

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

Minutes of the Regular Meeting held May 22, 2017

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

Board Members Present: John Barmore, Chair
 Thomas Bell
 Deborah Ford
 Larry Holland
 Tom Klusman
 Rudolph Konrad
 Nik Kovac
 Mark Nicolini
 Gust Petropoulos

Board Members Not Present: Martin Matson (excused) represented by Ms. Aycha
 Sirvanci, Comptroller's office
 Gerald Pace

Retirement System Staff Present: Bernard J. Allen, Executive Director
 David Silber, Chief Investment Officer
 Thomas Courtright, Pension Investment Analyst
 Mark Niemiec, Pension Accounting Manager
 Karen McElwee, Management Services Analyst
 Marcia Cunningham, Disability Specialist Sr.
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Patrick McClain, City Attorney's Office; Terry Siddiqui, Partner, DS Consulting Group, LLC; Aycha Sirvanci, Comptroller's Office.

Mr. Barmore announced that Mr. Pace submitted a letter of resignation from the Annuity and Pension Board and the Administration office of the Mayor's office has been notified as he was a Mayoral appointment.

Approval of Minutes. Mr. Barmore presented the minutes of the Regular Meeting held April 24, 2017. It was moved by Mr. Petropoulos, seconded by Mr. Kovac, and unanimously carried, to approve the Minutes of the Regular Meeting held April 24, 2017.

Chief Investment Officer Report. As a matter of information, Board members received the performance report. Mr. Courtright presented the performance report. The Fund value as of April 30, 2017 was \$5.08 billion dollars. The Fund returned 1.3%, net of fees, and outperformed the blended benchmark by about 0.2% in April. The Fund matched the benchmark over the year-to-date and three-year period, net of fees. The Fund outperformed the benchmark in all other time periods except for the 10-year period, net of fees. The main drivers of April returns, Mr.

Courtright stated, were manager performance with MFS (global equity manager), and Polen (U.S. Growth Manager), each adding 7 basis points. As of May 19, 2017, the Fund return is up 0.9%, month-to-date and the Fund return is up 6.6% year-to-date, net of fees. The Fund's approximate value is \$5.13 billion as of that date. Mr. Courtright commented that 11 out of 16 active managers are outperforming year-to-date, net of fees. He commented that the Fixed Income and Absolute Return asset classes along with the Total Fund are outperforming their respective benchmarks year-to-date, net of fees. Mr. Courtright said year-to-date, the Fund has generated a capital market gain of \$322.6 million, has paid benefits and expenses of \$135.1 million and has received contributions of \$68.2 million. Mr. Courtright stated the April cash withdrawals are \$10 million from Brandes, \$8 million from AQR, \$7 million from William Blair, \$5 million from MFS, \$5 million from Polen and \$2 million from CastleArk. Discussion ensued.

Mr. Silber commented that the June 8 Investment Committee Meeting would include a real estate presentation by Callan, including recommendations from Callan since they took over Townsend duties.

Investment Committee Report. At its May 11 meeting, Mr. Petropoulos reported the Investment Committee unanimously elected Mr. Holland as its Vice-Chair. The Committee heard a presentation from Staff regarding the Fund's U.S. Large Cap Value exposure and Portable Alpha. This included discussion about active and passive management, factor-based strategies, and a comparison of Portable Alpha on top of Equity and Fixed Income. The Committee approved Staff's recommendations to increase the Fund's value allocation, replace Cornerstone with a U.S. large cap value factor-based strategy, and consider Portable Alpha on top of a Fixed Income benchmark during the upcoming ALM study. Staff provided the Committee with BlackRock's summary of the recent Cornerstone transition they managed for the Fund and provided routine due diligence reports on Polen and Earnest. Staff also presented the Fund's 1st quarter performance report, reporting that the Fund generated a 4.3% net of fee return that slightly underperformed the 4.4% benchmark return. Finally, Staff led discussions on a Newton contract amendment and a proposed guideline change for the hedge fund allocation UBS manages. The following items are recommended for approval by the Investment Committee: Request that Callan develop a search profile for a U.S. large cap value factor-based strategy; increase the Fund's exposure to U.S. large cap value; request that Callan model Portable Alpha on top of Fixed Income during the upcoming ALM Study; approval of Bank of New York Mellon (Newton) contract amendment; approval of CMERS Low Beta (UBS Hedge Fund Solutions) Guideline change. Mr. Petropoulos noted that completes the recommendations to the full Board.

Approval of U.S. Large Cap Value Public Equity Option. It was moved by Mr. Petropoulos, seconded by Mr. Klusman, and unanimously carried, to approve the U.S. Large Cap Value Public Equity Option.

Approval of Bank of New York Mellon (Newton) Contract Amendment. It was moved by Mr. Petropoulos, seconded by Mr. Konrad, and unanimously carried, to approve the Bank of New York Mellon (Newton) Contract Amendment.

Approval of CMERS Low Beta (UBS Hedge Fund Solutions) Guideline Change. It was moved by Mr. Petropoulos, seconded by Mr. Nicolini, and unanimously carried, to approve the CMERS Low Beta (UBS Hedge Fund Solutions) Guideline Change.

Administration & Operations Committee Report. Mr. Barmore reported that at its Thursday, May 18, 2017 meeting, the following audit reports were presented by Experis: Risk Assessment and Internal Audit Plan for Fiscal Year 2017 and Internal Audit Update. Also presented were five audits, including Ethics and Governance Internal Audit Report, Benefits Calculation, Enrollment and Member Services, Human Resources and Payroll and Benefits Administration. No internal control deficiencies were found by Experis in any of the audits and there were no required management responses. The A&O Audit Charter and Internal Audit Charter were approved and forwarded to the Board for approval, which is in your packet for review. The Contract Amendment was approved for Buck Consultants' name change to Conduent and forwarded to the Board. There was a presentation on IT Projects Portfolio. All projects are ongoing and categorized as green. There was an Organizational and Personnel Update which covered the previous IT category change and is ongoing. The approval items are A. and B.

Approval of A&O Committee Audit Charter and Internal Audit Charter. It was moved by Mr. Barmore, seconded by Mr. Bell, and unanimously carried, to approve the A&O Committee Audit Charter and Internal Audit Charter.

Approval of First Amendment to Conduent HR Consulting, LLC (f/k/a Buck Consultants, LLC) Agreement (name change). It was moved by Mr. Barmore, seconded by Ms. Ford, and unanimously carried, to approve the First Amendment to Conduent HR Consulting, LLC (f/k/a Buck Consultants, LLC) Agreement (name change).

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity for the month of March 2017.

Active Death Benefits reported	\$0.00
Deferred Death – Member Refund	\$35,422.39
Ordinary Death Benefits reported	\$0.00
Retired Death Benefits reported February 2017	\$18,535.69
Refund of Member Contributions paid February 2017	\$189,379.28

It was moved by Mr. Konrad, seconded by Mr. Bell, 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.

Mark Nicolini	Great Plains Institutional Investor Forum (Panel Moderator)
Sponsor:	Institutional Investor
Location:	Minneapolis, Minnesota
Date:	June 27, 2017
Estimated Cost:	\$350.00

David Silber	William Blair Meeting
Sponsor:	William Blair
Location:	Chicago, Illinois
Date:	June 1, 2017
Estimated Cost:	\$85.00

David Silber	Roundtable for Consultants & Institutional Investors Institutional Investors
Sponsor:	William Blair
Location:	Chicago, Illinois
Date:	October 3-6, 2017
Estimated Cost:	\$1,400.00

It was moved by Mr. Kovac, seconded by Mr. Holland, and unanimously carried, to approve the Conference Requests submitted by Messrs. Nicolini and Silber.

Approval of Appointment of Dr. David J. Drury to the Medical Council. As a matter of information, Board members received a memorandum and CV for David Drury, MD, MPH, FACOEM. Mr. Allen noted that the Medical Council met on May 5, 2017 and after a recommendation from Dr. Borkowski, unanimously recommended that Dr. Drury be appointed to the Medical Council. Mr. Allen noted there are six doctors available for Medical Council and three are required by the City Charter to be present at Medical Council to make decisions. Mr. Allen noted Dr. Borkowski has left employment with Froedtert Hospital and is not available under the Froedtert agreement necessitating bringing Dr. Drury onto the Medical Council. Mr. Allen stated Dr. Drury is a board certified occupational and environmental medicine specialist with a substantial and impressive CV. It was moved by Mr. Nicolini, seconded by Ms. Ford, and unanimously carried, to approve the Appointment of Dr. David J. Drury to the Medical Council.

Implement City Attorney Opinion Dated February 16, 2017 Regarding Offset for Member Contributions for Certain Duty Disability Retiree Annuitants; and Closed Session Regarding Litigation. Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on these items as provided in Section 19.85(1)(g), Wisconsin State Statutes, to confer with legal counsel concerning strategy to be adopted by the body with respect to litigation in which it is or is likely to become involved. The Board may then vote to reconvene in open session following the closed session. It was moved by Mr. Petropoulos, and seconded by Mr. Kovac, and unanimously approved, that the Board convene in closed session on these items.

Mr. Allen asked the Chair to have the disability staff remain in closed session.

The Board convened in closed session at 9:22 a.m. The Board reconvened in open session at 10:12 a.m.

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 - Duty</u>	<u>Recommendation</u>
John Fredericks	Approval
Joel Kujawa	Approval
Kurt Lacina	Approval
Keith Miller	Approval
<u>Fire – Re-examinations - Duty</u>	<u>Recommendation</u>
Kenneth Berget	Approval
Thomas Kaminski	Approval
Scott Krahn	Approval
Thomas Ptak	Approval
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Gary Staten	Pending
Effective 12/27/2016	
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Angela Algee-Cotton	Approval
Ermajean Austin	Approval
Steven Beres	Approval
Jenitza Crespo	Approval
Sarah Edmonds	Approval
Denise Jackson	Approval
Robert Jacoby	Approval
Cheryl Randall	Approval
Duane Rondorf	Approval
Timothy Williams	Approval
<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Scott Berres	Approval
Samuel Gamboa	Approval

It was moved by Mr. Holland, 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 Opinions and Service Requests Pending and Legal Opinions. Mr. Allen stated there were no pending legal opinions for the City Attorney or Outside Legal Counsel. He commented the service requests regarding the Bank of New York Mellon organizational change and the Buck Consulting name change were addressed earlier.

Legislation Requests Pending and Proposed Legislation. Mr. Allen noted the Common Council passed a charter ordinance for monthly health benefits to provide an increased subsidy for a where a police widow whose husband was killed in the line of duty more than 30 years ago in order to equalize it to those widows whose husbands were killed in the line of duty after 1985. The Council determined the subsidies would be the same. Mr. Allen said the second item under this question pertains to reviewing the number of signatures an election candidate is required to have and is being referred to the Legislative Committee Meeting, which, he stated, is being rescheduled due to Diana Matson's funeral today, May 22. He noted the pension contribution offset for public safety personnel is also being referred to the Legislative Committee. Mr. Allen said the Committee will discuss benefit provisions for persons coming off of duty disability and converting to a service retirement or extended life disability instead of service retirement.

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. A copy of Mr. Allen's report is on file and by reference is incorporated herein. Mr. Klusman asked what the deadline is for submitting their Form 1040 for outside earnings testing. Mr. Allen stated April 15 and October if they file an extension. He said those not submitting their tax returns are brought before the Board for suspension and benefits resume once they comply and supply their tax returns. Mr. Allen noted this will also be discussed at the Legislative Committee meeting. It was moved by Mr. Klusman, seconded by Mr. Bell, and unanimously carried, to accept and place on file the Executive Director's Report.

Mr. Barmore noted the June 15 A&O Meeting is cancelled and the Legislative Committee Meeting will be re-scheduled.

Informational.

The following is a list of informational items:

- 1) Report on Claims and Litigation.
- 2) Conferences.
- 3) Class Action Lawsuit Report.
- 4) Adjusted Quarterly Cost Basis of Equity, May 31, 2017.
- 5) Minutes of the Administration & Operations Committee Meeting Held April 20, 2017.

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

- 6) Report on Bills.
- 7) Deployment of Assets.
- 8) Securities Lending Revenue and Budget Reports.
- 9) Preliminary Performance Report/Asset and Manager Allocation Pie Charts.

Mr. Barmore asked about the Motors Liquidation Company Bankruptcy Case currently in Litigation. Mr. Allen stated Ms. Horwitz was not in attendance to speak to that today.

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

There being no further business, Mr. Barmore adjourned the meeting at 10:30 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.)