

INVESTMENT ADVISORY COMMITTEE MEETING

March 9, 2017

State of Michigan Retirement Systems

Quarterly Investment Review



Nick A. Khouri, State Treasurer

Prepared by Bureau of Investments
Michigan Department of Treasury

INVESTMENT ADVISORY COMMITTEE MEETING

MARCH 9, 2017

Agenda



- 9:30 a.m. Call to Order and Opening Remarks
- 9:40 a.m. Approval of the 12/15/16 IAC Meeting Minutes
- 9:45 a.m. Executive Summary & Performance for Periods Ending 12/31/16
- 10:00 a.m. Current Asset Allocation Review
Markets Review and Outlook
- 10:15 a.m. Guest Speaker - - Greg Valliere ~ Horizon Investments
Review of Investment Reports – *Receive and File*
- Absolute and Real Return/Opportunistic
 - Domestic Equity
 - Fixed Income
 - International Equity
 - Private Equity
 - Real Estate & Infrastructure
- Basket Clause
- 11:00 a.m. Closing Remarks ~ Adjournment



2017 Meeting Schedule

Thursday, June 8, 2017
Thursday, September 7, 2017
Tuesday, December 12, 2017

All meetings start at 9:30 a.m.

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State of Michigan Retirement Systems

MINUTES

Investment Advisory Committee Meeting

March 9, 2017



Jon M. Braeutigam
Chief Investment Officer
Bureau of Investments

INVESTMENT ADVISORY COMMITTEE

The Investment Advisory Committee (IAC) held its quarterly meeting on Thursday, December 15, 2016, at the Bureau of Investments, Great Lakes Conference Room, 2501 Coolidge Road, Suite 400, East Lansing, Michigan.

Members Present:

James B. Nicholson, Chair
L. Erik Lundberg
Reginald G. Sanders (via phone)
Allan R. Pohl, LARA
Kerrie Vanden Bosch, DTMB

In attendance from the Department of Treasury:

Treasurer Nick A. Khouri	Jon M. Braeutigam	Gregory J. Parker
Robert L. Brackenbury	Jim Elkins	Peter Woodford
Jack Behar	Brian Liikala	Richard Holcomb
Dan Quigley	Karen Stout	Woody Tyler
Kevin Fedewa	Tim Reynolds	Ann Storberg
Tom Smith	Lee Logan	Marge McPhee
Janet Sudac		

Others in attendance:

Max Kotary	Tim McEnery	Jamie Callahan
Molly Jason	Mark Guastella	Josh Lieberman
Paul Lerg	Joe Curtin	Jim Baker
JB Kiley	Henry McVey	

Call to Order

Mr. James B. Nicholson called the December 15, 2016, IAC meeting to order at 9:30 a.m.

Mr. Nick Khouri wished everyone happy holidays and expressed a sincere thank you for everyone's time, all the work the staff has done and all those who volunteer on the committee.

Approval of Minutes of September 1, 2016

- Mr. Nicholson asked for a motion to approve the minutes of the September 1, 2016, IAC meeting. Mr. Allan Pohl so moved, seconded by Ms. Kerrie Vanden Bosch, there were no objections – motion carried.

Executive Summary Tab – Performance Review

- Mr. Braeutigam discussed performance highlighting that over the past three, five, and seven years the annualized returns were higher than the 8% actuarial assumed rate of return. The SMRS has been a top performing public fund over these time periods.
- Mr. Braeutigam noted that the ten-year return included the impact of the global financial crises. The one-year performance is 7.6% for the fiscal year ending September 30, 2016.
- Mr. Braeutigam discussed returns, noting that the returns fell below the policy benchmark over the past year by -2.2%. He noted that it was a tough market for alpha strategies in the active domestic equity portfolio, private equity, and absolute return portfolios.
- Mr. Braeutigam noted that the markets have experienced a great bull run. Over the past ten years the BOI has netted over \$4 billion of added contribution over peer returns.

Asset Allocation & Performance Tabs

- Mr. Greg Parker explained that the combined system paid out approximately \$2.1 billion net of contributions over the past twelve months ending September 2016.
- Mr. Parker noted that the plans put to work approximately \$850 million in real return/opportunistic strategies, \$300 million in long-term fixed income, and reduced the allocation to domestic equity by \$1.9 billion, private equity by \$900 million, and hedge fund allocation by \$400 million.
- Mr. Parker discussed that just over \$2.4 billion is allocated to short term, which is equivalent to one year of benefit payments. The short-term asset class portfolio includes commercial paper with an approximate two-month maturity.
- Mr. Parker noted that the long-term fixed income portfolio is more Aggregate-like with higher yield to maturity, lower duration, higher credit exposure, lower volatility, and close to zero equity beta.
- Mr. Parker discussed the returns for absolute return, real return and opportunistic. Several questions were asked and addressed by Mr. Jim Elkins regarding equity beta and liquidity. The discussion included the return of the portfolio in one and two years, noting that hedge funds are the most liquid asset class within these strategies.
- Mr. Parker discussed the performance of domestic equities over the last year, which are positioned very similarly to the S&P 1500 benchmark. The profitability metrics for the portfolio, expected growth rates, measure of risk, and equity beta are very similar to the benchmark. The total portfolio trades at a 10% valuation discount to the benchmark which should converge over time.

Guest Speaker – Henry McVey of KKR

Mr. McVey gave a presentation regarding his views on the macro economy.

Basket Clause

In the spirit of time, this report was received and filed.

Special Mention

Chairman Nicholson noted that Mr. Richard Holcomb was retiring after 33 plus years with the State of Michigan. Mr. Parker presented him with a Resolution acknowledging his years of service, his dedication to his job, and the many contributions he provided for the improvement and growth of the Pension Plan for the Bureau of Investments.

Closing Remarks

Chairman Nicholson thanked everyone for attending.

Next Meeting Date and Adjournment

The next Investment Advisory Committee Meeting is scheduled for Thursday, March 9, 2017. The meeting was adjourned by Chairman Nicholson at 11:05 a.m.

Approved:

James B. Nicholson, Chairman