

**OFFICIAL
MINUTES OF SPECIAL MEETING OF THE
STERLING HEIGHTS
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

Wednesday, June 1, 2016

Location: Room #201 40555 Utica Road, Sterling Heights, MI 48313 (586) 446-2331

Chairperson Weiler called the meeting to order at 12:15 p.m.

BOARD MEMBERS PRESENT: Richard Weiler, Chairperson
 Brian Baker, Secretary
 Jennifer Varney, Treasurer
 Paul Henig, Trustee
 Todd Marsh, Trustee

BOARD MEMBERS ABSENT: None.

ALSO PRESENT: Walt Hessell, Pension Administrator; Timothy Brice, Institutional Consulting Director, Morgan Stanley Graystone Consulting – The Brice Group

APPROVAL OF AGENDA:

Motion by Marsh, support by Henig to approve the agenda as presented.

Ayes: All. Motion carried unanimously.

CORRESPONDENCE:

Motion by Baker, support by Marsh, to receive and file correspondence:

Reports for the quarter ending March 31, 2016 as follows:

1. Morgan Stanley Graystone Consulting – The Brice Group
2. AMI
3. Winslow Capital
4. Janus Capital

Ayes: All. Motion carried unanimously.

PORTFOLIO PERFORMANCE REVIEW BY TIM BRICE, MORGAN STANLEY GRAYSTONE CONSULTING

Brice handed out a year-to-date equity performance which broke down S&P 500 returns by sector. Telecom and Utility sectors produced the highest returns for the quarter as investors sought yield and value at the expense of growth stocks. Financials declined during the quarter due to FED inaction on interest rates and the Health Care Sector slumped due to political posturing by Hillary Clinton in the presidential election campaign. Next the “Positioning” newsletter was distributed and discussed. Morgan Stanley believes that global growth has likely bottomed and is likely to pick up speed. Risks remain domestically with continual FED inaction on interest rates and global risks are present with the potential exit of Great Britain from the European Union.

The total portfolio gained 0.7% for the quarter with five of twelve managers meeting or exceeding their respective benchmarks. All three growth managers underperformed noticeably as investor bias against the

large cap growth style in the first quarter 2016 was evident during the overall market sell offs. Fixed income returns approximated 3.0% for the quarter as a flight to safety was effected.

Brice then reviewed the performance of the portfolio and individual managers relative to the market and their peer group as follows:

	Market Value	<u>Average Annual Return (%) / Rank*</u>				
		<u>3-month</u>	<u>1-year</u>	<u>3-year</u>	<u>5-year</u>	<u>10-year</u>
Total Fund	\$ 106,617,405	0.7/62	-2.8/79	6.1/53	6.3/53	4.9/86
Total Fixed Income						
Western ¹	\$ 9,390,494	3.1/33	2.1/36	na/na	na/na	na/na
Boyd Watterson ²	\$ 18,147,391	2.7/79	1.1/77	na/na	na/na	na/na
Total Equities						
London ¹⁰	\$ 8,497,497	2.4/18	0.3/43	na/na	na/na	na/na
S&P Index ¹¹	\$ 5,197,243	1.4/na	1.6/na	na/na	na/na	na/na
Janus ⁸	\$ 3,713,874	-3.0/67	0.5/40	14.6/19	13.4/13	na/na
Winslow ³	\$ 4,780,361	-5.1/90	-2.9/78	11.6/68	na/na	na/na
AMI ¹²	\$ 5,272,961	-1.6/49	na/na	na/na	na/na	na/na
Confluence ⁴	\$ 7,056,726	na/na	na/na	na/na	na/na	na/na
MFS ⁵	\$ 7,563,457	2.5/21	1.5/14	11.9/17	11.9/18	na/na
Earnest Partners ⁶	\$ 17,110,497	1.6/34	-6.6/72	9.9/55	9.4/59	na/na
Cambiar ¹³	\$ 8,619,352	-3.4/84	na/na	na/na	na/na	na/na
Invesco ⁷	\$ 8,916,338	1.1/34	-5.0/37	na/na	na/na	na/na
Principal REIT ⁹	\$ 2,351,213	5.3/na	5.1/na	na/na	na/na	na/na

*Peer group ranking within style specific sample.

¹ Core Plus fixed income manager hired 04/01/2015.

² Short to Mid-term fixed income manager hired 04/01/2015

³ Large cap growth equities managers hired 9/30/11.

⁴ Large cap value equities manager hired 04/01/2016.

⁵ Large cap value equity manager hired 11/25/09.

⁶ Small/mid cap core equities manager hired 4/30/06.

⁷ International/emerging markets equity manager hired 6/30/14.

⁸ Large cap growth equities manager hired 12/29/09.

⁹ REIT manager hired 04/01/2015.

¹⁰ Large cap core equities manager hired 04/01/2015.

¹¹ Large cap equity index strategy implemented 04/01/2015.

¹² Large cap growth equities manager hired 07/01/2015.

¹³ International/emerging markets equity manager hired 10/01/2015.

Brice then discussed the updated asset allocation summaries as of May 13, 2016, one with and one without MLP's. The two studies were compared and it was noted that while the overall portfolio volatility could be improved with the addition of MLP's the total return would not. As an emergent alternate asset class, Morgan Stanley has recommended Master Limited Partnerships (MLP's) with a midstream emphasis, however due to ongoing instability and uncertainty in the Energy sector, Brice recommended holding off on any allocation at this time. The strategic asset allocation studies combine the professional expertise of Morgan Stanley analysts along with computer generated models to produce the most favorable forecasted outcomes with regard to return, volatility, Sharpe Ratio and yield. In reviewing the secular (long-term) returns study it was found that the current portfolio structure was superior either in return and/or Sharpe Ratio to the Mix 3 Tactical, Mix 4 Strategic and Mix 4 Tactical but had slightly more volatility to Mix 3 and 4. By Board consensus it was agreed that the current portfolio allocation would remain in place. Brice was asked to forward on to the systems actuary GRS, the secular asset allocation study without MLP's to aid in determining any revisions to the actuarial assumed rate of return

currently at 8.0%. The annual inflation projection outlook was also requested by Pension Administration as a necessary item in compiling the footnotes for the City's CAFR.

Brice then distributed and discussed the GIC risk and return assumptions comparison for 2016 and 2015.

CONFERENCE CALL WITH AMI (Large Capitalization Growth Equity):

Matt Dorband and Andrew Zamfotis represented AMI and reviewed the report for the March 31, 2016 quarter. For the quarter, the portfolio declined -1.6% as compared to the benchmark gain of 0.7%. Zamfotis acknowledged that both the overweight allocation and stock selection within the Health Care sector had detracted 222 basis points from overall performance. Securities selection within the Financial Services sector also resulted in a 78 basis point reduction to returns. It is anticipated that the overweight to the Health Care sector will prove beneficial once the presidential election year uncertainty passes and a rebound can occur as the stock holdings are well diversified.

The Board thanked Mr. Dorband and Mr. Zamfotis for their presentation and AMI's efforts on behalf the system.

CONFERENCE CALL WITH WINSLOW CAPITAL (Large Capitalization Growth Equity):

Raymond Urban represented Winslow Capital and presented the quarterly report for March 31, 2016. During the quarter the portfolio underperformed the benchmark with a loss of -5.1% as compared to 0.7% for the benchmark. The underweight to the Consumer Staples and stock selection within the Telecom sector detracted most from performance. Year-to-date he stated that the portfolio had made up ground with regard to the benchmark. Historically the portfolio has had a record of rebounding after experiencing a peak underperformance event. Urban commented the superior portfolio earnings growth rate which approximates 20% would propel portfolio valuations higher as it is double that of the benchmark forecasted growth rate of 10% for the Russell 1000 Growth. The firm is standing by their long proven investment discipline.

The Board thanked Raymond Urban for his presentation and the efforts of Winslow Capital on behalf of the system.

Brice recommended that the manager be placed on watch and have monthly performance results provided until further notice.

CONFERENCE CALL WITH JANUS CAPITAL (Large Capitalization Growth Equity):

Jim Wiaduck, Michigan Director and staff analysts covered the investment report for the March 31, 2016 quarter. The portfolio lost -3.0% for the quarter against the benchmark return of 0.7%. Specific positions in the portfolio for both contributors and detractors were reviewed. Financial Services, Info Tech and Consumer Discretionary positions detracted most from returns. Results were also adversely impacted by the broad sell off in biotech stocks during the quarter. Year-to-date performance has improved and is now just slightly trailing the benchmark. The firm believes that the concentrated portfolio of quality growth companies will allow it to outperform the benchmark overtime.

The Board thanked Mr. Wiaduck and associates for the report and efforts on behalf of the system.

TRUSTEE COMMENTS - None

ADJOURN:

Motion by Varney, supported by Baker, to adjourn the meeting at 3:03 p.m.

Ayes: All. Motion carried unanimously.

Brian Baker, Secretary