

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

UPDATED Minutes of the Regular Meeting held July 25, 2016

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

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

Board Members Not Present: Deborah Ford (arrived 9:15 a.m.)
 Gerald Pace (excused)
 Gust Petropoulos (excused)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Beth Cleary, Deputy 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
 Mary Turk, Business Operations Analyst
 Bertha Bentley, Administrative Assistant II
 Jan Wills, Board Stenographer

Others Present: Miriam Horwitz, City Attorney's Office; Molly King, Budget Office; Jean Burnside, Milwaukee Retirees' Association; Thomas Hayes, Vice-President, Milwaukee Retirees' Association.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held June 23, 2016. It was moved by Mr. Holland, seconded by Mr. Patti, and unanimously carried, to approve the Minutes of the Regular Meeting held June 23, 2016.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report. Mr. Courtright handed out copies of the Performance Update Chart. Mr. Courtright reported the Fund's value as of June 30, 2016 was \$4.75 billion dollars, with an estimated return of -0.3 percent, net of fees, and underperformed the benchmark, net of fees, in all time periods shown. He indicated that as of July 22, 2016 the Fund return was up 2.2 percent month-to-date, and had an approximate value of \$4.86 billion. Eight of the 16 active managers are outperforming, net of fees. Mr. Courtright stated that the Fund has year-to-date: capital market gains of \$249.3 million; paid out \$194.5 million dollars in benefits and expenses and received contributions of \$81.1 million. He indicated that the ERS Fund withdrew this month: \$13 million from Northern Trust, \$10 million from MFS, \$7 million from Cornerstone, \$7 million from Polen, and \$6 million from Brandes to pay benefits and expenses. Discussion ensued regarding manager performance and withdrawals. Mr. Silber

stated the markets have been normalizing after the Brexit event. He also talked about the benefits of the portfolio's diversification and upcoming due diligence trips.

Investment Committee Report. Mr. Barmore welcomed Ms. Ford as a new Board member and thanked her for volunteering her service. Mr. Barmore updated the Board on the July 14 Investment Committee meeting.

Mr. Barmore stated the Investment Committee heard presentations from three of the Fund's investment managers (UBS, Cornerstone and Earnest) at its July 14th meeting. The committee approved the manager guideline request for Loomis Sayles that gives Loomis 90 days to get their portfolio allocation to the downgraded securities below 3.0%. The committee also approved the UBS guideline request to increase UBS' hedge fund managers to "less than 40, excluding co-investments." UBS current guidelines cap the number of hedge fund managers at 30. The ERS staff will be working with UBS and the City Attorney's Office to prepare an investment management amendment which will be brought to the September 1st Investment Committee meeting. Staff also presented a Brandes due diligence report, a review on the fund's fixed income transition management presented by BlackRock, and a performance update. As of July 13, the Fund's value is \$4.84 billion and had a net return of 4.8%, in line with its benchmark reflecting a full recovery from Brexit three weeks earlier. The committee went into closed session for the emerging markets equity manager contract and Cornerstone performance evaluation. The committee recommended approval of Loomis Sayles Guidelines Extension and Approval of Emerging Markets Equity Manager Contract.

Approval of Loomis Sayles Guideline Extension. It was moved by Mr. Barmore, seconded by Mr. Kovac, and unanimously carried, to approve the Loomis Sayles Guideline Extension.

Approval of Emerging Markets Equity Manager Contract. It was moved by Mr. Barmore, seconded by Mr. Kovac, and unanimously carried, to approve the Emerging Markets Equity Manager Contract.

Approval of UBS Hedge Fund Solutions Guideline Change. Mr. Barmore stated the approval of UBS Hedge Fund Solutions Guideline Change would be held over until the September Board meeting.

Administration and Operations Committee Report. Mr. Patti reported the results of the Administration and Operations Committee meeting held on July 21. He stated the following IT projects are in progress: Windows Server Upgrade, VMware Host Upgrades, Network Vulnerability Audit, and various MERITS Optimization projects. He stated the Tape Libraries and Tape Media Upgrade, and the Network Infrastructure Firmware were successfully completed. He said all other IT projects/tasks were on schedule and proceeding with no issues. Mr. Patti also gave an organizational/personnel update. He stated the various ERS reclassification and reorganization requests are still in progress. The ERS staff is working with DER to fill the Records Tech II, Pension Specialist Sr. and Office Assistant III vacancies, and anticipates filling several other positions in the near future. ERS has filled a Pension Specialist Sr. position and an Administrative Assistant II position. Mr. Patti stated the following internal promotions have occurred: Barbara Teipner Wargolet has been promoted to Lead Pension Specialist, Jan Wills has been promoted to Program Assistant III,

Tameika Dinkins has been promoted to Accounting Assistant II, and Karen Powell has been promoted to IT Support Associate. It was moved by Mr. Matson, seconded by Mr. Konrad, and unanimously carried, to approve the Administration and Operations Committee Report.

New Business.

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

Active Death Benefits reported	\$46,627.08
Retired Death Benefits reported	\$19,449.08
Refund of Member Contributions paid	\$203,455.75

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

Conference Requests. Mr. Allen reported that no conference requests were submitted for the July Board meeting.

Buck Consultants Presentation. Mr. Langer, Buck Consultants, gave a presentation, via teleconference, on the ERS' and the City of Milwaukee Policemen's Annuity and Benefit Fund's Actuarial Valuation Report. Mr. Langer answered Board members' questions throughout his presentation and discussion ensued following his presentation. It was moved by Mr. Matson, seconded by Mr. Konrad, and unanimously carried, to accept and place on file the Actuarial Valuation Reports. Mr. Hayes, Vice-President, Milwaukee Retirees' Association, addressed the Board regarding concerns that his organization had regarding the ERS' assumed rate of return. Mr. Barmore stated that his organization's concern would be considered for next year's experience study.

(Mr. Holland left at 10:38 a.m.)

Approval of Disability Application. Discussion ensued among Board members regarding the formatting of the Application for Disability. A request was also made to provide written instructions for the application. It was moved by Mr. Konrad, seconded by Mr. Matson, and unanimously carried, to approve the Disability Application.

(The Board took a break at 11:03 a.m. and re-convened at 11:17 a.m.)

Approval of Board Rule III. – Medical Council/Medical Panel. Proposed amendment to Board Rule III. was considered for policemen represented by MPSO who file an application for duty disability retirement on or after January 1, 2016 and policemen represented by MPA who file an application for duty disability retirement on or after June 19, 2016. It was moved by Mr. Patti, seconded by Mr. Nicolini, and unanimously carried, to approve the proposed amendment to Board Rule III. – Medical Council/Medical Panel.

Approval to Suspend Disability Benefits for Non-Compliance with Outside Earnings Limitation. A list of persons not in compliance with providing their tax returns

was presented to the Board members as informational. Discussion ensued. Mr. Barmore noted for the record that this is an informational item.

Approval of August Resolution. It was moved by Ms. Ford, seconded by Mr. Nicolini, and unanimously carried, to approve the August Resolution which allows for benefit payments during the meeting recess.

Chief Investment Officer Performance Review. The agenda was taken out of order at this point as Mr. Barmore said closed session item V. H. Chief Investment Officer Performance Review would be held until the end of the meeting so the meeting could adjourn from closed session.

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>
Graham Kunisch	Approval
<u>Fire – New Applications – Duty</u>	<u>Recommendation</u>
Christopher Gauthier	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Jeffery Anderson	Approval
Craig Halpert	Approval
Thomas Locke	Approval
Robert Biskobing	Approval
Robert Smith	Approval
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Angela Morales	Approval
Marty Kaye	Approval
Kenneth Meyer	Approval
Lisa Ordonez	Approval
Roxann Fisher	Approval
Cassandris Smith	Approval

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

Disability Findings – Alan Parks. Hearing Examiner Gary Gerlach’s Decision states “I recommend that with regard to Alan Parks’ application for duty disability benefits

the decision of the Annuity & Pension Board denying his request be affirmed. I recommend that with regard to Alan Parks' application for ordinary disability benefits the decision of the Annuity & Pension Board denying his request be reversed.”

After discussion, it was moved by Mr. Nicolini, seconded by Mr. Patti, and unanimously carried, to accept Hearing Examiner Gerlach's decision to affirm his duty disability benefit and reverse the Board's decision denying his ordinary disability benefits.

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. Ms. Horwitz stated the legal opinions and service requests are completed and updated.

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: indemnification agreements, Board appointments of Ms. Ford, Mr. Kovac and Mr. Konrad, PABF charter ordinance relating to funding, non-represented sworn policeman since labor agreements resulted in using Medical Council, and Department of Employee Relations to enter into a new contract with group life insurance.

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

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated July 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 2016-2017.
- 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.

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

Chief Investment Officer Performance Review.

Please be advised that the Annuity and Pension Board may vote to convene in closed session on the following item (H.), as provided in Section 19.85 (1)(c), for considering employment, promotion, compensation or performance evaluation data of any public employe over which the governmental body has jurisdiction or exercises responsibility. The Board may then vote to reconvene in open session following the closed session.

It was moved by Mr. Nicolini, seconded by Ms. Ford, and unanimously carried, to convene in closed session. The Board convened in closed session at 12:16 p.m.

There being no further business, Mr. Barmore adjourned the meeting from closed session at 12:55 p.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.)