

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

Minutes of the Regular Meeting held March 24, 2016

The meeting was called to order at 9:10 a.m.

Board Members Present: John Barmore, Chair
 Larry Holland
 Tom Klusman
 Rudolph Konrad
 Martin Matson
 Mark Nicolini
 Carmelo Patti

Board Members Not Present: Karen Ellenbecker (excused)
 Michael J. Murphy (arrived at 9:12 a.m.)
 Gerald Pace (excused)
 Gust Petropoulos (excused)

ERS Staff Present: Bernard J. Allen, Executive Director
 Erich Sauer, Pension Investment Analyst
 Mary Turk, Business Operations Analyst
 Suzanne Zagorski, Board Stenographer

Others Present: Miriam Horwitz, City Attorney's Office; Jean Burnside, Milwaukee Retirees' Association.

Chairman Barmore asked for a moment of silence for the loss of former board member Konrad Ellenberger's daughter and granddaughter.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held February 22, 2016. It was moved by Mr. Holland, seconded by Carmelo Patti, and unanimously carried, to approve the Minutes of the Regular Meeting held February 22, 2016.

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's value as of February 29, 2016 was \$4.57 billion. The fund's return was 0.2%, net of fees and outperformed the blended benchmark by approximately 0.3% in February. He indicated that for March the Fund returned 3.9% month-to-date and the Fund return is up 0.7% year-to-date. Mr. Sauer stated that, as of March 23, 2016, the Fund has year-to-date: capital market gains of \$32.1 million; paid out \$70.2 million dollars in benefits and expenses and received contributions of \$67.1 million. He indicated that the ERS Fund planned to withdraw this month: \$10 million from Polen, \$8 million from MFS, \$5 million from the S&P 500 and \$3 million from Newton to pay monthly benefits and expenses. Mr. Sauer reminded the board they will be interviewing four finalists for the Emerging Markets Mandate at the April 7, 2016 investment committee meeting. Discussion ensued throughout the presentation.

Approval of Mesirow VII Private Equity Fund of Funds Contract. Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on the following item (II. A.), 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 Board convened in closed session at 9:15 a.m. and reconvened in open session at 9:23 a.m.

Investment Committee Report. Mr. Murphy reported that the Investment Committee met on February 25. He cited market volatility and how challenging it has been to generate positive returns. The Fund returned of 0.5%, net of fees, in 2015. The ERS, however, does rank in the top quartile among peer funds over the past one- and three-year time periods. During the past 10 years, underperformance subtracted \$7 million from the Fund's value, primarily from the domestic equity portfolio. Over the past 21 years, active management has added over \$600 million to the Fund's value with excess returns generated from domestic and international domestic equities and fixed income. Callan presented the Real Estate Investment Plan and the Fixed Income Structure Review. Staff presented a Liquidity Analysis in the event Public Equities decline.

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

Approval of Emerging Markets Manager Search Finalists. It was moved by Mr. Patti, seconded by Mr. Konrad, and unanimously carried, to approve the Emerging Markets Manager Search Finalists.

Approval of 2016 Real Estate Investment Plan. As a matter of information, Board members received a copy of a memorandum from Callan, dated February 25, 2015. Mr. Sauer stated that the investment team is supporting Callan's recommendation that any new real estate investments Townsend makes be offset by redemptions from existing funds due to the real estate portfolio being overweight. They are also recommending no new investments in specialized real estate. It was moved by Mr. Murphy, seconded by Mr. Klusman, and unanimously carried, to approve the 2016 Real Estate Investment Plan.

Mr. Barmore indicated that he would go back to item II. A. for approval.

Approval of Mesirow VII Private Equity Fund of Funds Contract. It was moved by Mr. Murphy, seconded by Mr. Nicolini, and unanimously carried, to approve the Mesirow VII Private Equity Fund of Funds Contract.

Administration and Operations Committee Report. Mr. Patti reported that the Committee received updates on the IT Portfolio and the organizational/personnel re-classifications. He also reported that the Committee met with Baker Tilly in closed session for its annual meeting regarding the pending financial audit.

New Business.

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

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|-------------------------------------|--------------|
| Active Death Benefits reported | \$28,270.84 |
| Retired Death Benefits reported | \$29,068.07 |
| Refund of Member Contributions paid | \$162,726.70 |

It was moved by Mr. Patti, seconded by Mr. Klusman, 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:

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| Larry Holland | UBS Annual Investor Meeting |
| Sponsor: | UBS |
| Location: | Dallas, TX |
| Date(s): | April 9-13, 2016 |
| Estimated Cost: | \$2,000.00 |
| Jerry Allen, Erich Sauer | 3 rd Annual Midwest Institutional Investor Forum |
| Sponsors: | Markets Group |
| Location: | Chicago, IL |
| Date(s): | May 12, 2016 |
| Estimated Cost: | \$75.00 each |

It was moved by Carmelo Patti, seconded by Rudy Konrad, and unanimously carried, to approve the conference requests submitted by Mr. Holland, Mr. Allen and Mr. Sauer.

Approval of Appointment of Dr. Gregory Brotzman to the Medical Council. As a matter of information the board members received copies of a memorandum from staff and the curriculum vitae from Dr. Brotzman. Mr. Allen reported that Dr. Brotzman was interviewed by the Medical Council. He stated that Dr. Brotzman was recommended for the medical council by Seth Foldy, M.D., former Milwaukee Health Department Commissioner, who is an alternate on the Medical Council. Discussion ensued.

It was moved by Mr. Nicolini, and seconded by Mr. Murphy to approve the appointment of Dr. Brotzman to the Medical Council, with direction that staff prepare a process consistent with future appointments that would involve certification review. The motion prevailed by the following roll call vote. AYES: Messrs. Holland, Konrad, Matson, Murphy, Nicolini, Barmore. NOES: Messrs. Klusman, Patti.

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:

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|---------------------------------------|-----------------------|
| <u>Police – Re-examinations</u> | <u>Recommendation</u> |
| Joel Kujawa | Approval |
| <u>Fire – New Applications - Duty</u> | <u>Recommendation</u> |
| David Rogowski | Denial |
| <u>Fire – Re-examinations</u> | <u>Recommendation</u> |
| Christopher Kallas | Approval |
| Martin Kozlowski | Approval |
| James Kronberg | Approval |
| Thomas Ptak | Approval |
| <u>GC New Applications – Ordinary</u> | <u>Recommendation</u> |
| Sheila Jones | Approval |
| Effective 03/16/2016 | |
| Gloria Green Williams | Approval |
| Effective 03/16/2016 | |
| Clifford Walker | Denial |
| <u>GC Re-examinations – Ordinary</u> | <u>Recommendation</u> |
| Jewel Springfield | Approval |
| Craig Winstead | Approval |

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

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.

Legal Opinions Obtained. Ms. Horwitz stated there are currently no legal opinions from the City Attorney.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. Mr. Allen mentioned a legislative committee meeting on April 13.

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 March 24, 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.
- 4) Minutes of the Investment Committee Meeting held February 25, 2016.
- 5) Minutes of the Administration and Operations Committee Meeting held February 18, 2016.

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

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

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

There being no further business, Mr. Barmore adjourned the meeting at 10:04 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.)