

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

Minutes of the Regular Meeting held October 26, 2015

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

Board Members Present: John Barmore, Chair
 Karen Ellenbecker
 Larry Holland
 Rudolph Konrad
 Martin Matson
 Mark Nicolini
 Gust Petropoulos

Board Members Not Present: Tom Klusman (excused)
 Michael J. Murphy (excused)
 Gerald Pace (excused)
 Carmelo Patti (excused)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Beth Cleary, Deputy Director
 David Silber, Chief Investment Officer
 Erich Sauer, Pension Investment Analyst
 Tom Courtright, Pension Investment Analyst
 Mary Turk, Business Operations Analyst
 Karen McElwee Lloyd, Mgmt. Services
 Analyst/Disability Benefits Coordinator
 Suzanne Zagorski, Board Stenographer

Others Present: Miriam Horwitz, City Attorney's Office and Jean Burnside, Milwaukee Retirees Association.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held September 28, 2015. It was moved by Mr. Petropoulos, seconded by Mr. Matson, and unanimously carried, to approve the Minutes of the Regular Meeting held September 28, 2015.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report. Mr. Silber handed out a copy of the Performance Update Charts. Mr. Courtright reported the Fund's value as of September 30, 2015 was \$4.66 billion dollars, with a return of -1.7 percent, net of fees, and matched the blended benchmark in September. He reported that, as of October 23, 2015, the Fund return was up 4.5 percent month-to-date, and had an approximate value of \$4.87 billion. The Fund's return year-to-date is up 2.3 percent, net of fees. Mr. Courtright reported that, as of October 23, 2015 the Fund has year-to-date: capital market gains of \$123.8 million; paid out \$281.1 million dollars in benefits

and expenses and received contributions of \$98.0 million. He indicated that the ERS Fund withdrew this month: \$10 million from BlackRock Bond Index, \$10 million from Reams, and \$10 million from Wellington to pay benefits and expenses. Discussion ensued.

Mr. Silber reminded the Board members about the November 12, 2015 Investment Committee meeting and spoke briefly about the items to be discussed.

Approval of Callan Associates Contract Amendment. As a matter of information, Board members received copies of the Third Amendment to the Agreement and Exhibit A. Mr. Silber stated that the Callan contract was coming due at the end of 2015. He noted that the Board had a discussion a few months ago and the feedback from the Board was favorable on extending the contract with Callan, which has very favorable terms. Mr. Silber said the other piece is related to real estate. The Board had a discussion a few months ago on our relationship with Townsend and how they have both the role of consultant and manager, which is not a best practice. In addition to extending the Callan contract, this amendment makes Callan the Fund's Real Estate Consultant going forward.

Mr. Silber also spoke about the base fee structure and the incorporation of the fee structure for the real estate portion.

Approval of The Townsend Group Consulting Contract Amendment. Mr. Silber handed out copies of the Reinhart letter, dated October 22, 2015, the Second Amendment to the Consulting Contract and a News Release from Investor Relations, dated October 19, 2015. He stated that Townsend has notified ERS that the majority piece that was held by a private equity firm is now being purchased by NorthStar Asset Management, a firm based in Canada. Mr. Silber stated that this really crystalizes why ERS is doing this split between the management and consulting duties. Severing these duties and having Callan provide real estate consulting services is not only going to help ERS in this case, but help the Board get the advice it needs going forward. He noted that splitting up the duties for Townsend actually involved two contracts as the ERS has separate contracts for Management and Consulting. This item terminates the consulting contract and the \$12,000 per year fee that goes along with that going forward.

Approval of the Townsend Group Investment Management Contract Amendment. Mr. Silber handed out the Second Amendment to the Management Agreement, a red-lined copy of the Management Agreement, and a red-lined copy of the Real Estate Strategic Plan. Mr. Silber stated that because ERS had such a complex relationship with Townsend, being a discretionary manager and consultant, there were some pieces in the consulting contract that ERS had to move into the management contract. This amendment incorporates the items ERS expects Townsend to do going forward on behalf of the ERS, so here is really no change in service other than Townsend will not be ERS' real estate consultant anymore; it also updated some open records language and the real estate strategic policy.

Mr. Silber stated that if the Board is comfortable with these amendments this new structure will be set and ready to go as of November 1, 2015.

After discussion, it was moved by Mr. Holland, seconded by Mr. Nicolini, and unanimously carried, to approve items II. A., B., and C.

Mr. Silber thanked the City Attorney's Office and Reinhart for all the hard work put into these amendments.

Approval of Polen Capital Management Contract Amendment. As a matter of information, Board members received copies of the Amendment to the Investment Agreement, a 3rd Quarter 2015 Portfolio Commentary from Polen Capital, and articles from The New York Times and The Wall Street Journal. Mr. Sauer briefly spoke about the news articles on Polen Capital. He stated that the reason the amendment is before the Board is that Polen had an existing client that negotiated a new fee schedule with Polen (which was a lower fee than ERS had), which subsequently triggered the Most Favored Nations clause in ERS' contract. Mr. Sauer stated that this results in ERS' fee moving from 50 basis points annually to 40 basis points annually, which results in approximately \$200,000 in annual savings based on current asset values. After discussion, it was moved by Mr. Petropoulos, seconded by Mr. Matson, and unanimously carried, to approve the Polen contract amendment.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity, as well as Service Credits for the month of September 2015.

| | |
|-------------------------------------|--------------|
| Active Death Benefits reported | \$149,837.32 |
| Retired Death Benefits reported | \$38,670.22 |
| Refund of Member Contributions paid | \$239,462.59 |

It was moved by Mr. Matson, seconded by Mr. Konrad, and unanimously carried, that the above-indicated retirements, death claims, and refunds be approved.

Conference Requests. Mr. Allen reported that requests to attend the following conferences had been submitted:

| | |
|-----------------|---------------------------------------------|
| John Barmore | 2016 Visions, Insights & Perspectives (VIP) |
| Sponsor: | Institutional Real Estate Inc. |
| Location: | Carlsbad, CA |
| Date(s): | January 27-29, 2016 |
| Estimated Cost: | \$1,700.00 |
| John Barmore | 2016 Public Funds Roundtable |
| Sponsor: | Institutional Investor |
| Location: | Los Angeles, CA |
| Date(s): | April 27-29, 2016 |
| Estimated Cost: | \$1,700.00 |

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|-----------------|--------------------------------------------------------------|
| David Silber | 69 th CFA Institute Annual Conference |
| Sponsor: | CFA Institute |
| Location: | Montreal, Quebec, Canada |
| Date(s): | May 8-11, 2016 |
| Estimated Cost: | \$2,800.00 |
| John Barmore | NCPERS Public Safety Employees Pension & Benefits Conference |
| Sponsor: | NCPERS |
| Location: | Las Vegas, NV |
| Date(s): | October 23-26, 2016 |
| Estimated Cost: | \$1,700.00 |

Mr. Barmore stated that due to the issue of release hours, he was submitting all of the conferences he would like to attend in 2016. Mr. Allen stated that he plans to go to the Finance and Personnel Committee on December 9, 2015 on behalf of the Board to request authorization for the employee-elected trustees to obtain additional excused work hours in order to attend all the regularly scheduled meetings and Board-approved conference attendance. Mr. Barmore indicated that Mr. Patti and Mr. Petropoulos both asked to be added for approval to attend the NCPERS Public Safety conference in October. It was moved by Mr. Matson, seconded by Mr. Holland, and unanimously carried, to approve the conference requests submitted by Messrs. Barmore, Silber, Patti and Petropoulos. Mr. Barmore reminded Board members that the conferences are listed in the Informational Section of the agenda each month.

Referral of Claims Processing RFP to the Administration and Operations Committee.

Mr. Allen stated that staff is asking for a referral of a claims processing RFP to the A & O Committee. He provided some background information to the Board. After discussion, it was moved by Mr. Petropoulos, seconded by Ms. Ellenbecker, and unanimously carried, to refer this issue to the A & O Committee.

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>Fire – New Applications - Duty</u> | <u>Recommendation</u> |
|-----------------------------------------|-----------------------|
| John Elliott Effective 11/15/2014 | Approval |
| John Kielpinski Effective 10/27/2015 | Approval |

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|---------------------------------------|-----------------------|
| <u>Police – Re-examinations</u> | <u>Recommendation</u> |
| Jayne Cler | Approval |
| Marie Hendrickson | Approval |
| Cindy Warren | Approval |
| <u>Fire – Re-examinations</u> | <u>Recommendation</u> |
| Jeffery Beamon | Approval |
| Thomas Gillespie | Approval |
| Elizabeth Hinckley | Approval |
| Patrick Nogalski | Approval |
| Todd Schultz | Approval |
| John Kielpinski | Approval |
| Leonard Kosier | Approval |
| <u>GC New Applications – Ordinary</u> | <u>Recommendation</u> |
| Roeaner Jackson | Approval |
| Effective 9/13/2015 | |
| <u>GC Re-examinations – Ordinary</u> | <u>Recommendation</u> |
| Evelyn Bivins | Approval |
| Tommy Jordan | Approval |
| Gregory Bednik | Approval |
| Debra Burton | Approval |

It was moved by Mr. Holland, seconded by Mr. Nicolini, and unanimously carried, to accept the aforementioned recommendations of the Fire and Police Medical Panel Physicians and the Medical Council.

Unfinished Business.

Legal Opinion and Service Requests Pending. As a matter of information, Mr. Allen presented a list of pending requests for legal opinions and service requests made to the City Attorney. Ms. Horwitz briefly spoke about the pending opinions and service requests.

Legal Opinions Obtained. None.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. Mr. Allen indicated he did not have anything to report. Discussion ensued with respect to Common Council File 150753.

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.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated October 26, 2015 which gives the status of litigation involving the ERS, as prepared by staff of the ERS and City Attorney's office.
- 2) List of Client Conferences and Trustee Education for 2015.
- 3) Minutes of the Investment Committee Meeting held September 3, 2015.
- 4) Class Action Lawsuit Report.

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

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

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

There being no further business, Mr. Barmore adjourned the meeting at 9:50 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.)