

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

Minutes of the Investment Committee Meeting  
Held May 11, 2017

The meeting was called to order at 9:07 a.m.

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

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

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

Others Present: John Jackson, Mike Joecken, Callan Associates; Miriam Horwitz, City Attorney's Office; Molly King, Budget Office.

**Election of Vice-Chair.** Mr. Petropoulos asked for a motion for nominations for Vice-Chair. It was moved by Mr. Barmore and seconded by Mr. Nicolini to nominate Mr. Holland for Vice-Chair. Mr. Petropoulos asked three more times for any further nominations. Nominations were closed and a unanimous vote was cast for Mr. Holland as Vice-Chair of the Investment Committee.

**U.S. Large Cap Value Public Equity Presentation.** Mr. Silber gave a presentation regarding the Fund's U.S. Large Cap Value exposure and Portable Alpha and requested feedback from the Committee on three options of what to do with the funds from the Cornerstone termination. Staff recommended the following three options for the Cornerstone funding: Index to the Russell 1000 Value Index, Hire a U.S. Large-Cap Value factor-based strategy in which the alpha is expected to come from a limited number of factors that are not actively managed, or Defer the decision until the next Public Equity structure review. Staff also recommended increasing the Fund's U.S. Large-Cap value exposure and requesting that Callan model Portable Alpha on top of Fixed Income during the upcoming ALM study. Discussion ensued throughout the presentation and included

discussion about active and passive management, factor-based strategies, and a comparison of Portable Alpha on top of Equity and Fixed Income.

**Approval of U.S. Large Cap Value Public Equity Option.** The following items were 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 and request that Callan model Portable Alpha on top of Fixed Income during the upcoming ALM Study. It was moved by Mr. Nicolini and seconded by Mr. Holland, and unanimously carried, to approve the U.S. Large Cap Value Public Equity Option. It was moved by Mr. Barmore and seconded by Mr. Holland, and unanimously carried, to approve the Callan development of a search profile for a U.S. large cap value factor-based strategy. It was moved by Mr. Nicolini and seconded by Mr. Barmore, and unanimously carried, to increase the Fund's exposure to U.S. large cap value. It was moved by Mr. Barmore and seconded by Mr. Bell, and unanimously carried, to approve that Callan model Portable Alpha on top of Fixed Income during the upcoming 2017 ALM study.

Mr. Petropoulos called for a break at 10:34 a.m. The Investment Committee resumed the meeting at 10:47 a.m.

**Approval of Bank of New York Mellon (Newton) Contract Amendment.** Mr. Courtright stated two items took place which triggered the Third Amendment for Newton, one of the Fund's Absolute Return managers. He said a new CEO was in place due to a resignation from a CEO who will still be a non-executive member of their Board. Mr. Courtright also stated Newton lowered their break point from \$110 million to \$100 million which would allow lower fees to the ERS if a \$100 million investment were reached. Discussion ensued. It was moved by Mr. Holland and seconded by Ms. Ford to approve the Bank of New York Mellon (Newton) Contract Amendment

**Approval of CMERS Low Beta (UBS Hedge Fund Solutions) Guideline Change.** Mr. Sauer stated UBS is asking CMERS for permission to change their guideline to invest up to 5 percent of the portfolio in a new strategy which would be managed internally. He stated the guidelines, as currently constructed, do not allow for internal management, only co-investments. Mr. Sauer stated that Callan and investment staff recommend approval of the guideline change. Discussion ensued. It was moved by Mr. Holland, seconded by Mr. Barmore, and unanimously carried, to approve the CMERS Low Beta (UBS Hedge Fund Solutions) Guideline Change.

### **Due Diligence Reports.**

**Polen Capital Management.** Mr. Courtright reported on the January 6 due diligence visit he, Mr. Silber and Mr. Pace attended. He stated Polen had presented at the March Investment Committee meeting. Mr. Courtright stated Polen has had great success with their primary strategy which is the Focus Growth U.S. Strategy that CMERS implemented in 2012. He noted Polen added a Global Growth Strategy in 2014 and launched an International Growth Strategy in January 2017. He noted they've gone from one research analyst to six research analysts who now work in all three strategies. Polen also has four portfolio managers now instead of one portfolio manager. Mr. Courtright also noted Polen, since 2016, has expanded their back-office administration and operations personnel. Mr. Courtright said CMERS is comfortable with the philosophy and process

of Polen and their portfolio managers are stable. Discussion ensued. Mr. Petropoulos accepted and placed on file the Polen Capital Management report.

**Earnest Partners.** Mr. Courtright reported on the January 5 due diligence visit he, Mr. Silber and Mr. Pace attended. Mr. Courtright noted there was not much change and the investment, process and investment team remain the same at Earnest Partners. He said CMERS was impressed with the way Earnest Partners' investment team relies on industry practitioners from other backgrounds besides investments and finance. Mr. Petropoulos accepted and placed on file the Earnest Partners report.

**1<sup>st</sup> Quarter 2017 Performance Report.** As a matter of information, Committee members received a copy of the ERS 1st Quarter Performance Report dated May 11, 2017. Mr. Sauer presented the Fund's 1<sup>st</sup> quarter performance report, reporting that the Fund generated a 4.3% net of fee return that slightly underperformed the 4.4% benchmark return. He noted the one-year number is strong due to the out-performance from 2016. Mr. Sauer stated the 5- and 7-year numbers, post-financial crisis, are close to the target assumed return. Mr. Courtright stated Public Equity underperformed slightly for the quarter at 6.6% versus 6.8%. He noted Public Equity outperformed over the one-year period with a 15.8% return versus 15.4% return. Mr. Courtright said the benchmark was nearly matched for the 3-, 5- and 7-year time periods. In Fixed Income, Mr. Courtright said there was strong outperformance for the quarter and doubled the benchmark at 1.6%. Mr. Courtright stated the Fund had a year-to-date return of 6.3% and as of May 10, 2017, the Fund is at \$5.12 billion. Mr. Petropoulos accepted and placed on file the 1st Quarter 2017 Performance Report.

**BlackRock Transition Post-Trade Report.** Mr. Silber stated BlackRock was hired to handle the transition from the Cornerstone termination and the money is now invested in the Russell 1000 Value Index. Mr. Petropoulos accepted and placed on file the BlackRock Transition Post-Trade Report.

**CIO Report.** Mr. Silber noted the next Investment Committee meeting is June 8 with a Real Estate presentation by Callan.

There being no further business, Mr. Petropoulos adjourned the meeting at 11:34 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.)