

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

Minutes of the Regular Meeting held February 22, 2016

The meeting was called to order at 9:04 a.m.

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

Board Members Not Present: Michael J. Murphy (excused) (arrived at 9:19 am)

ERS 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
 Melody Johnson, Chief Financial Officer
 Jan Wills, Board Stenographer

Others Present: Miriam Horwitz, City Attorney's Office
 Andrea Fowler, City Attorney's Office
 Molly King, Budget Office
 Jean Burnside, Milwaukee Retirees Association

Approval of Minutes. Mr. Allen presented the minutes of the Annual Meeting held January 25, 2016. It was moved by Mr. Holland, seconded by Mr. Konrad, and unanimously carried, to approve the Minutes of the Annual Meeting held January 25, 2016.

Appointment of Committees for 2016. Mr. Barmore presented the list of appointments for the Administration and Operations Committee, Investment Committee, and the Intergovernmental Relations and Legislative Committee. He stated the committees are a carryover from last year and everyone is on the Investment Committee. He said a Litigation Committee would be appointed when necessary. It was moved by Mr. Petropoulos, seconded by Mr. Patti, and unanimously carried, to accept the lists of committee members.

Chief Investment Officer Report. Mr. Sauer presented the performance report. The fund value as of January 13, 2016 was \$4.59 billion dollars. The fund returned -3.2%, net of fees, and matched the blended benchmark in January. The underperformance in Fixed Income was offset by outperformance in Public Equity. Loomis subtracted 24 basis points while Brandes added 15 basis points and MFS added 10 basis points. As of February 19, 2016, the fund declined -0.6% month-to-date. The fund's approximate value is \$4.56 billion as of that date. Mr. Sauer stated six of the fund's 15 active managers are outperforming year to date, net of fees. The International Equity and Global Equity asset classes are outperforming their

respective benchmarks year to date, net of fees. As of February 19, 2016, the fund has a capital market loss of \$181 million, benefits and expenses paid of \$30.5 million and contributions of \$64.4 million. This month, cash withdrawals will be 10 million each from BlackRock Intermediate Aggregate and Reams, 6 million from Loomis as well as 6 million from Wellington.

Mr. Silber reminded board members of the Investment Committee meeting on Thursday, February 25. Highlights will be a deep dive into 4th quarter performance, full-year performance and a review of the first few weeks of 2016. Mr. Silber mentioned the emerging markets equity search and will seek approval to interview finalist managers at the April meeting. The real estate plan for 2016 is also slated for approval. Callan will be starting the Real Estate structure review as it's the last review of the 2013 asset liability review.

Administration and Operations Committee Report. Mr. Patti reported that the Committee received updates on the IT Portfolio and organizational/personnel updates. He stated that the Committee also heard a presentation on the close out of the 2015 budget, which showed that the ERS owes the City of Milwaukee \$365,338.58 to close out the budget. The committee also went in to closed session to discuss the status of the Disability Claims Processing Contract. The staff provided an update of negotiations and reviewed an in-depth cost analysis of both the vendor's cost proposal and anticipated contract costs, as well as current costs affiliated with claims processing efforts. The contract is before the Board today for approval, per the Committee's recommendation.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity, as well as Service Credits for the month of January 2016.

Active Death Benefits reported	\$82,598.96
Retired Death Benefits reported	\$20,259.18
Refund of Member Contributions paid	\$134,562.82

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

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

Gerald Pace	Brandes & DFA Due Diligence
Sponsors:	Brandes & Dimensional Fund Advisors
Location:	Santa Monica, CA & San Diego, CA
Date(s):	March 2-4, 2016
Estimated Cost:	\$1,600.00

Erich Sauer	DFA Conference
Sponsor:	Dimensional Fund Advisors
Location:	Austin, TX
Date(s):	April 25-27, 2016
Estimated Cost:	\$1,250.00

Mr. Allen stated that Mr. Silber and Mr. Courtright will also attend the Brandes & DFA Due Diligence conference at a cost of \$1,600.00 each. He also stated that Ms. Ellenbecker will attend the DFA Conference at a cost of \$1,250.00.

It was moved by Mr. Petropoulos, seconded by Mr. Nicolini, and unanimously carried, to approve the conference requests submitted by Messrs. Pace, Silber, Courtright, Sauer and Ms. Ellenbecker.

2015 Securities Lending Budget. Mr. Allen reported this was a housekeeping item that carried over from the Global Pension Settlement in 2000. The ERS needs to carry over the securities lending revenues from the prior year to be expended in the following year, otherwise these funds will be transferred to the disability fund. Mr. Allen asked for approval for \$1,332,521.62 to be used for ERS expenditures as a result of securities lending revenue received by the trust in 2015. It was moved by Mr. Matson, seconded by Mr. Holland, and unanimously carried, to approve the 2015 Securities Lending Budget.

Complaint for Certiorari Review – Jason Bleichwehl. Mr. Allen stated Mr. Bleichwehl’s duty disability appeal was denied by the board and he and his attorney have filed with the court for judicial review of that denial. This was presented as an informational item to the board.

Approval to Suspend Disability Benefits for Non-Compliance with Periodic Medical Re-examinations – Brian Zirgibel. Mr. Allen stated that Mr. Zirgibel and his attorney have conferred with the city and have indicated that he no longer wishes to receive this benefit. Pursuant to the charter, if he doesn’t comply with the re-exam, his benefit is suspended. A discussion took place regarding the rules regarding re-certification. It was moved by Mr. Petropoulos, seconded by Mr. Patti and unanimously carried to, to approve the suspension of disability benefits for non-compliance by Mr. Zirgibel.

Approval of Disability Claims Processing Services Contract. Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on this item (V. F.), as provided in Section 19.85(1)(e), Wisconsin State Statutes, to deliberate or negotiate the purchasing of public properties, the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session. The Board may then vote to reconvene in open session following the closed session. It was moved by Mr. Holland, and seconded by Mr. Matson, that the Board convene in closed session. The motion prevailed by the following roll call vote: AYES: Ms. Ellenbecker, Messrs. Holland, Klusman, Konrad, Matson, Murphy, Nicolini, Pace, Patti, Petropoulos, and Barmore. NOES: None.

The Board convened in closed session at 9:25 a.m. and reconvened in open session at 10:00 a.m. Mr. Barmore stated the board approved going forward with the disability claims processing services contract pending successful contract negotiation and City Attorney approval.

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:

<u>Fire – New Applications - Duty</u>	<u>Recommendation</u>
Thomas Kaminski	Approval
Gregory Marris	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Kristin Ciganek	Approval
Brett Michalowski	Approval
Phillip Quigley	Approval
<u>GC New Applications – Duty</u>	<u>Recommendation</u>
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Melissa Jones	Approval
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Chesterfield Hall	Approval
Cherie Jackson	Approval
Robert Jacoby	Approval
Lynn Michalak	Approval
Cheryl Randall	Approval
Mary Stark	Approval
Ronald Wilson	Approval
<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Quedell Braylock	Approval
Robert Oettinger	Approval

It was moved by Mr. Holland, seconded by Mr. Murphy, and unanimously carried, to accept the aforementioned recommendations of the Fire and Police Medical Panel Physicians and the Medical Council.

Disability Findings – Jenitza Crespo. Hearing Examiner Gerlach’s Decision states: “I recommend that the decision of the Annuity & Pension Board denying Ms. Crespo’s request for ordinary disability be reversed.” Correspondence also received from the City Attorney’s office dated February 5, 2016 states “Based on the undisputed medical evidence, coupled with the City’s acknowledgement that Ms. Crespo is unable to perform her job, the administrative record lacks an evidentiary basis for me to argue that the examiner’s recommendation is not supported by the record.”

The board discussed the procedures involved regarding disabilities, medical panel review, independent medical exams, appeals and hearing examiner reviews. It was moved by Mr. Nicolini, seconded by Mr. Holland, and unanimously carried, to approve Hearing Examiner Gerlach’s decision to grant Ms. Crespo her disability.

Unfinished Business.

Legal Opinions and Service Requests Pending and Legal Opinions. Ms. Horwitz presented a legal opinion from the City Attorney regarding the notice ERS provides to disability applicants regarding social security disability benefits. The opinion contained an enclosed redrafted Social Security Notice for the ERS to use, going forward. Additionally, the opinion referenced that a revised Medicare Notice (per the City Attorney) will be sent to the ERS in the near future.

Ms. Cleary discussed the template for the Investment Management Agreement. She said outside counsel, who works exclusively with public pension plans, looked at the template to ensure that the ERS has up-to-date terms. Outside counsel said the template was very well done initially. Ms. Horwitz stated it had been several years since the template had been reviewed and it's beneficial to have outside counsel look at the Investment Management Agreement since they have dozens of pension clients and know what is going on in the world of contracts. The firm received an introductory price for the review and counsel of the agreement.

It was moved by Ms. Ellenbecker and seconded by Mr. Holland, and unanimously carried, to accept the legal opinion from the city attorney's office referenced above and place on file as well as approve the Investment Management Agreement.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. The first item concerned the substitute charter ordinance relating to benefits for employees represented by the Milwaukee Police Association as a result of contract settlements. He stated the ERS will be processing benefits for MPA members in connection with the MPA contract settlement.

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. Discussion ensued.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated February 22, 2016, 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 2016.
- 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.

Mr. Barmore mentioned the packet thickness of the ERS Holdings Report and would like to refer that to the Administration & Operations Committee for non-inclusion in the board meeting packet. He suggested they may want to print it once a year. Mr. Klusman inquired about board packet materials being sent electronically. Ms. Horwitz said it's the security of the information that's a factor. The Administration & Operations Committee will take up this matter.

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

There being no further business, it was moved by Mr. Holland, seconded by Mr. Matson, and unanimously carried, to adjourn the meeting at 11:15 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.)