

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

Minutes of the Investment Committee Meeting
Held February 25, 2016

The meeting was called to order at 9:03 a.m.

Committee Members Present: John Barmore
 Karen Ellenbecker
 Larry Holland
 Tom Klusman
 Rudy Konrad
 Martin Matson
 Carmelo Patti
 Gust Petropoulos
 Michael Murphy, Chair

Committee Members Not Present: Mark Nicolini (excused)
 Gerald Pace (arrived at 10:01 a.m.)

ERS Staff Present: Bernard J. Allen, Executive Director
 David Silber, Chief Investment Officer
 Erich Sauer, Pension Investment Analyst
 Tom Courtright, Pension Investment Analyst
 Jan Wills, Board Stenographer

Others Present: John Pirone, Callan Associates; Mike Joecken, Callan Associates; Molly King, Budget Office.

4th Quarter 2015 Performance Update. As a matter of information, Committee members received in their meeting packet a copy of the ERS' 4th Quarter Performance Report dated February 25, 2016 and a copy of the CMERS 4th quarter Performance Report - Supplemental. Mr. Silber updated the Committee and stated the ERS is doing better than its peers and mentioned the ERS' public pension fund is in the top quartile over the one- and three-year time periods and is in the top third over a five-year time period. Mr. Silber reported that the Fund's market value was \$4.71 billion as of December 31, 2015. He reported on total Fund performance for the 4th quarter 2015 stating the Fund ended the quarter with a 2.6% return versus the ERS 4th quarter benchmark of 3.2%. Mr. Silber also remarked how the global investment opportunity set has been very challenging since mid-2014 but there are reasons to be pleased with how the CMERS portfolio has navigated this challenging environment and many aspects of the portfolio that are positioned to hopefully perform better going forward. He noted that significant progress was made in early 2016 relative to implementation of new public equity and real assets structures. Mr. Sauer and Mr. Courtright provided additional updates on the Fund. Mr. Sauer spoke about the 4th quarter performance ending December 31, 2015 and discussed the fund overview and each of the equity asset classes of public equity, domestic equity, international equity, and global equity. Mr.

Courtright spoke about fixed income, absolute return, private equity and recent performance update. The fund is currently down -3.8% as of February 24, with the total fund at \$4.57 billion dollars.

Value Added Analysis. Committee members received in their packets the CMERS Total Fund – Historical Value Added Report. Mr. Silber led the discussion regarding the report. Over the last 10 years (1/1/06 - 12/31/15), the fund underperformed its benchmark by \$7 million dollars. However, over 21 years (1/1/95 – 12/31/15) since the report’s inception, the fund added over \$600 million dollars of value in excess of its benchmark, net of fees. International equity, fixed income, and domestic equity all added value over the 21-year period. International equity and fixed income also added value over the past 10 years, but this has been offset by underperformance from domestic equities during this time period. Callan and staff discussed the difficult environment for active managers over the past 10-year period.

Mr. Murphy called for a five-minute recess at 10:33 a.m.

Approval of Emerging Markets Manager Search Finalists. Please be advised that the Annuity and Pension Board may vote to convene in closed session on the following item (III.), 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. Petropoulos, and seconded by Mr. Matson, that the Committee convene in closed session. The motion prevailed by the following roll call vote: AYES: Mr. Barmore, Ms. Ellenbecker, and Messrs. Holland, Klusman, Konrad, Matson, Pace, Patti, Petropoulos and Murphy. NOES: None. The committee convened in closed session at 10:40 a.m.

It was moved by Mr. Konrad, and seconded by Mr. Matson to reconvene in open session. The committee reconvened in open session at 11:14 a.m.

Approval of 2016 Real Estate Investment Plan. Mr. Joecken distributed a memo on the 2016 Real Estate Allocation from Callan’s real assets consultant Sally Haskins. Callan reviewed the real estate allocation recommendation prepared by Townsend for the real estate portfolio and Mr. Joecken discussed Callan’s real estate recommendation for ERS to adopt in 2016. Mr. Silber stated the staff supported Callan’s recommendation. It was moved by Mr. Petropoulos, seconded by Mr. Holland, and unanimously carried, to approve the 2016 Real Estate Investment Plan.

Liquidity Analysis. Board members received in their packets a CMERS Liquidity Analysis presented by Mr. Sauer. He stated the purpose of the analysis was to model ERS’ allocation under potential scenarios of declining equity prices, project potential overweights to less liquid assets classes – absolute return, real assets, and private equity – and to evaluate the ability of the fixed income allocation to serve as a liquidity source for benefit payments, capital calls, and rebalancing. He noted that the analysis shows the fund could absorb a 40% decline in equity prices, but it is

important to be mindful of risk in the fixed income portfolio, as too much risk could impact its ability to act as a liquidity source in such a scenario.

Fixed Income Structure Review Presentation. As a matter of information, Committee members received a copy of the Callan presentation book, Fixed Income Portfolio Structure Study, dated February 25, 2016. Mr. Joecken said the goal was to define the role of fixed income in the portfolio, review the current management structure for the fixed income portfolio, and discuss options for consideration. Mr. Joecken introduced Mr. Pirone, member of Callan Associates capital markets group who works on asset allocation. A lengthy discussion ensued among Callan and Committee members. The objective for the next meeting is to set the long-term strategic composition of the portfolio and identify an appropriate fixed income manager structure going forward.

Global Equity Transition Analysis. Staff requested this item be held until the May Investment Committee meeting.

Northern Trust Due Diligence Report. Staff requested this item be held until the May Investment Committee meeting.

(Mr. Barmore left the meeting at 11:35 a.m., Mr. Murphy left the meeting at 11:43 a.m., Mr. Matson left the meeting at 12:33 pm and Mr. Holland left the meeting at 12:45 p.m.)

There being no further business, Mr. Petropoulos adjourned the meeting from closed session at 12:49 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.)