

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
ANNUITY AND PENSION BOARD**

Minutes of the Regular Meeting held June 23, 2014

The meeting was called to order at 9:20 a.m.

Board Members Present: Larry Holland
 Tom Klusman
 Rudolph Konrad
 Martin Matson
 Mark Nicolini
 Gerald Pace
 Carmelo Patti
 Gust Petropoulos, Vice Chair

Board Members Not Present: John Barmore (excused)
 Michael J. Murphy (excused)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Beth Cleary, Deputy Director
 David Silber, Chief Investment Officer
 Erich Sauer, Pension Investment Analyst
 Tom Courtright, Pension Investment Analyst
 Mary McNellis, Investment Intern
 Melody Johnson, ERS Financial Officer
 Michael Becker, Pension Accounting Specialist
 Karen McElwee Lloyd, Disability Benefits Coordinator
 Mary Turk, Business Operations Analyst
 Suzanne Fortier, Board Stenographer

Others Present: Sandy Kosek, SPC LLC; Wayne Morgan and Carla Grogin, Baker Tilly, Larry Langer, Kevin Peng and Patrick Tabernacki, Buck Consultants; Miriam Horwitz and Maurita Houren, City Attorney's Office; Jean Burnside, Milwaukee Retirees Association and Deronn Gillum, Retiree.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held May 30, 2014. Mr. Matson noted that page 3 had 2104 instead of 2014. Mr. Klusman asked that his motion on page 3 under Approval to Suspend Disability Benefits for Non-Compliance with Periodic Medical Re-examinations – Deronn Gillum be restated to read “until he is in compliance.” It was moved by Mr. Holland, seconded by Mr. Matson, and unanimously carried, to approve the Minutes of the Regular Meeting held May 30, 2014 as amended.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report. Mr. Silber handed out a copy of the Performance Update Charts. Mr. Sauer reported that the Fund ended the month of May with a value of \$5.03 billion, which represents a return of 1.7 percent for May, gross of fees. He reported that, as of June 20, 2014,

the Fund is up approximately 1.6 percent for June and has a value of \$5.11 billion. Mr. Sauer stated the Fund's return year-to-date is up approximately 5.7 percent.

Mr. Sauer reported that, as of June 20, 2014, the Fund has year-to-date: capital market gains of \$254.4 million; paid out \$146.9 million in benefits and expenses; and received contributions of \$87.1 million. He indicated that the Fund withdrew \$33 million in May: \$5 million from Brandes, \$5 million from Northern Trust, \$5 million from GMO, \$5 million from MFS, \$4 million from Cornerstone, \$4 million from Polen, \$3 million from DFA International and \$2 million from CastleArk to pay monthly benefits and expenses.

Mr. Silber handed out a list of the remaining due diligence trips for 2014 and briefly talked about the visits.

Investment Committee Report. Mr. Petropoulos reported on the following:

Approval of Absolute Return Investment Policy Statement. As a matter of information, Board members received a copy of the Investment Objectives and Guidelines. Mr. Petropoulos stated the Committee approved this item in open session.

Approval of Selection of Hedge Fund of Funds Manager. Mr. Petropoulos reported that the Committee interviewed three hedge fund of funds managers: UBS, Corbin and Lighthouse and selected one investment manager in closed session, contingent on the success of the due diligence and negotiations. Given the expected complexity of the hedge fund legal documents the Committee also approved the hiring of outside legal counsel to negotiate on ERS' behalf.

Approval of Absolute Return/Diversified Strategy Manager Contract. Mr. Petropoulos stated the Committee approved this item in closed session.

Approval of Funding Plan for Absolute Return Allocation. Mr. Petropoulos stated the Committee approved this item in closed session.

It was moved by Mr. Holland, seconded by Mr. Patti, and unanimously carried, to approve the Investment Committee Report, including items A. through D.

(Please note the Board did not convene in closed session as noticed.)

Legislative Committee Report. Mr. Patti reported on the following:

Approval of Proposed Amendment of Board Rule II. Sections A., B., and C.; Board Rule V Section B. regarding Common Council File No. 131162. As a matter of information, Board members received a copy of the proposed Board Rule changes from the City Attorney's Office, dated May 21, 2014. Mr. Patti stated that the committee reviewed drafted language recommended by counsel to accurately amend various sections of Board Rules II. A and B. The modified language reflects the addition of three Board members to be appointed by the Mayor subject to the confirmation of the common council as well as modified election procedures for elected trustees per Common Council File 131162, which

amended membership on the Annuity and Pension Board under §36-15-7 of the Milwaukee City Charter and became effective on February 25, 2014. The Committee recommends Board approval of the proposed amendment. It was moved by Mr. Patti, seconded by Mr. Konrad, and unanimously carried, to approve the proposed amendment to Board Rule II Sections A., B., and C.; and Board Rule V Section B.

Approval of Proposed Amendment to Board Rule III. Sections A. and B. regarding the Medical Council and Medical Panel. As a matter of information, Board members received a copy of the proposed amendment from the City Attorney's Office, dated May 16, 2014. Mr. Patti reported that the Committee reviewed a proposed Board Rule Amendment of Section A per the recommendation of staff and counsel that accurately reflects the current process and procedure of nominating and adding physicians to the Medical Council, as needed. The Committee reviewed a proposed Board Rule Amendment of Section B. per the recommendation of staff and counsel to modify the following language: "The Medical Council shall: 1. Arrange for and pass upon all medical examinations required by the ERS, except firemen and policemen applicants for duty disability retirement" to include police employees hired after June 28, 2005 and fire employees hired after December 13, 2005 who apply for a duty disability retirement for a mental injury pursuant to §36-05-3-c-I -a, MCC. The Committee recommends Board approval of the proposed amendment. It was moved by Mr. Patti, seconded by Mr. Konrad, and unanimously carried, to approve the amendment to Board Rule III. Sections A. and B.

Approval of Committee Recommendation for the Board to Propose to Common Council the Amendment of MCC 350-219 to allow for Annuity and Pension Board Trustees time off with pay up to 300 hours per year. Mr. Allen handed out a copy of a Problem Statement drafted by one of the Board Trustees as background information. Mr. Patti stated that the Committee reviewed recommended language to MCC 350-219 regarding the number of hours of time off with pay allowed for Annuity and Pension trustees. The committee recommends that the Board request support for an amendment to the ordinance that would reflect up to 300 hours per year of time off with pay specific to Annuity and Pension trustees. It was moved by Mr. Patti, seconded by Mr. Pace, and unanimously carried, to approve the Committee recommendation to propose to the Common Council the amendment to MCC 350-219.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity, as well as Service Credits for the month of May 2014.

Active Death Benefits reported	\$0.00
Retired Death Benefits reported	\$47,495.14
Refund of Member Contributions paid	\$337,239.13

It was moved by Mr. Klusman, seconded by Mr. Nicolini, and unanimously carried, that the above-indicated retirements, death claims, and refunds be approved.

Conference Requests. Mr. Allen reported that requests to attend the following conferences had been submitted:

David Silber & Erich Sauer	Due Diligence & Manager Visit
Sponsor:	Hedge Fund Manager & Absolute Return Manager
Location:	Stamford, CT & New York, NY
Date(s):	July 28-29, 2014
Estimated Cost:	\$900 per person

It was moved by Mr. Holland, seconded by Mr. Klusman, and unanimously carried, to approve the conference requests submitted by Mr. Silber and Mr. Sauer.

Acceptance of Baker Tilly 2013 Financial Audit. As a matter of information, Board members received the Basic Financial Statements and Supplemental Information as of and for the Year Ended December 31, 2013 and the Independent Auditor's Report. Mr. Morgan spoke about the 2013 Financial Audit and required communications. He stated that there were no unusual or significant transactions that happened in the plan during the year that would require Baker Tilly to inform the Board. Mr. Morgan indicated that Baker Tilly did not encounter any difficulties with management in performing the audit, there were no identified misstatements, no encountered disagreements with management, and to Baker Tilly's knowledge, there were no consultations with other accountants. He stated that there were no significant issues that should be brought to the Board's attention; therefore, there are no additional communications that need to be disclosed. Mr. Morgan noted that, overall, this has been a straightforward year as there were no adjustments, nor any big deficiencies noted in internal controls that would rise to the attention of the Board. After discussion, it was moved by Mr. Matson, seconded by Mr. Holland, and unanimously carried, to accept and place on file.

Acceptance of Actuarial Valuation – January 1, 2014. As a matter of information, Board members received a copy of the Actuarial Valuation Report as of January 1, 2014. Mr. Langer handed out presentation books, dated June 23, 2014. Mr. Langer, Mr. Peng and Mr. Tabernacki provided an overview of the 2013 plan year, actuarial valuation process; stable employer contribution policy; and reported on the January 1, 2014 valuation results. Lengthy discussion ensued.

Acceptance of PABF Actuarial Valuation – January 1, 2014. As a matter of information, Board members received a copy of the City of Milwaukee Policemen's Annuity and Benefit Fund Actuarial Valuation Report as of January 1, 2014. Mr. Peng provided an overview of the PABF Actuarial Valuation as of January 1, 2014.

After further discussion, it was moved by Mr. Holland, and seconded by Mr. Patti, and unanimously carried, to accept and place on file the Actuarial Valuations for ERS and the PABF.

Approval of the Annual Report of the Annuity and Pension Board 76th Edition, December 31, 2013. As a matter of information, Board members received a copy of the 76th Edition. After brief discussion, it was moved by Mr. Matson, seconded by Mr. Holland, and unanimously carried, to approve the Annual Report of the Annuity and Pension Board 76th Edition, December 31, 2013.

Approval of Department of Employee Relations Request for Waiver to Appoint Physicians outside Milwaukee County. As a matter of information, Board members received a copy of a letter from DER, dated June 11, 2014. Mr. Allen spoke about the request. After brief discussion, it was moved by Mr. Holland, seconded by Mr. Pace, and unanimously carried, to approve the Department of Employee Relations Request for Waiver to Appoint Physicians outside Milwaukee County.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations. Mr. Allen presented certifications of the Fire and Police Medical Panel Physicians and the Medical Council relative to Duty & Ordinary Disability Retirement benefits as follows:

Police – New Applications - Duty

Robert Kendziorski
Effective 12/8/13

Recommendation

Approval

Police – Re-examinations

Linda Babe
James Drager
Harrison Kern
Ayman Khatib
Dean Schubert
Michael Schuster

Recommendation

Approval
Approval
Approval
Approval
Approval
Approval

Fire – Re-examinations

Jeffrey Anderson
Toni Breidenbach
Daniel Dombrowski
Christine Jacobs
Cindy Magestro
Scott Van Roo
Robert Biskobing
Michael Salomone

Recommendation

Approval
Approval
Approval
Approval
Approval
Approval
Approval
Approval

<u>GC New Applications – Duty</u>	<u>Recommendation</u>
Luster Hurt	Denial
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Mildred Hooks Effective 6/18/14	Approval
Hazel Perez Effective 5/31/14	Approval
Leann Wolfe Effective 5/31/14	Approval
Damion Powell Effective 6/19/14	Approval
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Edward Sturino (MPD)	Approval
Laurie Goetzke	Approval
Lisa Ordonez (MPD)	Approval
Yoron Whitfield (MPD)	Approval
Marsha Conner	Approval
Tia Smith	Approval
Renea Rewolinski	Approval
Lamar Donaldson	Approval
Stephan Huber	Approval
Roxann Fisher	Approval
David Grutza	Approval
<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Daren Andrysczyk	Approval
Lynette Lowery-Cowser	Approval

After discussion, it was moved by Mr. Matson, seconded by Mr. Holland, and unanimously carried, to accept the aforementioned recommendations of the Fire and Police Medical Panel Physicians and the Medical Council.

Disability Findings – Maria DeVorse. Mr. Allen presented Hearing Examiner Hogan’s Findings, which state “In light of the above, it is determined that Officer DeVorse is not totally and permanently mentally or physically incapacitated from performing her duties as a City of Milwaukee police officer under the limited duty protocol as the natural and proximate result of an injury which occurred as described on the duty disability application. It is recommended that the Board affirm the findings of the Medical Panel and the Reviewer.” Correspondence is also received from the City Attorney’s office on May 21, 2014 indicating it did not intend to file a brief. It was moved by Mr. Patti, seconded by Mr.

Nicolini, and unanimously carried, to accept the recommendation of Hearing Examiner Hogan, denying Ms. DeVorse duty disability retirement.

Mr. Allen updated the Board on the compliance status of two disability retirement re-exams. He reported that Ms. Lewis has now executed the authorization forms to release her medical records, but her benefit is still suspended because the union physician has not been able to complete the entire re-exam process before the June 30, 2014 deadline set by the Board. Mr. Allen stated that the doctor needs to release the records. He reported that Mr. Gillum has properly executed the forms to release his medical records so that the medical panel can review them as part of examination. As Mr. Gillum is now in compliance the staff will release his check for this month.

Unfinished Business.

Legal Opinion and Service Requests Pending. As a matter of information, Mr. Allen presented a list of pending requests for legal opinions and service requests made to the City Attorney.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. Discussion ensued with respect to the Mayor's final appointment to the Board.

Executive Director's Report – Inventory of ERS Projects. As a matter of information, Mr. Allen presented a report on the ERS projects and updated the Board on ERS activities.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated June 23, 2014, which gives the status of litigation involving the ERS, as prepared by staff of the ERS and City Attorney's office.
- 2) List of Client Conferences and Trustee Education for 2014.
- 3) Class Action Lawsuit Report.

The following is a list of activities since the last Board meeting, copies sent with meeting notice and attached to minutes:

- 4) Report on Bills.
- 5) Deployment of Assets.
- 6) Securities Lending Revenue and Budget Reports.
- 7) Preliminary Performance Report/Asset and Manager Allocation Pie Charts.
- 8) ERS Holdings Report.

6/23/2014

It was moved by Mr. Holland, seconded by Mr. Patti, and unanimously carried, to accept and place on file the aforementioned informational items.

There being no further business, Mr. Petropoulos adjourned the meeting at 11:18 a.m.

Bernard J. Allen
Secretary and Executive Director

(NOTE: All proceedings of the Annuity and Pension Board Meetings and related Committee Meetings are recorded. All recordings and material mentioned herein are on file in the office of the Employees' Retirement System, 789 N. Water Street, Suite 300.)