our firm. Please always feel free to let us know how we may serve you more effectively.

Account:

Name

Client:

Signature

Joint Signature

Date

**SouthernSun Asset
Management:**

Signature

Date