

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

Minutes of the Investment Committee Meeting  
Held September 1, 2016

The meeting was called to order at 9:05 a.m.

Committee Members Present:       John Barmore  
  Deborah Ford  
  Larry Holland  
  Tom Klusman  
  Rudy Konrad  
  Martin Matson  
  Mark Nicolini  
  Gust Petropoulos, Chair

Committee Members Not Present:   Nik Kovac (arrived at 10:13 a.m.)  
  Gerald Pace (arrived 9:30 a.m.)  
  Carmelo Patti (excused)

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

Others Present: Sally Haskins, John Jackson, Mike Joecken, Callan Associates.

**Election of Vice Chair.** Mr. Petropoulos asked for a motion for nominations for Vice Chair. It was moved by Mr. Klusman and seconded by Mr. Nicolini to nominate Mr. Holland for Vice Chair. Mr. Petropoulos asked three more times for any further nominations. There being no further nominations or objections, nominations were closed and a unanimous vote was cast for Mr. Holland as Vice Chair of the Investment Committee.

The agenda was taken out of order at this point.

**Approval of 2017 Private Equity Commitment Recommendation.** As a matter of information, Committee members received a copy of Callan's CMERS Private Equity Pacing and Reinvestments 2017 report, dated August 17, 2016. Mr. Joecken of Callan Associates recommended making a \$15 million Private Advisors' Small Company Private Equity Fund VII investment. Discussion ensued. It was moved by Mr. Nicolini, seconded by Mr. Matson, and unanimously carried, to approve the 2017 Private Equity Commitment Recommendation.

## **Manager Guideline and Statement of Investment Policy Changes.**

**Approval of Principal Diversified Real Asset Guideline Change and Approval of Statement of Investment Policy Update.** Mr. Courtright stated the internal benchmark for Principal changed July 1, 2016. He stated the investment weights had changed and Callan and staff agree that it better aligns, going forward, with portfolio holdings in the benchmark. Mr. Silber requested to the Board that it be retroactive to July 1, 2016 for administrative and consistency purposes. Discussion ensued. It was moved by Mr. Nicolini, seconded by Mr. Barmore, and unanimously carried, to approve the Principal Diversified Real Asset Guideline Change and Statement of Investment Policy Update. Mr. Petropoulos requested that the motion reflect the retroactive date to July 1, 2016.

**Approval of AQR Capital Management Guideline.** Mr. Sauer stated the Fund started in August 2016 with AQR's Emerging Markets Limited Partnership Vehicle. He stated they worked with AQR to reflect the guidelines of the commingled vehicle and included it in ERS' investment policy. Discussion ensued. It was moved by Mr. Barmore, seconded by Mr. Nicolini and unanimously carried, to approve the AQR Capital Management Guideline.

## **Due Diligence Reports.**

**UBS Hedge Fund Solutions.** Mr. Patti, Mr. Courtright and Mr. Sauer made a due diligence visit to UBS, Allianz and AQR in one trip. Mr. Sauer said UBS' key staff is still in place and they met with four of the strategy analysts. A guideline change was approved to expand the managers from 30 to 39. UBS believes it is important to have a diversified portfolio as well as the core positions. UBS will have a greater focus on co-investments going forward as they are able to find targeted, differentiated opportunities. Mr. Sauer stated there were no concerns with UBS as they have all necessary resources to implement our fund-of-funds. Discussion ensued.

**Allianz Global Investors.** Mr. Sauer said they have been extremely happy with Allianz's strategy since the Fund has been invested in it. He said the team is intact and they have all the resources to execute the strategy successfully. He stated because Allianz is so successful, they have been attracting assets and they are very disciplined about evaluating capacity. Mr. Sauer said Allianz has a 10% target return. He also stated Allianz is getting close to their capacity number and will institute a hard close at year-end. In 2017 he said the Fund will start to receive distributions when the strategy earns positive returns.

(Mr. Pace arrived at 9:30 a.m. during the Allianz Due Diligence Report.)

## **Callan Real Estate Presentation.**

It was moved by Mr. Matson, seconded by Mr. Holland and unanimously carried, to convene in closed session. The committee convened in closed session at 9:20 a.m. and reconvened in open session at 10:52 a.m.

(Mr. Kovac arrived at 10:13 a.m. during Callan's Real Estate Presentation.)

**2<sup>nd</sup> Quarter 2016 Performance Update.** Mr. Silber stated the fund was up 3% in July. Mr. Silber said the Fund had a preliminary value of \$4.86 billion as of August 31, 2016. The Fund's percentage return was estimated to be approximately 6.50%, net of fees and the Fund is outperforming 40 basis points year to date. Mr. Allen stated the Fund has performed well since the Global Financial Crisis with the seven-year number having a 9.9% return. Discussion ensued. Mr. Ogren stated the Fund from January 2007 through July 2016 paid out \$2.7 billion in benefit payments and the investment gain was \$1.9 billion dollars, including the 2008 crisis. Mr. Sauer spoke about the Fund's attribution of the various managers as well as the top-performing and under-performing managers. Mr. Sauer also talked about the strong performance of fixed income. Mr. Courtright talked about the absolute return composite and the percentage returns for the managers. Discussion ensued. Mr. Courtright also spoke about the private equity investments. Discussion ensued.

(Mr. Holland left at 11:16 a.m. during the 2<sup>nd</sup> Quarter 2016 Performance Update.)

**CIO Report.** Mr. Silber stated that even though no August board meeting was held, the reports still needed to be run and were included in the committee materials.

There being no further business, Mr. Petropoulos adjourned the meeting at 11:44 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.)