

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

Minutes of the Regular Meeting held December 19, 2016

The meeting was called to order at 9:10 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

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

Others Present: Thomas Harkless, Wells Fargo; Member-Elect Thomas Bell, Molly King, Budget Office; Andrea Fowler, City Attorney's Office; Sheila Milton, Milwaukee Public Schools.

**Approval of Minutes.** Mr. Allen presented the minutes of the Regular Meeting held November 28, 2016. It was then moved by Mr. Petropoulos, seconded by Mr. Matson, and unanimously carried, to approve the Minutes of the Regular Meeting held November 28, 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 November 30, 2016 was \$4.81 billion dollars, with an estimated return in November of 0.7 percent, net of fees, and outperformed the blended benchmark, net of fees, by 57 basis points. The Fund has outperformed the benchmark, net of fees, in the year-to-date, one- and five-year time periods, and has underperformed the benchmark, net of fees, in the three- and ten-year periods. The main driver of the November returns, he said, was the allocation to US Small Cap Value Equity which added 48 basis points to the Fund's return. Mr. Sauer indicated that as of December 16, 2016, the Fund return is up 1.1% month-to-date, the Fund return is up 8.3% year-to-date, net of fees, with the Fund value at \$4.87 billion dollars. Nine of the Fund's 17 active managers are outperforming year-to-date, net of fees. The Total Fund, Public Equity, Fixed Income, and Absolute Return 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 \$391.4 million; paid out

\$347.5 million dollars in benefits and expenses and received contributions of \$104.6 million. Cash withdrawals this month include \$6 million from DFA US and \$5 million from Cornerstone. Mr. Sauer noted the withdrawals are lower for December since the January 2017 contributions will push the cash balance back up.

Mr. Silber noted the next Investment Committee Meeting is January 11, 2017 and Mr. Fuss of Loomis Sayles will give a presentation to the Board. After the meeting, Mr. Silber noted Mr. Fuss will speak at the CFA luncheon. Mr. Allen noted Mr. Fuss received the Lifetime Achievement Award at last year's CFA luncheon. Mr. Barmore noted Mr. Fuss returned over one billion dollars to the fixed income strategy since 1981. Mr. Silber mentioned the upcoming year-end reports and the four due diligence trips in January. Mr. Silber noted one additional short-term investment intern will be added in 2017.

### **Investment Committee Report.**

At its December 8 meeting, Mr. Petropoulos noted the Investment Committee approved a change to the Fund's blended benchmark that will increase the allocation to private equity from 4% to 5% and decrease the allocation to public equities from 56% to 55%. ERS staff explained that this change is appropriate given that the Fund's actual private equity investment is very close to 5% as of the end of November. This change is consistent with the asset liability study the Board approved in 2013 and will become effective January 1, 2017. The Investment Committee spent the majority of its time in closed session discussing its private real estate portfolio and program. The Committee approved a real estate implementation plan and directed ERS staff to work with the city attorney's office to enter legal negotiations related to the plan as appropriate. The Committee heard a presentation from Brandes Investment Partners who provided an update on the international value stock strategy they manage on ERS' behalf. Finally, staff provided an update on the Fund's performance stating that as of December 7, the Fund was up approximately 8.6%, year-to-date, net of fees and had a value of \$4.88 billion. The Committee recommends approval of the following items: the Statement of Investment Policy Update and secondly, approval of the Real Estate Implementation Plan.

**Approval of Statement of Investment Policy Update.** The Board did not go into closed session for item III. B., Approval of Statement of Investment Policy Update. It was moved by Mr. Petropoulos, seconded by Mr. Holland, and unanimously carried, to approve the Statement of Investment Policy Update.

**Approval of Real Estate Implementation Plan.** It was moved by Mr. Petropoulos, seconded by Mr. Holland, and unanimously carried, to approve the Real Estate Implementation Plan.

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

Mr. Barmore noted that Mr. Patti's Board term expires at the end of December 2016.

At its December 15, 2016 meeting, Mr. Patti noted staff provided an overview of the IT projects and contracts as well as an organizational overview. All IT projects are on schedule. Re-class for positions are still in process and there are three items for approval at the December 19 Board meeting. Mr. Allen noted the Board did not need to go into closed session for the three approval items.

### **Approval of Symphony Contract Amendment for Software Development Professional Services.**

### **Approval of SSR Contracts(s) and Statement of Work for Database and Network Administration Services.**

#### **Approval of SSR Contract and Statement of Work for Server Administrator Services.**

It was moved by Mr. Patti, seconded by Mr. Matson, and unanimously carried, to approve the Symphony Contract Amendment for Software Development Professional Services; Approval of SSR Contracts(s) and Statement of Work for Database and Network Administration Services; and Approval of SSR Contract and Statement of Work for Server Administrator Services.

Mr. Barmore asked for a trustee to serve on the Administration & Operations Committee with Mr. Patti's leaving in December. Mr. Barmore appointed himself to the Administration & Operations Committee for the month of January 2017 so there would continue to be three on the board. Mr. Barmore noted he would be able to serve on the Committee with his schedule change and release hours approved but an interested trustee could fill the position instead.

### **New Business.**

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

Active Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$261,756.91
Retired Death Benefits reported November 2016	\$20,640.38
Refund of Member Contributions paid November 2016	\$190,344.19

It was moved by Mr. Nicolini, seconded by Mr. Konrad, and unanimously carried, to approve the Retirements, Death Claims, and Refunds.

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

Gerald Pace	Cornerstone, Earnest, and Polen Due Diligence
Sponsor:	Cornerstone, Earnest, and Polen
Location:	Atlanta, GA and Boca Raton, FL
Date:	January 4-6, 2017
Estimated Cost:	\$1,400.00
Jerry Allen, Mark Nicolini, Nik Kovac	DFA University of Chicago Booth School Economic Outlook presentation
Sponsor:	DFA
Location:	Chicago, IL
Date:	January 18, 2017
Estimated Cost:	\$75.00 per person
Deborah Ford	2017 Callan Annual Conference
Sponsor:	Callan Associates
Location:	San Francisco, CA
Date:	January 23-25, 2017
Estimated Cost:	\$1,500.00
Miriam Horwitz	2017 Winter Seminar
Sponsor:	National Association Of Public Pension Attorneys (NAPPA)
Location:	Tempe, AZ
Date:	February 22-24, 2017
Estimated Cost:	\$2,013.28
Thomas Courtright	Institutional Investor Global Real Assets Investment Forum
Sponsor:	Institutional Investor
Location:	Austin, TX
Date:	February 27-March 1, 2017
Estimated Cost:	\$1,350.00

It was moved by Mr. Klusman, seconded by Mr. Patti, and unanimously carried, to approve the conference requests submitted by Messrs. Pace, Allen, Nicolini, Kovac, Courtright and Mmes. Ford and Horwitz.

**Active General City Member Run-Off Election Results.** Mr. Allen noted the two remaining candidates were Thomas J. Bell and Joseph T. Ganzer. Mr. Bell won with 725 votes to Mr. Ganzer's 336 votes. Mr. Barmore welcomed Mr. Bell who was in attendance at the meeting as Member-Elect.

**2017 Board and Committee Meeting Dates – Draft.** As a matter of information, Board members received a revised handout showing the January 2017 Board meeting changed to Thursday, January 19, 2017 due to Board members' travel to conferences.

**Approval of Wells Fargo Contract.** Mr. Allen noted the banking services contract expires at the end of the year and it's for a short-term renewal of 90 days. The city attorney's office will explore the indemnification provisions and insurance through their risk consultant T.E. Brennan. The contract will be a three-year contract after the short-term renewal is completed.

It was moved by Mr. Holland, seconded by Ms. Ford, and unanimously carried, to approve the Wells Fargo contract.

### **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 – New Applications - Duty</u>	<u>Recommendation</u>
Barbara O'Leary Effective 2/28/2016	Approval
<u>Police – Re-examinations - Duty</u>	<u>Recommendation</u>
Angel Alderman	Approval
Alejandro Arce	Approval
Christopher Manney	Approval
<u>Fire – New Applications - Duty</u>	<u>Recommendation</u>
Mario Hartlaub	Denial
<u>Fire – Re-examinations - Duty</u>	<u>Recommendation</u>
John Elliott	Approval
Maurya Lomen	Approval
James Merchant	Approval
Thomas Repaci	Approval
William Soderbeck	Approval
<u>GC New Applications – Duty</u>	<u>Recommendation</u>
Sheila Milton	Denial
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Sheila Milton	Denial
<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Robert Sullivan	Approval

<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Reginald Barken	Approval
Freddie Lewis	Approval
Wilma Mendez	Approval
Arthur Ray	Approval
Ronald Werner	Approval

After discussion, it was moved by Mr. Petropoulos, seconded by Mr. Klusman, and unanimously carried, to accept the aforementioned recommendations of the Fire and Police Medical Panel Physicians and the Medical Council.

### **Unfinished Business.**

**Legal Opinions and Service Requests Pending and Legal Opinions.** As a matter of information, the Board members received a copy of the Legal Opinions and Service Requests Pending and Legal Opinions.

Mr. Allen noted the newly-requested legal opinion from the city attorney's office is the result of the recent labor contract settlements. Some people had gone on duty disability during the labor negotiations and their income benefit is affected by the outcome of the contract settlement. All of the fire and police are contributing their 7% member contribution and the city is giving them a 5.8% pension contribution offset, similar to the recent general city pension offset. Mr. Allen said the issue is whether their disability payments will be adjusted to reflect the amount of the pension offset. He noted a person on disability usually gets 75% of the pay for the position. Some persons in 2015 and 2016 made contributions before they went on disability and received a contribution offset to help them make that contribution. The question, Mr. Allen added, is whether the offset counts as salary under Chapter 36. The labor contracts state that the offset is pensionable for service retirement, but the question is whether it is salary for duty disability purposes. Mr. Allen stated it is an open issue for now until the city attorney's office gives an opinion which is expected in Spring 2017. Mr. Allen said it takes the ERS time to process all the retroactive pay that comes out of the labor arbitration and contract settlement, but the duty disability for Fire members will receive an adjustment in February 2017, in which their disability benefit will be adjusted by their retroactive pay, excluding the pension offset until the opinion is received.

Mr. Klusman noted that on the pension offset issue there is a potential conflict of interest as most of the duty disability are Fire personnel and the labor agreement was just litigated between 215 and the City Attorney's office represented the City in that litigation. He mentioned that if the City Attorney were to render an opinion on that now, there would be a conflict of interest.

Mr. Allen stated there are service requests with the City Attorney's office for Superior Support Resources, Inc., Symphony Corporation and Hewlett Packard Enterprise Company Agreement.

**Legislation Requests Pending and Proposed Legislation.** As a matter of information, Mr. Allen stated Chapter 350 provides for 32 hours of paid time off for trustees to attend Board and Committee meetings as well as conferences. The Common Council, via the Finance & Personnel Committee, approved additional paid time off for Board members to attend meetings and conferences.

Mr. Allen stated a substitute ordinance related to ending retiree health benefits for new general city employees was passed by the Common Council. He also noted a substitute resolution authorizing City departments to expend monies for 2017 was passed by the Common Council.

It was moved by Ms. Ford, seconded by Mr. Kovac, and unanimously carried, to approve the Legal Opinions and Service Requests Pending and Legal Opinions 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 appointed Ms. Johnson, Chief Financial Officer, as Interim Deputy Director while Ms. Cleary is on leave as Acting Executive Director for the City's Deferred Compensation Plan. Mr. Allen noted HACM, MMSD, Veolia and the City are pre-paying in January their 2017 contributions to the pension fund and will earn interest credits. Discussion ensued.

**Informational.**

The following is a list of informational items:

- 1) Report on Claims and Litigation.
- 2) Conferences.
- 3) Class Action Lawsuit Report.
- 4) Minutes of the Administration & Operations Committee Meeting Held November 28, 2016.

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

- 5) Report on Bills.
- 6) Deployment of Assets.
- 7) Securities Lending Revenue and Budget Reports.
- 8) 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 10:00 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.)