
MEETING MINUTES
EMPLOYEE PENSION & TRUST INVESTMENT COMMITTEE
CITY OF FRANKLIN, TENNESSEE
CITY HALL BOARD ROOM
MONDAY, MAY 16, 2011 @ 4:00 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	Elizabeth Browne, SunTrust	P
P	David Kays, Acuff & Associates	P
P	Kristen Corn, Staff Attorney	P
P	Russ Truell, Finance Director	P
P	Eric Stuckey, City Administrator	P
P	Andrew Elbon, Bradley Arant Boult Cummings	A
	Linda Fulwider, Board Recording Secretary	P

1. Call to Order

Alderman Barnhill, Chair, called the meeting to order at 4:00 p.m.

2. Approval of the Minutes

Ken Moore moved to approve the February 28, 2011 minutes as presented. Seconded by David Edge. Motion carried unanimously.

FYI: Russ Truell announced an invitation was received to attend Landmark's annual meeting on June 6, 2011 in New York. Mr. Truell mentioned he has copies of Bailard's audited financial statements.

3. Report on Large Cap Manager Search

Barry Bryant, Dahab Associates

Mr. Bryant reported the search brought 70 responses that were narrowed down to three. He reviewed the organizational information of Atlanta Capital Management Company, Logan Capital Management, and Polen Capital Management. He related the three have more similarities than differences. Atlanta Capital is a division of Eaton Vance while Logan and Polen are independently owned. Total assets are about the same as are products. Atlanta has a 50% turnover rate, with Logan and Polen being lower. Mr. Bryant reviewed performance information 2001 through 2010.

4. Presentation Polen Capital Management, Boca Raton, Florida

Stan Moss, Chief Operating Officer
Damon Ficklin, CPA, Research Analyst
John Gunther, CIMA, CMT, Relationship Manager

- ◇ Mission: To outperform the benchmarks and most other managers while taking less risk.
- ◇ 100% employee owned and independent
 - Our sole focus is our Large Cap Growth product
 - All partners and employees are invested in the product
 - The Investment Team has 34 years of combined experience on the product
 - Succession plan in place

- ◇ Current AUM is approximately \$1.6 Billion
 - 50% Institutional
 - Public
 - Corporate
 - Endowment & Foundation
 - Taft Hartley
 - 50% High Net Worth
- ◇ Highest commitment to client service (direct contact with Investment Team and COO)
- ◇ Evidence of a Sustainable Competitive Advantage
 - We have twenty two years of positive statistical evidence supporting the validity of our Investment Process through various market cycles
 - Best in class returns in both up and down markets

COMPETITIVE ADVANTAGES

Portfolio Construction

- Portfolio is constructed with approximately 20 holdings
- Agnostic to index sector weightings and index position weightings
 - Best Ideas Portfolio

Time Horizon

- Long term focus on company fundamentals and competitive advantages
 - Average holding period five years
- Total holdings since inception – less than 100

Investment Team Tenure

- 34 years of combined experience on the product
- Same lead Portfolio Manager throughout history and in place today
- 22 years of evidential success through consistent application of investment process

Behavioral

- No market predictions – fully invested at all times
- Unemotional selling – “don’t lose”, an absolute return mentality
- Sole focus

Risk Management

- Quality criteria for inclusion in portfolio (e.g. high ROE, Low D/E, abundant FCF, etc.)
- Limited number of portfolio holdings which lessens the probability of risk entering the portfolio
- Portfolio construction parameters include position size limits and sector weight limits
- Strict and disciplined focus on preservation of capital, no major losers in portfolio since inception

Investment Philosophy

Our Mission: To outperform the benchmarks and most other managers while taking less risk

Philosophical Tenets:

- Concentrated portfolios allow for greater total return potential & less risk if only focused on the best businesses
- High-quality businesses with a sustainable competitive advantage and solid fundamental (high free cash flow, low debt, strong ROE, solid management, etc.) typically generate more sustainable long-term earnings growth
- Companies with greater earnings stability offer a “Margin of Safety” as they tend to outperform in declining markets
- Over the long term, share prices follow earnings growth. Thus, strong absolute & relative returns are generated through the compound earnings growth of competitively advantaged companies owned for many years. This is a low turnover approach that reduces taxes and trading costs. On average, we have held our stocks for over 4 years.
- We stay fully invested and make no market calls. We do not attempt to generate returns through portfolio activity but rather by owning great growth businesses.

Investment Process

- We employ a disciplined and repeatable investment process including an initial quantitative screen followed by various levels of rigorous bottom-up fundamental analysis. The process seeks to identify from our initial universe of 1,000 securities a select and concentrated portfolio of 15 to 25 high quality large-cap companies capable of delivering sustainable above average earnings growth with a margin of safety.

1. Quantitative Metrics (screening for MOS)
 - Relative & Absolute Earnings Growth
 - FCF Growth
 - Strong ROE
 - Improving Margins
 - Low Debt to Equity
2. Financial Analysis (assess financial quality)
 - Financial Strength
 - Consistency (over trailing 5 to 10 years)
 - Reliability
3. Qualitative Screens & Valuation (generate ideas & evaluate)
 - Franchise Strength
 - Industry Strength
 - Sustainability (over the next 10 years)
 - Management
 - Pricing Models
4. Portfolio Construction & Management (Construct & Manage Best Long Term Ideas)
 - Margin of safety
 - Strong Growth Potential
 - Maximum Flexibility
 - Buy & Scrutinize

Questions from Barry Bryant and Marcia Williams were addressed.

5. Presentation Atlanta Capital Management, Atlanta, Georgia

James S. Skesavage, Director of Marketing, Principal

Richard England, CFA, Managing Director – Growth Equity, Principal

Founded in 1969, Atlanta Capital Management is majority owned by Eaton Vance Corporation and employs 45 professionals (19 are equity partners). \$11.3 Billion in assets under management.

Focused

- Investment counseling is our sole business
- Specialties in high quality stocks and bonds

Seasoned

- 40-year history that has endured multiple market environments
- 18 investment professionals averaging 19 years industry experience

Disciplined

- Philosophy based on delivering excess returns at low levels of risk
- Value added generated from bottom-up, fundamental research

Representative Client List reviewed in categories, Public Fund, Foundation/Endowment, Corporate, Taft-Hartley, and Sub-Advisory.

Investment Team education and experience reviewed – 12 investment professionals average 18 years industry experience. 60% hold Masters Degrees & 75% are CFA Charterholders. Investment criteria and methodology reviewed.

High Quality Growth Plus

Investment Description

- A conservative large cap growth discipline that invests in companies with a demonstrated history of consistent earnings growth whose equities are selling at attractive valuations

Purchase Decisions

- Emphasizes stocks with top 40% reward-to-risk ranking
- Subjective decision-making structure to balance risk/reward inputs & assessment of intangibles

Benchmark

- S&P 500 Index

- Russell 1000 Growth Index

Portfolio Construction

- 45-55 Holdings
- 5% Max Position Sizes
- 30% Absolute Sector Weights
- 10% Max ADRs
- 40-50% Turnover

Our Sell Discipline

A stock is sold as its relative reward-to-risk ratio declines, often due to one or more of the following factors:

- Critical variables (those two or three factors most likely to determine whether or not a stock outperforms) fail to materialize
- Valuation multiple expands beyond an attractive level, failing to provide adequate potential for upside return
- Earnings expectations grow unreasonable high, leaving the company likely to disappoint
- Confidence in management deteriorates, increasing concerns regarding accounting & corporate governance issues

Why Atlanta Capital Management?

- 40 years of Investment Experience
- Operate as Owners of the Business
- Singular Focus on High Quality Investing
- Team-Oriented Approach
- Structure Dedicated to Investment Management
- Strong Commitment to Client Service

Questions were addressed.

6. Presentation Logan Capital Management, Ardmore Pennsylvania
Deborah George, Managing Director
Stephen S. Lee, Principal

- ❖ Established 1993
 - ❖ Located in Ardmore, Pennsylvania
 - ❖ Privately owned by three principals
 - ❖ \$2.0 Billion under management
 - ❖ PSN Top Gun Winners
- Large Cap Growth - Logan Growth – LCV

Assets Under Management (millions)

Institutional			\$1,540
	Employee Benefit	\$620	
	Insurance	\$849	
	Other Institutional	\$71	
Private Clients			\$139
SMA Programs			\$302
Total			\$1,981

- ❖ Clients
 - Institutional 78%
 - Private 7%
 - SMA Programs 15%
- ❖ Strategy
 - Large Cap Growth \$870
 - Mid to Large Cap Growth \$136
 - Custom \$261

International ADR \$9
 GARP \$50
 Fixed Income \$563
 Large Cap Value \$92

- ❖ Mandates
 - Fixed Income 24%
 - Balanced 18%
 - Equity 58%

Investment Philosophy

What makes a “great stock” great?

Logan Capital’s Founders came together because of a common philosophy of Growth investing

We believe that strong stock selection drives outstanding portfolio performance

To be a truly great investment, a stock must have:

- ❖ Increasing earnings tied to pricing power
- ❖ An economic tailwind
- ❖ A technical profile that confirms underlying long-term strength

Process

Macro Economic View <i>Early through Insight</i>	Fundamental Assessment <i>A great stock has Wall Street’s attention</i>	Technical Profile <i>Remain sensitive to what the market is telling us</i>
<ul style="list-style-type: none"> ❖ Trends in real GDP growth ❖ Short and long-term interest rates and yield curve ❖ Inflation ❖ Fed actions ❖ Productivity gains and corporate cash flow <p>Results: Predisposition to themes and/or sectors</p>	<ul style="list-style-type: none"> ❖ Logan Ranking Algorithm methodically detects upward revisions in earnings growth ❖ Rank ~1000 stocks ❖ Focus: Top ~200 are ‘Buy’ candidates only if: <ul style="list-style-type: none"> ◦ Fit with our macro view ◦ Survive in-depth analysis ◦ Have rising earnings tied to pricing power 	<ul style="list-style-type: none"> ❖ Buy decisions: Technical profile must confirm long-term underlying strength ❖ Sell/Hold decisions: Use technical indications to confirm a change in our macro view or fundamental assessment ❖ Can be an early indicator – causes us to check our work

Fundamental Research: Developing the Short List

- ❖ Scrub: 7500 Zacks stock universe to ~1000:
 - Market cap >\$1 billion
 - 5 years of operating history
 - Two analysts covering stock
- ❖ Score: Assign Logan Score to ~1000 stocks
- ❖ Screen: Narrows universe to ~200 stocks
 - Market cap elevated to ≥ \$5 billion
 - Growth: Earnings growth ≥ 12%
 - Valuation: PEG ≤ 2X
 - Profitability: ROE ≥ 15%

Transparency: Idea Generation

1 Month Δ EPS Estimates (FY1 & FY2)	15%
3 Month Δ EPS Estimates (FY1 & FY2)	12%
Δ Quarterly EPS Estimates	9%
Long Term Earnings Growth	8%
Earnings Growth Related	44%
Standard Deviation of EPS Estimates	15%
Up vs. Down Estimate Revisions	5%
Consistency	20%
52 Week Price Momentum	20%
ROE	8%
Market Cap	8%
Total	100%

Fundamental Research: Sustainability

We focus on the companies that move up our rankings and concentrate our research on the candidates with the strongest advantage

- ❖ Significant barriers to entry
- ❖ Market expansion opportunity for company
 - Market creation
 - Macro shift
 - Increased market share
- ❖ Market dominance and/or pricing power
 - Brand
 - Innovation
 - Captive markets

Several charts and graphs reviewed as well. Questions posed by Mr. Bryant and Ms. Williams were addressed.

7. Quarterly Investment Update

Barry Bryant, Dahab Associates

Market Summary March 31st, 2011

Economic Statistics

	Current Qtr	Last Qtr
GDP	1.8	3.1
Unemployment	8.8	9.4
CPI Year/Year	2.68	0.34
Fed Funds Rate	0.25	0.25
Industrial Capacity	77.4	76.0
US Dollars per Euro	1.42	1.34

Major Index Quarter Returns

Index	Performance
Russell 3000	6.4
S&P 500	5.9
Russell Mid	7.6
Russell 2000	7.9
MSCI EAFE	3.5
MSCI Emg Mkts	2.1
NCREIF ODCE	4.0
Barclays Agg	0.4
90 Day Tbills	0.0

Equity Return Distributions

Quarter				Trailing Year			
	Val	Cor	Gro		Val	Cor	Gro
LC	6.5	6.2	6.0	LC	15.1	16.7	18.2
MC	7.4	7.6	7.9	MC	22.3	24.3	26.6
SC	6.6	7.9	9.2	SC	20.6	25.8	31.0

Market Summary
<ul style="list-style-type: none"> • A more modest 1.8% GDP growth rate was reported in the first quarter • Unemployment fell to 8.8%, the lowest in 2 years • The equity markets continued to rise, led by small and mid cap stocks • Year-over-year March CPI increased by 2.68%, the largest increase since 2008

Manager Performance Summary: In good shape overall.

DISCUSSION & DECISION ON LARGE CAP MANAGERS

- Logan a bit more technical and little more based on the economy than Polen and Atlanta
- Polen and Atlanta similar
- Not much difference in fee structures between the three
- Turnover
- Risk
- Choose a manager now to start the process and designate an amount later
- Polen more concentrated portfolio with index fund
- Split investment

Marcia Williams nominated Polen Capital Management as Large Cap Growth Manager for the City of Franklin Pension Fund. Seconded by Ken Moore. Motion carried 6-0. Shirley Harmon chose not to vote because she did not hear all three presentations.

8. Trustee Report

Elizabeth Browne, SunTrust

- First Quarter 2011 Ending Market Value \$54,861,689.73
- Average Monthly Employee Contributions \$25,981.37
- Monthly Pension Payments (\$169,480.45)
- Balance as of the Close of Business 5/10/11 - \$56,758,844.88

Portfolio continues to increase in value.

9. Actuarial Report

David Kays, Acuff & Associates

Mr. Kays reviewed documentation provided. Assumptions were as expected, or better than expected.

10. Human Resources Report

Shirley Harmon, HR Director

- Of 31 new enrollees, 7 chose the 457 Plan
- Consultant hired to guide the City to best benefit options
- Retiree insurance sunset extended three months

11. Cost of Living Adjustment for Retirees

Shirley Harmon, HR Director

Russ Truell, ACA Finance & Administration

The Plan does not call for a COLA increase, but there is a policy adopted by BOMA that matches State policy based on April-to-April cost of living index. In the past when active employees did not receive increases, the retirees did. Per the formula used, the actual percentage for this increase came to 1.33%, which was rounded to 1.3%.

Ken Moore moved to approve a 1.3% COLA for COF retirees and forward recommendation to BOMA. Seconded by Shirley Harmon.

Marcia Williams asked if the City would be reviewing the policy: her concern was the issue of retiree versus active employee increases and that the retiree increases not swing too far from active employee increases. Will address at a future meeting.

Motion to approve a 1.3% COLA for COF retirees carried unanimously.

12. Report on RFP Plan for Pension Services

Russ Truell, ACA Finance & Administration

Examples of RFP documents for each pension service were distributed. To give the committee time to review the information prior to taking action, Mr. Truell recommended a special meeting be scheduled. A date for the regular August meeting was discussed as well.

Marcia Williams moved to schedule a special meeting on Monday, June 13, 2011 @ 3:00 p.m. in the Board Room, and to schedule the next regular meeting on Monday, August 8, 2011 @ 3:00 p.m. in the Board Room. Seconded by Mark

Paris. Motion carried unanimously.

13. Other Business

Emerging Markets

This issue on emerging markets came up after the agenda for this meeting was published. Mr. Bryant reported Westwood would no longer accept new capital from existing investors. There are two emerging market index funds with Vanguard with two different fee structures; one with 35 basis points, and one with 22 basis points. VERSX Vanguard Emerging Market fees go into the fund.

Ken Moore moved to go with VERSX Vanguard Emerging Market Funds, that charges 22 basis points. Seconded by Marcia Williams. Motion carried unanimously.

14. Adjourn

Motion to adjourn carried unanimously.

Meeting adjourned 6:34 p.m.

Clyde Barnhill, Chair

Minutes prepared by Linda Fulwider, Board Recording Secretary, City Administrator's Office - 6/10/2011 8:21 AM