

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

Minutes of the Regular Meeting held April 25, 2016

The meeting was called to order at 9:05 a.m.

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

Board Members Not Present: Rudolph Konrad
 Michael J. Murphy (arrived 9:06 a.m.)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Beth Cleary, Deputy Director
 David Silber, Chief Investment Officer
 Melody Johnson, Chief Financial Officer
 Tom Courtright, Pension Investment Analyst
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Miriam Horwitz, Andrea Fowler, City Attorney's Office; Jean Burnside, Milwaukee Retirees' Association; and Thomas Harkless, Wells Fargo.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held March 24, 2016. It was moved by Mr. Holland, seconded by Mr. Matson, and unanimously carried, to approve the Minutes of the Regular Meeting held March 24, 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. Courtright reported that the Fund's value as of March 31, 2016 was \$4.78 billion. The Fund's return was 5%, net of fees and underperformed the blended benchmark by approximately 0.1% in March. He indicated that for April the Fund returned 1.3% month-to-date and the Fund return is up 3.1% year-to-date. Mr. Courtright stated that, as of March 23, 2016, the Fund has year-to-date: capital market gains of \$149.4 million; paid out \$100.9 million dollars in benefits and expenses and received contributions of \$72 million. He indicated that the ERS Fund planned to withdraw this month: \$8 million from MFS, \$8 million from Polen, \$5 million from Northern Trust and \$4 million from Newton to pay monthly benefits and expenses. The focus at the May Investment Committee meeting will be

the fixed income structure review. Callan will be back for review and analysis and will provide scenarios for the board to consider. Discussion ensued throughout the presentation.

Investment Committee Report. Mr. Murphy reported that the Investment Committee interviewed four finalists for the Emerging Markets Manager Public Equity Search at the April 7 Investment Committee meeting. Companies interviewed were AQR Capital, Axiom, Harding Loevner and Los Angeles Capital. The committee, in closed session, selected the finalist, but selection is contingent on a successful due diligence and negotiation. Mr. Silber said no closed session was necessary today and the committee's selection will be brought back to the board for approval.

Administration and Operations Committee Report. Mr. Patti reported that the Committee received updates on the IT Portfolio and the organizational/personnel re-classifications.

Approval of Addendum to Ice Miller LLP Contract for Legal Services. As a matter of information, Board members received a copy of an Addendum. Mr. Patti stated the addendum extends the time and funds for Ice Miller's tax consultation and legal services. Discussion ensued regarding the legal and tax services. Ms. Horwitz said it was advisable to have them on retainer. It was moved by Mr. Matson and seconded by Mr. Pace, to approve the addendum to the Ice Miller LLP Contract for Legal Services.

Approval of 2017 ERS Budget Request. As a matter of information, Board members received a copy of the 2017 Draft Budget Request dated April 14, 2016. Ms. Johnson presented the draft for the ERS 2017 budget. The budget request decreased by \$1.66 million from the 2016 authorized budget due to a decrease in investment manager fees and fringe benefit rate. The committee recommends Board approval for the ERS 2017 budget request. It was moved by Mr. Matson and seconded by Mr. Pace, to approve the 2017 ERS Budget Request.

Legislative Committee Report. Mr. Konrad reported on the following.

Paid Release for ERS Employee-Elected Board Members. The Committee reviewed this matter, per the Board referral. After discussion, it was determined that staff would draft a proposed Board Rule for the Committee's consideration in relation to guidelines affiliated with a trustee role when attending due diligence trips. Mr. Allen stated Mr. Silber is drafting language to clarify the role of board members who plan to attend due diligence trips. Mr. Silber will include a list of due diligence trips in the next board packet.

Medical Council Meetings and Open Meetings Law. The Committee reviewed the February 2015 opinion related to this matter and determined that no Board Rule or Committee action was necessary.

Outside Earnings Limitation Compliance Deadline. The Committee reviewed this issue as referred by the Board. Staff discussed the related Board Rule to the compliance deadline and reviewed the timeline affiliated with seeking retiree compliance. The City

Attorney advised that this compliance requirement is an administrative action of the ERS that merely requires an annual report to the Board.

Approval of Proposed Amendment (XVII. O.) to ERS Board Rules Regarding Duty Disability (§62.624 Wis. Stat.). As a matter of information, Board members received a draft copy of the proposed Board Rule XVII. O. The Committee reviewed a proposed Board Rule XVII. O. (Duty Disability Applications Under §62.624 Wis. Stat.), which outlines administrative procedures affiliated with the recent enacted state law related to mental health duty disability claims. The Committee voted to approve the proposed Board Rule, subject to modifying the language to allow for the appeal window to run 45 days instead of 30 days. Mr. Allen stated the employer makes the determination if the claimed mental injury is work related. Discussion ensued for the above topics. The Committee recommended Board approval of the proposed Board Rule today. It was moved by Mr. Petropoulos and seconded by Mr. Holland, to approve the amendment.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity, as well as Service Credits for the month of March 2015.

Active Death Benefits reported	\$31,712.87
Retired Death Benefits reported	\$13,499.82
Refund of Member Contributions paid	\$175,004.31

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

Mark Nicolini, Jerry Allen, David Silber	2016 Madison Investment Conference
Sponsors:	SWIB, CFA Society, Wisconsin School of Business
Location:	Madison, WI
Date(s):	June 2, 2016
Estimated Cost:	\$350.00 per person
Beth Cleary	2016 Legal Education Conference
Sponsor:	NAPPA
Location:	New Orleans, LA
Date(s):	June 21-24, 2016
Estimated Cost:	\$2,250.00

Mr. Barmore requested to attend the 2016 Madison Investment Conference. Messrs. Patti, Silber, Sauer, and Courtright requested a Due Diligence visit to Allianz, UBS and the Emerging Market Manager in New York and Connecticut on June 6-7, 2016 at \$1,100.00 per

person. It was moved by Mr. Holland, seconded by Mr. Matson, and unanimously carried, to approve the conference requests submitted by Ms. Cleary and Messrs. Barmore, Nicolini, Patti, Allen, Silber, Sauer, and Courtright.

Request for Waiver of Medical Panel Re-examination – Virgil L. Cotton Jr. As a matter of information, Board members received a copy of an e-mail from Mr. Cotton dated April 5, 2016 and a memorandum from Mr. Allen dated April 6, 2016. Mr. Cotton has a 90% duty disability award because he is totally and permanently incapacitated from performing any occupation. He has no possibility of returning to work, as certified by his neurologist, and the charter provides that the Board may waive his medical panel re-examination. Discussion ensued regarding the requirement to submit a form from his doctor on a yearly basis in lieu of the request waived medical panel re-examinations. It was moved by Mr. Petropoulos, seconded by Mr. Matson, and unanimously carried, to approve the request for waiver of medical panel re-examination.

Approval of Foley & Lardner LLP Contract for Legal Services. Mr. Allen handed out a copy of the Contract for Services between the ERS and Foley & Lardner LLP. Foley & Lardner LLP recently reviewed the investment management agreement. They worked with the city attorney to develop a contract for ongoing legal consulting services. Ms. Fowler spoke about the contract stating it was a standard retainer agreement. The ERS is not obligated to Foley for any particular time period and the contract provides protection that Foley can be terminated at any time. She stated the ERS reserves the right to review their bills. Mr. Allen stated it was important to have an expert reviewing side letters in subscription agreements for alternative investments. Ms. Fowler stated the city attorney’s office handles routine contracts. Ms. Horwitz stated this provides competition among purveyors for this expertise. She stated it was beneficial to have a national expert due to the sophistication of the investment agreements in national public pension plans. Ms. Cleary stated Attorney Hickey of Foley & Lardner is also available for board education. Discussion ensued. Mr. Patti recommended that the approval be modified to include board approval. It was moved by Mr. Holland, seconded by Mr. Patti, and unanimously carried, to approve the Foley & Lardner LLP Contract for Legal Services.

(At this point, the agenda was taken out of order.)

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 – Re-examinations</u>	<u>Recommendation</u>
Daniel Nikolaus	Approval
Terry Saugstad	Approval
Kenneth Berget	Approval

<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Laura Wustner Effective 9/29/15	Approval
David Braam Effective 12/23/15	Approval
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Kenneth Trudeau	Approval
Yoron Whitfield	Approval
Iris Walker	Approval
Gregory Eckert	Approval
Audra Finnegan	Approval

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

Mr. Barmore directed the Board back to item VI. E.

Approval to Suspend Disability Benefits for Non-Compliance with Periodic Medical Re-examinations – Monica Blazekovic. As a matter of information, Board members received a copy of a memorandum dated April 19, 2016. Mr. Allen reported that when Ms. Blazekovic is in compliance with her periodic medical re-examination her benefit will be reinstated retroactively. It was moved by Mr. Petropoulos, seconded by Mr. Patti, and unanimously carried, to approve to suspend Monica Blazekovic’s disability benefits for non-compliance with periodic medical re-examinations.

Unfinished Business.

Legal Opinions and Service Requests Pending and Legal Opinions. Mr. Allen presented a legal opinion obtained from the City Attorney.

Exemption from Medical Record Retrieval and Certification Fees – Wis. Stat. Sections 146.83 and 990.01(26). Mr. Allen handed out a legal opinion dated April 19, 2016. Ms. Horwitz reported that ERS staff would not have to pay a certification or retrieval fee when requesting medical records. The board accepted this and placed it on file.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. Mr. Allen noted that the following items have been closed out: Medical Council and Open Meetings Law, and Outside Earnings Limitation Compliance Deadline. He stated that under Paid Release for ERS Employee-Elected Board Members the Legislative Committee recommended that ERS draft a proposed Board Rule that defines the role of Board members regarding Due Diligence trips.

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 April 25, 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 Administration and Operations Committee Meeting held March 17, 2016.
- 5) Minutes of the Investment Committee Meeting held April 7, 2016.
- 6) Minutes of the Legislative Committee Meeting held April 13, 2016.

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

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

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

There being no further business, Mr. Barmore adjourned the meeting at 10:02 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.)