

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

Minutes of the Investment Committee Meeting
Held June 8, 2017

The meeting was called to order at 9:04 a.m.

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

Committee Members Not Present: Nik Kovac (arrived 9:08 a.m.)
 Mark Nicolini (excused)

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

Others Present: Sally Haskins, Jonathan Gould, John Jackson, Mike Joecken, Callan Associates; Miriam Horwitz, Andrea Fowler, City Attorney's Office; Molly King, Budget Office; Michael McGuire, Northwest Passage.

Callan Real Estate Presentation. As a matter of information, Board members received a copy of the Callan Real Estate Performance Review and Strategic Plan. Ms. Haskins commented that Callan has been on board as Real Estate consultant since January 23, 2017 and replaced Townsend. Callan's agenda included the real estate portfolio, investment policy statement, performance review and strategic plan. She stated Callan collected the performance data from Townsend, computed the 4th quarter performance and has provided information to CMERS' auditor with regard to CMERS' annual audit. They have been talking with personnel of the 25 Funds in the CMERS portfolio. Callan also met with the U.S. and non-U.S. managers. Mr. Gould spoke about the portfolio, targets and core and non-core real estate. He stated the real estate target of 7% equates to \$340 million in asset value. Mr. Gould stated the core real estate is at 77% with non-core real estate at 23%. Ms. Haskins spoke about recommendations for the investment policy statement. She said the allocation is 7% and the rebalancing range is 5% to 9%. She stated the return objective is fine with net returns in excess of the ODCE. Ms. Haskins stated the goal is to move the portfolio composition from 75% traditional and 25% specialized to 100% Core/Core Plus Portfolio with a focus on Private Equity real estate. Ms. Haskins spoke about open-end funds, closed funds and co-

investments. She stated in Core/Core Plus, they want to do open-end investments where funds can be withdrawn quarterly instead of locked in for years. Ms. Haskins said Callan recommended not giving more than 35% of the real estate allocation to any one manager. She stated Callan also recommended single investor exposure limits of 30% to any open-end fund to accommodate capital in large, diversified funds. Ms. Haskins said there is not much change to property-type diversification as it is recommended to be broadly-diversified. For geographic diversification, Callan recommends non-U.S. investments be changed from 20% to 5%. She stated once the non-core allocation is wound down, it can be re-visited. She stated Callan recommends a target of 25% to a maximum of 35% for leverage. Discussion ensued throughout the presentation.

Approval of Real Estate Investment Policy Statement. It was moved by Mr. Barmore and seconded by Mr. Konrad, and unanimously carried, to approve the Real Estate Investment Policy Statement.

Mr. Petropoulos called for a break at 10:03 a.m. The meeting resumed at 10:17 a.m.

Callan Real Estate Recommendations and Callan U.S. Large Cap Value Factor-Based Search Profile Update. Mr. Petropoulos advised that the Investment Committee may vote to convene in closed session on these items, 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. Bell, and seconded by Mr. Matson, that the Board convene in closed session on these items. The motion prevailed by the following roll call vote: AYES: Ms. Ford, Messrs. Barmore, Holland, Klusman, Konrad, Kovac, Matson, Bell and Petropoulos. NOES: None.

The Board convened in closed session at 10:19 a.m. The Board reconvened in open session at 11:46 a.m.

Approval of Callan Real Estate Recommendations. It was moved by Mr. Bell, and seconded by Mr. Matson, and unanimously carried, to approve the Callan Real Estate Recommendations.

Approval of Reams Asset Management Request for Consent to Assignment of Contract. Mr. Sauer referred the Committee members to the memo from Reams regarding the purchase of Scout Investments by Carillon Tower Advisors (CTA). Mr. Sauer stated that once the purchase closes and becomes effective, the contract will be assigned to CTA. He said Reams has asked for a consent to that assignment. Mr. Sauer said the contract, fees, investment process, philosophy and team will not change. It was moved by Mr. Holland and seconded by Mr. Konrad, and unanimously carried, to approve the Reams Asset Management Request for Consent to Assignment of Contract.

CIO Report. Mr. Silber stated the Fund, as of June 7, 2017, stands at \$5.16 billion dollars, and has a year-to-date return of 7.9%, net of fees, which is in line with the benchmark. Mr. Silber noted the next Investment Committee meeting is July 20 with a presentation by Callan. Mr. Joecken commented that the presentation will include the asset liability study process which is done every

five years. Mr. Joecken said the actuarial and liability information will be brought together with the asset projections for the next 10 years. Mr. Allen noted Callan's presentation will focus on asset allocation and the investment process. He said Mr. Langer of Conduent will present capital market assumptions at the June 26 Board meeting for actuarial assumptions. Mr. Allen said it will be important to note the comparisons and contrasts between the two presentations.

There being no further business, Mr. Petropoulos adjourned the meeting at 11:51 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.)