

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

Minutes of the Regular Meeting held June 23, 2016

The meeting was called to order at 9:06 a.m.

Board Members Present: John Barmore, Chair
 Tom Klusman
 Rudolph Konrad
 Nik Kovac
 Martin Matson
 Gerald Pace
 Carmelo Patti
 Gust Petropoulos

Board Members Not Present: Deborah Ford (excused)
 Larry Holland (excused)
 Mark Nicolini (arrived 9:32 a.m.)
 Gust Petropoulos (excused)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 David Silber, Chief Investment Officer
 Melody Johnson, Chief Financial Officer
 Erich Sauer, Pension Investment Analyst
 Tom Courtright, Pension Investment Analyst
 Matthew Ogren, Pension Investment Intern
 Karen McElwee, Mgmt. Services Analyst/
 Disability Benefits Coordinator
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Miriam Horwitz, Andrea Fowler, City Attorney's Office; Molly King, Budget Office; Wayne Morgan, Eric Ferguson, Baker Tilly; Jean Burnside, Milwaukee, Retirees' Association; Michael McGuire, Northwest Passage.

Mr. Barmore announced a closed session item with a phone call from London, England at 9:15 a.m. and stated the first two agenda items would be taken before going into closed session.

Introduction of New Board Members. Mr. Barmore introduced and welcomed Alderman Kovac as a new board member. Mr. Barmore also introduced Ms. Ford, City Labor Negotiation, as a new board member. Mr. Kovac thanked Common Council President Hamilton for appointing him Trustee.

Approval of Minutes. Mr. Barmore presented the minutes of the Regular Meeting held May 23, 2016. It was moved by Mr. Patti, seconded by Mr. Kovac, and unanimously carried, to approve the Minutes of the Regular Meeting held May 23, 2016. Mr. Barmore presented the minutes of the Special Meeting held June 7, 2016. It was moved by Mr. Matson, seconded by Mr. Konrad, and unanimously carried, to approve the Minutes of the Special Meeting held June 7, 2016.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report. Mr. Sauer handed out copies of the Performance Update Chart. Mr. Sauer reported the Fund's value as of May 31, 2016 was \$4.79 billion dollars, with an estimated return of 0.4 percent, net of fees, and slightly outperformed the blended benchmark. He indicated that for June the Fund return was up 0.3 percent month-to-date, and had an approximate value of \$4.80 billion. Six of the 16 active managers are outperforming, net of fees. Mr. Sauer stated that the Fund has year-to-date: capital market gains of \$169.2 million; paid out \$164.2 million dollars in benefits and expenses and received contributions of \$76.9 million. He indicated that the ERS Fund would not withdraw funds this month as funds from reducing the Fixed Income allocation as part of the recently approved Fixed Income structure review will be used to make benefit payments this month.

Mr. Barmore then stated items III. A. and III. B. would be held until after closed session. Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on the following item (III. C.), 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. Matson, and seconded by Mr. Pace, that the Board convene in closed session.

The Board convened in closed session at 9:12 a.m. The Board reconvened in open session at 9:55 a.m. Mr. Nicolini arrived at 9:32 a.m.

Approval of Neuberger Berman Secondary Opportunities Fund IV Private Equity Contract. It was moved by Mr. Matson, seconded by Mr. Kovac, and unanimously carried, to approve the Neuberger Berman Secondary Opportunities Fund IV Private Equity contract.

Approval of Statement of Investment Policy Update. Mr. Barmore resumed the agenda order at Item III. A. Mr. Silber noted the changes in the policy were due to the new fixed income structure and allocation change. Mr. Silber also presented to the board the BlackRock Institutional Trust Company's U.S. Aggregate Index manager guideline as part of the policy update. Mr. Barmore noted the Statement of Investment Policy Update is a yearly presentation to the board. It was moved by Mr. Patti, seconded by Mr. Pace, and unanimously carried, to approve the Statement of Investment Policy Update.

Approval of Bank of New York Mellon (Newton) Contract Amendment. Mr. Courtright reviewed with the Board the handout of the key personnel changes and the fee structure change. Mr. Barmore noted the contract amendment reflected these two changes. It was moved by Mr. Konrad, seconded by Mr. Nicolini, and unanimously carried, to approve the Bank of New York Mellon (Newton) Contract Amendment.

Mr. Silber noted UBS, Cornerstone and Earnest Partners will present at the July 14th Investment Committee Meeting. He stated there would be a pullback in global equity markets if "Brexit" is approved by U.K. voters. Mr. Silber also presented a handout of the "Comparison of CMERS Portfolio approved by Investment Committee vs. Current CMERS Portfolio."

New Business.

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

Active Death Benefits reported	\$8,069.58
Retired Death Benefits reported	\$111,538.16
Refund of Member Contributions paid	\$344,880.14

It was moved by Mr. Klusman, seconded by Mr. Konrad, 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, John Barmore Sponsors:	Due Diligence Newton (with additional meetings scheduled with MFS, William Blair, Abbott, and maybe DFA)
Location:	London, England
Date(s):	November 12-16, 2016
Estimated Cost:	\$2,600.00 per person
Erich Sauer, Tom Courtright Sponsors:	Loomis and MFS Due Diligence Loomis Sayles and MFS
Location:	Boston, MA
Date(s):	August 17-18, 2016
Estimated Cost:	\$950.00 per person

Mr. Kovac clarified that the trustees' role in due diligence trips was for their own education rather than completing the due diligence itself, which is conducted by investment team members. It was moved by Mr. Patti, seconded by Mr. Matson, and unanimously carried, to approve the conference requests submitted by Messrs Silber, Barmore, Sauer, and Courtright.

Acceptance of Baker Tilly 2015 Financial Audit. Mr. Morgan of Baker Tilly, presented a report on internal controls and the opinion on the financial statements. Discussion ensued among the board members regarding pension liability and fair value disclosures. Mr. Barmore noted that Mr. Langer from Buck Consultants will present in July. It was moved by Mr. Patti, seconded by Mr. Nicolini, and unanimously carried, to approve the Baker Tilly 2015 Financial Audit.

Approval of Annual Report of the Annuity and Pension Board 78th Edition, December 31, 2015. Mr. Barmore noted the next item on the agenda was IV. D. Approval of Annual Report of the Annuity and Pension Board 78th Edition, December 31, 2015. It was moved by Mr. Nicolini, seconded by Mr. Konrad, and unanimously carried, to approve the Annual Report of the Annuity and Pension Board 78th Edition, December 31, 2015.

Approval of Amendment to Board Rule X.A. – Conferences and Professional Development. The Legislative Committee recommended amending the current Board rule to encourage Trustees to attend due diligence visits to maintain continuing education with respect to investment policy and managers. Language was drafted by Mr. Silber and approved by the city attorney's office to further clarify that trustees are not there as

investment experts but to further their education and training. It was moved by Mr. Kovac, seconded by Mr. Klusman, and unanimously carried, to approve the Amendment to Board Rule X.A. – Conferences and Professional Development.

Approval of Active Member Election Bulletin 188. There is a general city seat election in the fall and the winning candidate will be seated at the beginning of 2017. Mr. Matson noticed the heading contained the word “incumbent.” Mr. Konrad stated it should say “newly elected.” Mr. Konrad also wanted to add the wording “and expiring December 31, 2020” after “commencing January 1, 2017.” Pending the technical correction, it was moved by Mr. Matson, seconded by Mr. Konrad, and unanimously carried, to approve the Active Member Election Bulletin 188.

Approval of Appointment of the Honorable Francis Wasielewski to Reviewer/Hearing Examiner. Mr. Allen noted the reviewer/hearing examiner positions are filled by retired judges and the criteria used to fill the position require that the person is an accredited law school graduate, are licensed to practice in Wisconsin, and have five years’ experience conducting hearings and writing conclusion and findings. Discussion ensued about the process of hiring reviewer/hearing examiners. The panel, currently four, will now expand to five reviewer/hearing examiners. It was moved by Mr. Konrad, seconded by Mr. Pace, and unanimously carried, to approve the appointment of the Honorable Francis Wasielewski to Reviewer/Hearing Examiner.

Approval of Resolution for Alderman Michael J. Murphy. Mr. Barmore read the entire resolution as he said the Board owes Alderman Murphy a debt of gratitude and he personally is indebted to him for teaching him about the operation of pension plans.

A RESOLUTION

WHEREAS, Alderman Michael J. Murphy, served with distinction as a Trustee of the Employees’ Retirement System of the City of Milwaukee continuously from June 1992 until June 2016 and faithfully and conscientiously discharged his duty to solely represent the interests of all the Members, Annuitants and Beneficiaries of this System during his long tenure of office; and

WHEREAS, Alderman Murphy’s knowledge of City of Milwaukee finances, as well as human resources, pension and benefits policy, as a long-serving Chair of the Finance & Personnel Committee of the Common Council, made him an indispensable member of the Annuity and Pension Board and enabled him to make many invaluable contributions to the well-being of the Employees’ Retirement System of the City of Milwaukee and its many thousands of Members, Annuitants and Beneficiaries, including and especially his key role in obtaining funding support from the City for the System in order to establish and maintain the Employees’ Retirement System of the City of Milwaukee’s status as one of the best funded public pension systems in the nation; and

WHEREAS, Alderman Murphy served on the Investment Committee of the Annuity and Pension Board throughout his tenure, and as its Chair for eleven years, as the constant and able guiding hand behind the development and implementation of its highly successful investment policy, which has generated several billions of dollars of returns for the exclusive benefit of the System’s Members, Annuitants and Beneficiaries; and

WHEREAS, Alderman Murphy, as Chair of the Investment Committee throughout the Great Recession and Global Financial Crisis, exhibited the leadership, courage, discipline and composure necessary to sustain and preserve the Board's Investment Policy and steer the System safely through the turbulent storm; and

WHEREAS, Alderman Murphy's departure is a great loss to the Annuity and Pension Board and all the Members, Beneficiaries and Annuitants of the Employees' Retirement System; therefore, be it

RESOLVED, By the Annuity and Pension Board that it hereby expresses its deep and sincere appreciation and gratitude to Alderman Michael J. Murphy for his invaluable, selfless and loyal service; and be it

FURTHER RESOLVED, That this resolution be recorded in the permanent records of this Board and that a suitably engrossed copy be forwarded to Alderman Murphy,

It was moved by Mr. Barmore, seconded by unanimous, to approve the Resolution for Alderman Michael J. Murphy.

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>Police – Re-examinations</u>	<u>Recommendation</u>
Virgil Cotton	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Walter Price	Approval
<u>GC New Applications – Duty</u>	<u>Recommendation</u>
Henry Gonzalez	Denial
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Henry Gonzalez	Denial
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Cynthia Kittler Austin	Approval
James Braatz	Approval
Patti Harris	Approval
Leann Wolfe	Approval
<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Jose Gonzalez	Approval

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

Disability Findings – Charles Butler. Mr. Barmore presented Hearing Examiner John Fiorenza’s Decision which states “The Application of Charles Butler to reinstate his benefits should be denied and the action of the Annuity and Pension Board in accepting the recommendation of the Medical Council is affirmed.” It was moved by Mr. Nicolini, seconded by Mr. Pace, and unanimously carried, to accept Hearing Examiner Fiorenza’s decision.

Unfinished Business.

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

Approval of Hewlett-Packard State and Local Enterprise Services, Inc. Contract and Statement of Work. Ms. Fowler spoke to the Hewlett-Packard services contract for the continuation of network and maintenance services for the MERITS system. It’s a three-year term with a maximum compensation provided of \$1.2 million dollars. One positive aspect, she noted, is that the ERS can review invoices on a more timely basis and procedures for disputing invoices. One limitation, Ms. Fowler noted, is that Hewlett-Packard’s liability for their own negligence is limited to \$1.2 million dollars. Discussion ensued regarding the contract. It was moved by Mr. Matson, seconded by Mr. Patti, and unanimously carried, to approve the Hewlett-Packard State and Local Enterprise Services, Inc. Contract and Statement of Work.

Legal Opinion and Service Requests Pending. As a matter of information, Ms. Horwitz noted there were no open requests for legal opinions and they are working on the service requests.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. Mr. Allen reported that the Finance and Personnel Committee and the Common Council approved the following files at its June 14 meeting: charter ordinance relating to retirement benefits for employees represented by Milwaukee Police Association, indemnification agreement between the City and the Employees’ Retirement System, appointments of Alderman Nik Kovac and Deborah Ford and the reappointment of Rudolph Konrad to the ERS Annuity & Pension Board, substitute charter ordinance relating to funding of benefits for members and beneficiaries of the Policemen’s Annuity and Benefit Fund.

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. It was moved by Mr. Matson, seconded by Mr. Pace, and unanimously carried, to approve the Executive Director’s Report.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated June 23, 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 May 19, 2016.
- 5) Minutes of the Investment Committee Meeting held May 26, 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.

It was moved by Mr. Patti, 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 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.)