

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

Minutes of the Regular Meeting held September 26, 2016

The meeting was called to order at 10:35 a.m.

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

Board Members Not Present:       Gerald Pace (arrived 10:37 a.m.)

Retirement System 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  
  Karen McElwee, Mgmt. Services Analyst/  
  Disability Benefits Coordinator  
  Mary Turk, Business Operations Analyst  
  Jan Wills, Board Stenographer

Others Present:   Debbie Sweeney, Daniel Kwiecinski, Hays Companies of Wisconsin; Miriam Horwitz, Andrea Fowler, City Attorney's Office; Mike Joecken, Callan Associates; Lawrence Woytek, Retirees' Association.

**Approval of Minutes.** Mr. Allen presented the minutes of the Regular Meeting held July 25, 2016. Mr. Klusman noted an addition for the minutes that Thomas Hayes, Vice-President, Milwaukee Retirees' Association spoke at the July 25, 2016 meeting. Mr. Barmore mentioned that Fire will be added to Board Rule III. It was then moved by Mr. Petropoulos, seconded by Mr. Kovac, and unanimously carried, to approve the Minutes of the Regular Meeting held July 25, 2016.

(The agenda was taken out of order at this point.)

**New Business.**

**Approval of Renewal of Fiduciary Liability Insurance.** As a matter of information, Board members received a copy of the Board Proposal for the ERS of the City of Milwaukee Fiduciary Liability Insurance Program, November 1, 2016 to March 1, 2017. Ms. Sweeney and Mr. Kwiecinski walked the Board members through the proposal. Discussion ensued

among the Board members. It was approved by Mr. Holland, seconded by Mr. Klusman, and unanimously carried, to approve the renewal of the Fiduciary Liability Insurance.

(The agenda returned to Item II. at this point.)

**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 August 31, 2016 was \$4.87 billion dollars, with an estimated return of 0.6 percent, net of fees, and outperformed the blended benchmark by 0.4% in August. He stated the Fund has outperformed the benchmark, net of fees, in the August and year-to-date time periods, but underperformed the benchmark in all other time periods shown. The main drivers of August returns, he said, were outperformance from Brandes, Loomis Sayles, Real Estate and Cornerstone. Mr. Sauer indicated the Fund's value as of September 23, 2016 was \$4.90 billion dollars, the Fund return is up 0.7% month-to-date and the Fund has a year-to-date return of 7.2%, net of fees. Seven of the 16 active managers are outperforming year-to-date, net of fees. The Total Fund, Absolute Return, and Fixed Income asset classes are outperforming their respective benchmarks year-to-date, net of fees. Mr. Sauer stated that the Fund has year-to-date: capital market gains of \$352.7 million; paid out \$256.3 million dollars in benefits and expenses and received contributions of \$92.1 million. Cash withdrawals this month include \$15 million from MFS, \$8 million from Brandes, \$6 million from Cornerstone, \$5 million from DFA U.S. and \$4 million from Polen.

#### **Discussion of Real Estate Program and Approval of Updated 2016 Real Estate Investment Plan.**

Please be advised that the Annuity and Pension Board may vote to convene in closed session on the following item (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.

Mr. Barmore advised that the Board may convene in closed session on the following item (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. Kovac, and seconded by Mr. Matson, that the Board convene in closed session. The motion prevailed by the following roll call vote: AYES: Ms. Ford, Messrs. Holland, Klusman, Konrad, Kovac, Matson, Nicolini, Pace, Patti, Petropoulos, and Barmore. NOES: None.

The Board convened in closed session at 10:54 a.m. and reconvened in open session at 11:02 a.m.

It was moved by Mr. Pace, seconded by Mr. Petropoulos, and unanimously carried, to approve the Updated 2016 Real Estate Investment Plan.

## **Investment Committee Report.**

Mr. Petropoulos, Chairman of the Investment Committee, presented the Investment Committee report and stated at its September 1<sup>st</sup> meeting, the Investment Committee elected Mr. Holland as its Vice-Chair. The Committee spent the majority of its time in closed session with Callan discussing its Private Real Estate Program managed by the Townsend Group. The Committee agreed with Callan's recommendation that Townsend should not be permitted to make changes to CMERS Real Estate Portfolio while the Committee evaluates what characteristics it wants CMERS Real Estate Portfolio to have going forward. Callan presented a proposal for 2017 private equity commitments. The Committee approved the recommendation to commit \$15 million dollars to Private Advisors upcoming small buyout Fund of Funds vehicle contingent on successful legal review. The Committee approved the guidelines for AQR, CMERS new emerging markets manager and Principal, CMERS real assets manager, that modified its benchmark on July 1<sup>st</sup>. This included updating CMERS total Fund blended benchmark and incorporating the new Principal benchmark which has a target of 3 percent of total Fund assets. Staff presented the Fund's 2<sup>nd</sup> Quarter Performance Report. As of June 30, the Fund was up 3 percent, year-to-date, net of fees, and slightly underperformed its benchmark. Staff also provided an estimate of returns through August 31 showing the Fund up 6.5 percent, year-to-date, net of fees, and outperforming its benchmark. The theme of the report was that despite underperformance in many time periods ending June 30, other measures included the Fund's rolling returns, volatility and ranking compared to peers, all indicate the Fund is holding up well in what has been a difficult investing environment. Staff also presented a routine due diligence report on UBS hedge fund solutions and Allianz global investors. The Committee recommends approval of the following: 1. Approval of UBS Hedge Fund Solutions Guideline Change. This was held over at the July Board meeting. 2. Approval of 2017 Private Equity Commitment Recommendation. 3. Approval of Principal Diversified Real Asset Guideline Change. 4. Approval of Statement of Investment Policy Update. 5. Approval of AQR Capital Management Guideline.

(Mr. Barmore made a correction to the packet. He stated the agenda is correct, but the packet shows item III. A., Approval of UBS Hedge Fund Solutions Guideline Change, as posted for closed session but it does not require closed session. Mr. Barmore also requested going on record for item III. E. stating he would vote for the motion but continued to object to the word "whatever.")

It was moved by Mr. Pace, seconded by Mr. Petropoulos, and unanimously carried, to approve items III. A. through E. of the Investment Committee Report.

Mr. Silber noted there was a fee reduction from UBS after investment staff reached out to them when the investment increased from \$125 million to \$190 million.

## **Administration and Operations Committee Report.**

Mr. Patti noted there was no Administration and Operations Committee meeting due to the August recess.

**New Business.**

**Retirements, Death Claims, and Refunds.** Mr. Allen presented the following activity, as well as Service Credits for the months of July and August 2016.

Active Death Benefits reported	
July 2016	\$0.00
August 2016	\$0.00
Retired Death Benefits reported	
July 2016	\$62,255.92
August 2016	\$195,544.24
Ordinary Death	
July 2016	\$0.00
August 2016	\$12,492.02
Refund of Member Contributions paid	
July 2016	\$392,132.89
August 2016	\$289,985.81

It was moved by Ms. Ford, seconded by Mr. Pace, 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, Erich Sauer, Thomas Courtright, Jerry Allen, Mark Nicolini	William Blair Due Diligence
Sponsor:	William Blair
Location:	Chicago, IL
Date:	August 30, 2016
Estimated Cost:	\$60.00 per person
Thomas Courtright, Jerry Allen	DFA Investment Forum
Sponsor:	Dimensional Fund Advisors
Location:	Chicago, IL
Date:	October 13, 2016
Estimated Cost:	\$120.00 per person
Erich Sauer, Thomas Courtright, David Silber, John Barmore, Jerry Allen	Mesirow Due Diligence
Sponsor:	Mesirow
Location:	Chicago, IL
Date:	October 17, 2016
Estimated Cost:	\$90.00 per person

Thomas Courtright Institutional Investor – Roundtable for  
Consultants & Institutional Investors  
Sponsor: Institutional Investor  
Location: Chicago, IL  
Date: October 19-21, 2016  
Estimated Cost: \$900.00

Thomas Courtright Northern Trust Training  
Sponsor: Northern Trust  
Location: Chicago, IL  
Date: October 27, 2016  
Estimated Cost: \$90.00

Erich Sauer Private Advisors Conference  
and Due Diligence  
Sponsor: Private Advisors  
Location: Richmond, VA  
Date: November 16-18, 2016  
Estimated Cost: \$1,300.00

David Silber 2017 Annual Callan Conference  
BlackRock Due Diligence  
Sponsor: Callan Associates, BlackRock  
Location: San Francisco, CA  
Date: January 22-25, 2017  
Estimated Cost: \$1,700.00

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

**Approval of Second Amendment to the Experis Contract.** Mr. Allen noted that Mr. Becker, ERS' Pension Accounting Specialist, took another position over the Labor Day holiday. He stated that the process of preparing year-end financial statements begins in November. To immediately address this critical assignment, Mr. Allen said a CPA would be brought in from Experis, which has a financial accounting unit with Manpower. He noted Experis does do operational audits but not financial audits for ERS. Discussion ensued among the Board members. Ms. Cleary noted Standard Practice Instructions (SPIs) were in place for business continuity.

It was moved by Mr. Petropoulos, seconded by Mr. Konrad, and unanimously carried, to approve the Second Amendment to the Experis Contract.

**Approval of Amendment to Board Rule III. – Medical Council/Medical Panel.**

The added language to Board Rule III. B.C. states: “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, and a fireman represented by Local 215, IAFF, who files an application for a duty disability retirement on or after July 30, 2016.”

Mr. Allen stated the proposed language was occasioned by the settlement of the protective service labor contracts where Medical Council now adjudicates duty disability applications instead of the Medical Panel. Medical Council consists of three doctors appointed by the Board.

It was moved by Mr. Holland, seconded by Mr. Patti, and unanimously carried, to approve the Amendment to Board Rule III. – Medical Council/Medical Panel.

**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:

Fire – New Applications - Duty

Recommendation

Jerry Allen	Approval
Effective 12/29/15	
Stanley Kaminski	Approval
Effective 01/24/16	
Allen Jansen	Approval
Effective 09/27/16	

Police – Re-examinations

Recommendation

Angela July	Approval
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Fire – Re-examinations

Recommendation

Nicholas Adamski	Approval
David Fass	Approval
Nancy Hutchinson	Approval
John Schmaelzle	Approval
Hanife Veshi-Heller	Approval
Christine Jacobs	Approval
Michael Ambroch	Approval
Jacob Ballering	Approval
Gilbert Baltutis	Approval
James Kopp	Approval
Glenn Mish	Approval
Scott Van Roo	Approval
Jeffrey Wenzel	Approval

Charles Smalley	Approval
Mark Ashworth	Approval
<u>GC New Applications – Duty</u>	<u>Recommendation</u>
Anthony Leino	Denial
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Edward Nelson	Approval
Ajamu Nosakhere	Approval
Annie Hatcher	Approval
Marcia Friske	Approval
Sonya Hunter-Brooks	Approval
Mildred Hooks	Approval
Sciphio Scott	Approval
Peter Helfenstein	Approval
Jeffrey Coleman	Approval
Sasha Gulley	Approval
David Grutza	Approval
Vernetta Johnson	Approval
Patricia Fischer	Approval

It was moved by Mr. Matson, seconded by Ms. Ford, 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. Ms. Horwitz stated there were currently no legal opinions and service requests are being monitored with outside legal counsel and she did not anticipate any difficulties.

**Legal Opinions Obtained.** Mr. Allen reported there were no legal opinions obtained 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 reported that the Finance and Personnel Committee and the Common Council approved the following files: A substitute charter ordinance relating to benefits for non-represented sworn policemen; a Resolution authorizing the Department of Employee Relations to enter into a contract for Group Life Insurance; and a substitute charter ordinance relating to retirement benefits for employees represented by the Milwaukee Professional Firefighters' Association, Local 215.

It was moved by Mr. Konrad, seconded by Mr. Matson, and unanimously carried, to accept the Legal Opinions and Service Requests Pending and Legislation Requests Pending and Proposed Legislation.

**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. Mr. Allen mentioned a follow-up form, “Application for 90% Enlarged Disability Retirement” that was approved by the Board. The form is for members who lose a limb, eyesight, are shot in the head, or have any disabilities that are so disabling they can't perform any gainful employment anywhere.

### **Informational**

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated September 26, 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 and 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. Petropoulos, seconded by Mr. Matson, and unanimously carried, to accept and place on file the aforementioned informational items.

There being no further business, Mr. Barmore adjourned the meeting at 11:41 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.)