

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

Wednesday, August 24, 2016

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

Chairperson Weiler called the meeting to order at 12:14 p.m.

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

BOARD MEMBERS ABSENT: Brian Baker, Secretary (excused at 1:00 p.m.)
 Todd Marsh, Trustee (excused)

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

APPROVAL OF AGENDA:
Motion by Varney, support by Henig to approve the agenda as presented.

Ayes: All. Motion carried unanimously.

CORRESPONDENCE:
Motion by Baker, support by Henig, to receive and file correspondence:

Reports for the quarter ending June 30, 2016 as follows:

1. Morgan Stanley Graystone Consulting – The Brice Group
2. Boyd Watterson
3. Western Asset Management
4. Principal Group REIT

Ayes: All. Motion carried unanimously.

PORTFOLIO PERFORMANCE REVIEW BY TIM BRICE, MORGAN STANLEY GRAYSTONE CONSULTING

Brice handed out the Morgan Stanley On the Markets article which discussed the current market volatility. The Brexit vote proved to be the driver for the market sell off in the second quarter 2016. Various charts indicate a bullish view for global equities looking forward. Historically the months of July, August and September experience the widest margins of volatility.

For the quarter ended June 30, 2016 the fixed income benchmark gained 2.2% while the core plus manager and core fixed manager gained 2.8% and 2.1% respectively. A downturn in interest rates during the quarter added to returns.

The total portfolio gained 2.1% for the quarter with majority of all money managers meeting their respective benchmarks. Brice provided a year to date performance update that proved most of the managers had weathered the recent market volatility and had narrowed the underperformance gap as of the current meeting date.

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	\$ 106,889,232	2.1/49	0.1/63	7.3/29	6.8/45	5.3/85
Total Fixed Income						
Western ¹	\$ 9,638,477	2.8/27	7.4/4	na/na	na/na	na/na
Boyd Watterson ²	\$ 18,514,782	2.1/86	5.5/70	na/na	na/na	na/na
Total Equities						
London ¹⁰	\$ 8,385,447	4.9/5	6.1/18	na/na	na/na	na/na
S&P Index ¹¹	\$ 4,994,236	2.3/na	3.7/na	na/na	na/na	na/na
Janus ⁸	\$ 3,674,969	1.9/23	2.3/26	14.3/14	13.8/7	na/na
Winslow ³	\$ 4,733,275	1.3/33	-2.4/68	11.6/63	na/na	na/na
AMI ¹²	\$ 5,286,752	2.4/17	-2.1/65	na/na	na/na	na/na
Confluence ⁴	\$ 7,033,664	2.0/58	na/na	na/na	na/na	na/na
MFS ⁵	\$ 7,419,392	4.5/17	5.0/16	12.1/12	12.9/13	na/na
Earnest Partners ⁶	\$ 17,702,455	4.3/7	-1.0/46	11.4/33	11.0/36	na/na
Cambiar ⁷	\$ 8,374,423	-2.7/82	na/na	na/na	na/na	na/na
Invesco ⁷	\$ 8,647,501	-2.9/84	-8.0/49	na/na	na/na	na/na
Principal REIT ⁹	\$ 2,483,859	5.8/na	22.5/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 04/01/15

³ Large cap growth equities managers hired 01/01/12.

⁴ Large cap value equity manager hired 04/01/16.

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 managers hired 10/01/15.

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 07/01/15

Brice commented on how the two fixed income managers' variations in portfolio duration management relative to the benchmark complemented each other's style. He noted that the conservative and defensive style of the REIT manager led to a slight underperformance for the quarter. Brice observed that both International Equity managers had performance adversely impacted by the outcome of the Brexit vote, however a bounce back is anticipated. For the managers that underperformed for the quarter, Brice provided an explanation as to why and also year to date results demonstrating that the underperformance gap had been narrowed as of the meeting date.

Brice then distributed a Morgan Stanley Investment Perspectives – MLPs report for the alternative asset class consideration. Discussion ensued and both the current stabilization in the specific energy asset class and attractive valuations were noted. By Board consensus it was decided that managers would be

interviewed at the September 15th regular meeting and potentially in conjunction with the Police and Fire Retirement System Board.

CONFERENCE CALL WITH BOYD WATTERSON (Fixed Income Core):

Michael Vandebossche reviewed the investment portfolio results for the second quarter ending June 30, 2016. Since inception, the portfolio gained 2.7% compared to the benchmark of 3.4%. Underperformance was attributed to over weights to the Financials sector and shortened portfolio duration in anticipation of a FED rate hike yet to materialize. The portfolio is currently positioned with an overweight to the Financial and Industrial sectors and an underweight to Treasuries. The portfolio has an approximate 40 basis point yield advantage compared to the benchmark. The firm sees a chance that the Federal Reserve will increase rates this year with a potential delay until 2017 which should flatten the yield curve as increases will be on the front end of the curve. The firm's yield curve strategy favors a barbell approach in intermediate and short-duration holdings will be structured defensively.

The Board then thanked Mr. Vandebossche for the report and the firm's efforts on behalf of the system.

CONFERENCE CALL WITH WESTERN ASSET MANAGEMENT (Fixed Income Core Plus):

Bryan Zak of Western Asset Management presented the report for the June 30, 2016 quarter. The portfolio gained 2.8% for the quarter compared to the benchmark of 2.2%. Zak credited duration management, term structure – yield curve and individual selection of bonds for the successful outcome. The portfolio is underweight Treasuries and overweight to Emerging Markets which represents the core plus portion of the portfolio. The firm anticipates that the Federal Reserve will be on hold until economic growth is in line with forecast, financial conditions improve significantly and inflation expectations rise. Due to lower inflation expectations, the firm does not believe that there will be any rate increases anytime soon.

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

CONFERENCE CALL WITH PRINCIPAL GLOBAL ADVISORS (REIT):

Jim Miklas represented Principal Group and presented the real estate securities report for the second quarter ended June 30, 2016. The portfolio gained 5.8% against the benchmark of 7.4% for the quarter. A portfolio exclusion of perceived overpriced securities accounted for the underperformance. The portfolio has an overweight to apartments, malls & outlets, technology space, industrial and self-storage. Underweights are seen in healthcare, diversified, net lease, hotels and shopping centers. Both the portfolio dividend and earnings growth of 7.9% and 9.5% respectively are superior to the benchmark values of 6.1% and 7.1%. Overall the firm has a positive outlook for the asset class as demand is high for quality real estate and occupancy rates remain high across the spectrum. The firm believes that the FED will eventually increase interest rates but noted the ability of REITS to increase rents as a means to offset the impact of higher rates.

The Board thanked Mr. Miklas for his presentation and Principal Global Advisors's efforts on behalf the system.

TRUSTEE COMMENTS - None

ADJOURN:

Motion by Varney, supported by Weiler, to adjourn the meeting at 2:50 p.m.

Ayes: All. Motion carried unanimously.

Jennifer Varney, Acting Secretary / Treasurer