

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

Minutes of the Investment Committee Meeting  
Held February 9, 2017

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

Committee Members Present:        John Barmore  
   Thomas Bell  
   Larry Holland  
   Tom Klusman  
   Rudy Konrad  
   Martin Matson  
   Mark Nicolini  
   Gerald Pace  
   Gust Petropoulos, Chair

Committee Members Not Present:    Deborah Ford (arrived at 9:13 a.m.)  
   Nik Kovac (arrived at 9:10 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  
   Melody Johnson, Chief Financial Officer  
   Jan Wills, Board Stenographer

Others Present: Jason Ellement, John Jackson, Mike Joecken, Callan Associates; Larry Langer, Buck Consultants; Miriam Horwitz, Stuart Mukamal, City Attorney's office; Molly King, Budget Office; Carmelo Patti, MPSO.

**Callan 2017 Capital Market Expectations.** As a matter of information, committee members received a copy of "Callan 2017 Capital Market Expectations" with a presentation by Mr. Ellement incorporating the referenced document. Discussion ensued among the Board members.

(Ms. Ford and Mr. Pace arrived during Callan's presentation. Mr. Pace left the meeting at 10:00 a.m. and Mr. Konrad left the meeting at 10:18 a.m. during Callan's presentation.)

Mr. Petropoulos called for a break at 11:12 a.m. The investment committee meeting resumed the meeting at 11:28 a.m.

**Value Added Analysis.** As a matter of information, committee members received a Value Added Analysis report. Mr. Sauer stated the report showed returns by asset class over the past 10 years. Mr. Sauer said the report helps evaluate the investment committee's decision to employ active managers versus the employment of only passive managers. A calculation is completed with the

value of the dollar invested in the asset class with the performance achieved versus what it would have been in the index. Mr. Sauer said monthly returns are looked at and how that dollar grows over the 10-year period is then used to calculate the impact on the portfolio whether choosing active managers versus passive managers. The exercise is done for each of the asset classes of domestic, international and global equity, as well as fixed income, Mr. Sauer commented. He stated the use of active managers has added \$66.7 million to the Fund over the past 10 years. Asset classes can also be tracked on a yearly basis. Mr. Sauer said active managers added \$94 million to the Fund in 2016. During the past 22 years, the total accumulated amount of added value was \$728 million, he stated. Discussion ensued. Mr. Petropoulos accepted and placed Mr. Sauer's report on file.

### **Due Diligence Reports.**

**Cornerstone Investment Partners.** Mr. Petropoulos advised that the Investment Committee may vote to convene in closed session on the following item III.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 Committee may then vote to reconvene in open session following the closed session. It was moved by Mr. Klusman and seconded by Mr. Holland that the Committee convene in closed session. The Committee convened in closed session by the following roll call vote: AYES: Ms. Ford and Messrs. Barmore, Holland, Klusman, Kovac, Matson, Nicolini, Bell and Petropoulos. NOES: None. The Committee convened in closed session at 11:40 a.m.

The Committee reconvened in open session at 11:59 a.m. It was moved by Mr. Barmore and seconded by Mr. Holland to reconvene in open session.

**William Blair.** Mr. Courtright reported on the due diligence visit he and Messrs. Silber, Sauer, Allen and Nicolini made to William Blair on August 30, 2016. Mr. Courtright noted the transition in the portfolio management of the Strategy. With the retirement of the portfolio manager in December 2013, Blair transitioned two portfolio managers to that position at that time, Mr. Courtright noted.

**Mesirow.** Mr. Sauer reported on the due diligence visit he and Messrs. Silber, Allen and Courtright made to Mesirow on October 17, 2016. Mesirow named a Chief Investment Officer, which reflects well on the long-term stability of the investment team, given that the CEO and President are at an age where retirement could be possible.

**Real Estate Update.** Mr. Silber said the transition to Callan as its real estate advisor has gone well. Mr. Silber stated Townsend had been notified as well as the general partners who manage the more than 30 real estate vehicles the Fund is invested in.

Mr. Petropoulos accepted and placed on file the due diligence reports and the real estate update.

As a matter of information, a Callan memo was distributed to the Board members notifying them that Sally Haskins and Avery Robinson, CAIA, have agreed to assume co-leadership of the real

assets team due to a departure of the real assets practice leader to a chief investment officer position at another firm.

Board members also received a memo from Townsend regarding the passing of their colleague Kevin Lynch who was a co-founding partner of Townsend in 1983.

**4<sup>th</sup> Quarter 2016 Performance Report.** As a matter of information, Committee members received a copy of the ERS 4<sup>th</sup> Quarter Performance Report dated February 9, 2017. Mr. Silber said the Fund is in the top quartile for many of the time periods. Mr. Silber reported on total Fund performance for the 4<sup>th</sup> quarter 2016 stating the Fund ended the quarter with a 1.3 percent return, net of fees, which was 0.9 percent above the benchmark. Mr. Silber reported that the Fund's return for 2016 had an 8.8 percent return, net of fees, which was 1.5 percent above the benchmark. Mr. Petropoulos accepted and placed on file the 4<sup>th</sup> Quarter 2016 Performance Report.

There being no further business, Mr. Petropoulos adjourned the meeting at 12:20 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.)