

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

Minutes of the Annual Meeting held January 19, 2017

The meeting was called to order at 9:10 a.m.

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

Board Members Not Present:            Gerald Pace (excused)

Retirement System Staff Present:    Bernard J. Allen, Executive Director  
   Melody Johnson, Chief Financial Officer and  
   Interim Deputy Director  
   David Silber, Chief Investment Officer  
   Erich Sauer, Pension Investment Analyst  
   Tom Courtright, Pension Investment Analyst  
   Karen McElwee, Mgmt. Services Analyst/  
   Disability Benefits Coordinator  
   Mary Turk, Business Operations Analyst  
   Jan Wills, Board Stenographer

Others Present: Miriam Horwitz, Andrea Fowler, City Attorney's Office; Molly King, Budget Office.

**Introduction of New Board Member.**

Mr. Barmore introduced and welcomed Mr. Thomas Bell to the Board. Mr. Bell stated he is in his 26<sup>th</sup> year with the city and his 15<sup>th</sup> year with the Budget Office.

**Officers for 2017.**

**Election of Chair.** Mr. Barmore passed the gavel to Mr. Petropoulos, Vice Chair. Mr. Petropoulos asked for a motion for nominations for Chair. Mr. Petropoulos asked for nominations three more times. It was moved by Mr. Nicolini and seconded by Mr. Holland to nominate Mr. Barmore for Chair. There being no further nominations, nominations were closed and a unanimous vote was cast for Mr. Barmore as Chair of the Annuity and Pension Board. Mr. Petropoulos passed the gavel back to Mr. Barmore.

**Election of Vice-Chair.** Mr. Barmore asked for a motion for nominations for Vice-Chair. It was moved by Mr. Matson and seconded by Mr. Nicolini to nominate Mr. Petropoulos for Vice-Chair. Mr. Barmore asked three more times for any further nominations. There being no further nominations, nominations were closed and a unanimous vote was cast for Mr. Petropoulos as Vice-Chair of the Annuity and Pension Board.

**Approval of Minutes.**

Mr. Barmore presented the minutes of the Regular Meeting held December 19, 2016. It was moved by Mr. Kovac, seconded by Mr. Holland, and unanimously carried, to approve the Minutes of the Regular Meeting held December 19, 2016.

**Chief Investment Officer Report.**

Mr. Silber requested with the Board's permission that closed session items IV. C. and D. be taken out of agenda order. Mr. Barmore stated they would resume at items IV. A. and B. after the closed session.

Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on the following items (IV. C. and IV. D.), 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 Board may then vote to reconvene in open session following the closed session. It was moved by Mr. Holland, and seconded by Mr. Bell, that the Board convene in closed session. The board went in to closed session at 9:15 a.m. and reconvened in open session at 9:38 a.m.

**Approval of Callan Associates Contract Amendment.** It was moved by Mr. Nicolini and seconded by Mr. Matson to approve the Callan Associates Contract Amendment.

**Delegation of authority to the City Attorney's Office and ERS Staff to Approve and Execute certain Real Estate Investment Contract Amendments under specific conditions as outlined in closed session.** It was moved by Mr. Kovac and seconded by Mr. Klusman to delegate authority to the City Attorney's Office and ERS Staff to Approve and Execute certain Real Estate Investment Contract Amendments under specific conditions as outlined in closed session.

The Board resumed the agenda in order.

**Approval of Loomis Sayles Guidelines Extension.** Mr. Sauer stated that when a \$100 million withdrawal was made from the Fund's portfolio as part of a new fixed income structure, it caused Loomis Sayles to exceed the guideline that allows only 3% of the portfolio to be in securities that have been downgraded below B- and B3. He stated the guideline was extended twice to give Loomis Sayles a waiver to exceed that. Mr. Sauer said the second extension is going to expire and Loomis would like to continue to hold the bonds which have appreciated significantly to 177% in market value. Loomis has asked for a 90-day extension but Mr. Sauer stated it could be extended to the May or July Board meeting. Mr. Barmore requested that the guideline extension be resolved by June 1, 2017 and to place it on the May 2017 Board agenda. Mr. Klusman requested that the

guideline extension be taken up at the April 2017 Board meeting. Discussion ensued among the Board members and staff. It was moved by Mr. Klusman to grant the 90-day extension to the April 2017 Board meeting and seconded by Mr. Matson to approve the Loomis Sayles Guideline Extension. The motion prevailed with the following roll call vote: AYES: Ms. Ford and Messrs. Bell, Holland, Klusman, Matson, Nicolini, Petropoulos and Barmore. NOES: Messrs. Kovac and Konrad.

**Approval of Polen Guideline Change.** Mr. Sauer reported that Polen is requesting a guideline change due to a pricing increase when Russell was bought by FTSE. He stated Polen requests using GICS sectors instead of Russell sectors and increasing the sector maximum to 60% from 50%. Mr. Sauer said Polen is not changing the current portfolio or investment philosophy and will reclassify existing companies in the portfolio to different sectors. It was moved by Mr. Petropoulos and seconded by Mr. Konrad to approve the Loomis Sayles Guideline Extension.

As a matter of information, Board members received a copy of the CIO Report. Mr. Courtright handed out copies of the Performance Update Chart. Mr. Courtright reported the Fund's value as of December 31, 2016 was \$4.87 billion dollars, with an estimated return in December of 1.4 percent, net of fees, and underperformed the blended benchmark, net of fees, by 0.2%. The Fund has outperformed the benchmark, net of fees, in the one- and five-year time periods, and has underperformed the benchmark, net of fees, in the three- and ten-year periods. Eight of the Fund's 17 active managers outperformed in 2016, net of fees. Mr. Courtright said for 2016, the Total Fund, Public Equity, Fixed Income, Real Assets and Absolute Return asset classes outperformed their respective benchmarks year-to-date, net of fees. He stated the one-year number of 8.7% is 1.4% above the benchmark. Mr. Courtright stated that the Fund in 2016 had capital market gains of \$411.3 million; paid out \$378.6 million dollars in benefits and expenses and received contributions of \$117.1 million. Mr. Courtright stated for January 2017, the Fund return is up 1.4% month-to-date, the Fund has an approximate value of \$5.0 billion and a capital market gain of \$66 million with contributions of \$62.9 million. Because of city and agency contributions received in January 2017, the ERS will not need to make any cash withdrawals for January. Discussion ensued. Mr. Silber noted Callan will present at the February 9 Investment Committee Meeting and will discuss their 10- and 30-year asset class projections and how those numbers are developed. Mr. Silber stated due diligence reports, 4<sup>th</sup> quarter performance, 2016 performance and the annual active management value added reports will also be discussed. Mr. Allen stated Mr. Langer of Buck Consultants will present at the February 27 Board meeting. Discussion ensued.

### **Investment Committee Report.**

At its January 11 Investment Committee Meeting, Mr. Petropoulos reported the Board entertained having Mr. Dan Fuss address the Board. As his usual, he spoke at length about geopolitical events and trends that are happening in the world. He discussed the likelihood of a rising rate environment and the effects it would have in the markets as well as the bond markets. Discussion ensued among the board members.

### **Administration and Operations Committee Report.**

Mr. Barmore announced committees would be assigned at the next Board meeting. He requested any Board member wishing to be on the Administration & Operations Committee (A&O) or Legislative Committee to let him know. Mr. Barmore mentioned all the Board members are *de facto* on the Investment Committee Meetings with the A&O Committee meetings monthly and Legislative Committee being *ad hoc*. At its January 19 Administration & Operations Committee Meeting at 8:45

a.m., Mr. Barmore reported that we had an approval item for Experis Internal Audit Statement of Work #3 which is a continuation of an existing engagement for calendar year 2017. Item II. was the IT Projects Portfolio. Projects are ongoing; all projects are in the green-light category which means they're functioning as expected. And we had an Organizational/Personnel Update. There was an issue with the Network Administrator that they're having trouble filling that position and it is at Finance & Personnel (F&P). For some reason, F&P is choosing not to move that forward so we will try to have some communication with that committee so we can get the IT work done that we need done here. The approval item for the Administration & Operations is VI. A., Approval of Experis Internal Audit Statement of Work #3.

**Approval of Experis Internal Audit Statement of Work #3.** It was moved by Mr. Barmore and seconded by Mr. Petropoulos to approve the Experis Internal Audit Statement of Work #3. Mr. Klusman questioned the Pledge of Confidentiality form and Mr. Allen stated it covers members' confidential data and the Experis contract has an indemnification provision.

(Mr. Barmore called for a short break and the Board was back in session at 10:36 a.m.)

### **New Business.**

**Authorization to Sign Vouchers.** Mr. Matson said the Deputy Comptroller Glenn Steinbrecher is retiring and his last day is January 19, 2017 so he will not be signing the Authorization to Sign Vouchers. Mr. Matson stated it would be known in a week who is the new Deputy Comptroller. Mr. Allen stated they would be able to conduct business with the other signatures. It was moved by Mr. Matson and seconded by Mr. Kovac to approve the Authorization to Sign Vouchers.

**Retirements, Death Claims, and Refunds.** Mr. Allen presented the following activity, as well as Service Credits for the months of November 2016.

Active Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$0.00
Retired Death Benefits reported November 2016	\$19,216.47
Refund of Member Contributions paid November 2016	\$115,853.52

It was moved by Mr. Barmore, seconded by Mr. Petropoulos, and unanimously carried, to approve the Retirements, Death Claims, and Refunds.

**Conference Requests.** Mr. Barmore noted no conference requests were submitted. He noted client and trustee conferences for 2017 are listed in the board packet and Board members are asked to notify Mr. Allen if they wish to attend any conferences.

**Approval of Resolution for Annuity & Pension Board Member Sergeant Carmelo Patti.** Mr. Barmore said the Board appreciates Mr. Patti's service very much and perhaps we will see him again some day, whether as a Trustee or in the field.

A RESOLUTION

WHEREAS, Sgt. Carmelo J. Patti, Trustee of the Annuity and Pension Board, conscientiously served in the above capacity from January 2013 through December 2016 and represented this System during his tenure of office; and

WHEREAS, Sgt. Patti’s knowledge of pension benefits enabled him to make a valuable contribution to the Annuity and Pension Board and the well-being of the Employees’ Retirement System of the City of Milwaukee and its thousands of participants; and

WHEREAS, Sgt. Patti, served diligently as both a member of the Administration and Operations Committee of the Annuity and Pension Board and as its Chair from February 2015 through December 2016, and oversaw the continued successful operation and implementation of enhancements to the Pension Management Information System, and Document Management System for the Employees’ Retirement System; and

WHEREAS, Sgt. Patti served on the Investment Committee of the Annuity and Pension Board throughout his tenure, assisting in the prudent development and implementation of the Employees’ Retirement System’s highly successful Investment Policy which has generated several billions of dollars of returns for the exclusive benefit of the System’s Members and Beneficiaries; and

WHEREAS, Sgt. Patti’s departure will be a great loss to the Annuity and Pension Board and the members of the Employees' Retirement System; therefore, be it

RESOLVED, By the Annuity and Pension Board that it hereby expresses its sincere appreciation for the valuable and conscientious service of Sgt. Patti; and be it

FURTHER RESOLVED, That this resolution be recorded in the permanent records of this Board and that a suitably engrossed copy be forwarded to Sgt. Patti.

It was moved by Mr. Petropoulos, seconded by Mr. Holland, and unanimously carried, to approve the Resolution for Annuity & Pension Board Member Sergeant Carmelo Patti.

**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>
Anthony Bialecki	Approval
Vidal Colon	Approval
Marie Hendrikson	Approval
Rayford Weston	Approval
 <u>Fire – New Applications - Duty</u>	 <u>Recommendation</u>

Patrick Norton Effective 8/30/2015	Approval
Kyle Ostmann Effective 12/10/15	Denial
<u>Fire – Re-examinations - Duty</u>	<u>Recommendation</u>
Pieter Gallagher	Approval
Thomas Gillespie	Approval
Brett Michalowski	Approval
Patrick Nogalski	Approval
Mark Tesch	Approval
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Kelly Hughbanks Effective 6/21/2016	Approval
<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Dwaine Allison	Approval
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Thomas Alderson	Approval
Hazel Perez	Approval
Steven Gipp	Approval
Sandra Treuden	Approval
Stuart Smith	Approval
Linda Gifford	Approval

It was moved by Mr. Bell, 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 Opinions and Service Requests Pending and Legal Opinions.** As a matter of information, the Board members received a copy of the Legal Opinions and Service Requests Pending and Legal Opinions.

Ms. Horwitz noted one outstanding legal opinion sent to the City Attorney’s office on December 13, 2016 regarding whether the 5.8% pension contribution offset for public safety employees pursuant to recent labor contract settlements or interest arbitration, is includable as “salary” for the purpose of adjusting duty disability retirement allowances. Ms. Horwitz stated a report to the Board would be provided. Ms. Horwitz noted the Service Request regarding the Callan Associates Investment Consulting Amendment was presented to the Board today and the Hewlett Packard Enterprise Agreement is in progress.

**Legislation Requests Pending and Proposed Legislation.** As a matter of information, Mr. Allen congratulated three of the Trustees, Mr. Holland, Mr. Nicolini and Mr. Pace, who were re-appointed by the Mayor earlier this month.

**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. Mr. Allen noted the hiring for the Network Administrator position, as mentioned in the Administration & Operations Committee report, is pending with the chair of the Finance & Personnel Committee and it will be resolved in the next 30 days to bring the candidate on board. Mr. Allen stated in Member Services there were a significant number of retirees on the payroll for November and December. For Financial Services, the 1099s are in process of being mailed out. Settlement re-calculations are being completed for retro adjustments for the Fire Department and will be reflected in the January pension checks. Mr. Allen stated adjustments for MPD will be reflected in the January pension checks as well. He stated employer contributions were received from Veolia, MMSD, HACM, Water and a partial contribution from MPS. Mr. Allen noted the employers are paying their contribution a year earlier than they are required to under the charter. Mr. Allen reminded Trustees to complete the Statement of Economic Interest with the City's Ethics Board by February 28, 2017. Mr. Allen also mentioned the website statistics and a year-end summary of 2016 projects and objectives for 2017. Mr. Allen said actuarial projects will be underway this year, including the five-year experience study required by the City Charter would be done this year to re-evaluate the economic and demographic assumptions used for funding of the Plan. Mr. Allen stated re-setting the stable employer contribution would follow completion of the five-year experience study. He noted once the Board accepts those assumptions, the actuary under the City Charter re-sets the amounts the City has to contribute. Mr. Klusman complimented the investment team for their results in 2016 and also noted the high marks from the members on the customer satisfaction surveys. Mr. Allen also noted the Fund had an 8.7% return in 2016 and an average annual return of approximately 10% return since 2008. Mr. Allen attributed this to the steadfastness of the Board during volatile financial markets. Mr. Barmore placed on file the Executive Director's report.

### **Informational.**

The following is a list of informational items:

- 1) Report on Claims and Litigation.
- 2) Conferences.
- 3) Class Action Lawsuit Report.
- 4) Minutes of the Investment Committee Meeting Held December 8, 2016.
- 5) Minutes of the Administration & Operations Committee Meeting Held December 15, 2016.
- 6) Copies of the Board Rules and Regulations and ERS Ethics Policy.

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

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

Mr. Barmore requested Board members to review the Board Rules and Regulations. For any upcoming elections for fire or police, Mr. Barmore noted that 100 to 150 ballot signatures is a significant amount to obtain, since the fire department has only 700 members. He would like to refer it to the Legislative Committee to suggest obtaining 25 to 50 signatures instead. Mr. Barmore requested a referral from the Board for the Legislative Committee to review. Mr. Allen noted the Legislative Committee recommends changes to Board rules with advice from the City Attorney's office.

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

There being no further business, Mr. Barmore adjourned the meeting at 10:55 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.)