

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

Minutes of the Regular Meeting held February 27, 2017

The meeting was called to order at 9:08 a.m.

Board Members Present: John Barmore, Chair
 Thomas Bell
 Deborah Ford
 Larry Holland
 Tom Klusman
 Nik Kovac
 Martin Matson
 Gerald Pace
 Gust Petropoulos

Board Members Not Present: Rudolph Konrad (excused)
 Mark Nicolini (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
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Larry Langer, Conduent Business Services, LLC (formerly Buck Consultants); Michael McGuire, Northwest Passage; Thomas Hayes, Milwaukee Retiree Association; Miriam Horwitz, Andrea Fowler, Ben Roovers, Peter Block, City Attorney's Office; Molly King, Dennis Yaccarino, Budget Office.

Approval of Minutes. Mr. Barmore presented the minutes of the Annual Meeting held January 19, 2017. It was moved by Mr. Holland, seconded by Mr. Petropoulos, and unanimously carried, to approve the Minutes of the Annual Meeting held January 19, 2016.

At this point, the agenda was taken out of order to item VI.A.

Presentation by Conduent Business Services, LLC (formerly Buck Consultants). As a matter of information, Board members received a copy of Mr. Langer's Assumption/Method Recommendation Pre-Analysis document. Mr. Langer gave an informational presentation on potential actuarial assumption and funding policy changes likely to be recommended by Conduent in conjunction with the Experience and Funding Policy review. A copy of Mr. Langer's presentation is on file with ERS and by reference is incorporated herein. Discussion ensued among the Board members.

Mr. Barmore called for a break at 10:42 a.m. The meeting resumed at 10:58 a.m.

Mr. Barmore directed the Board back to item II. A. B. C. D.

Appointment of Committees for 2017. Mr. Barmore presented the list of appointments for the Administration and Operations Committee, Investment Committee (Committee of the whole), and the Intergovernmental Relations and Legislative Committee. He said a Litigation Committee would be appointed when necessary.

Administration & Operations Committee. Messrs. Matson, Pace, and Barmore, Chair.

Investment Committee. Ms. Ford, Messrs., Barmore, Bell, Holland, Klusman, Konrad, Kovac, Matson, Nicolini, Pace, and Petropoulos, Chair.

Intergovernmental Relations and Legislative Committee. Messrs. Klusman, Petropoulos, and Konrad, Chair.

Mr. Barmore took the agenda out of order at this point.

Administration and Operations Committee Report. Mr. Barmore reported that the meeting was held on February 16, 2017. He said that Item 1 was in closed session with Baker Tilly, ERS' Financial Auditors. Baker Tilly met with the committee for their annual meeting to communicate the planning and completion phases of the audit. They also provided an overview of the scope of the current audit and timing and an update of the GASB standard changes. Item 2 was the IT Projects Portfolio. The following projects are in progress: MERITS Optimization – HCP (Health Care Processing), Struts 2 Upgrade, 2016 Firewall and Active Directory Review, 2017 Desktop Rotation, SAN Firmware Upgrades and IT Organizational Review/Staffing Assessment. FileNet P8 Updates and Patches are completed. Mr. Xa Xiong was hired as Network Administrator and interviews for the Sr. Network Administrator contract position are completed. IT is in the proof of concept phase of Member Education Video implementation. Item 3 was the Organizational/Personnel Update. ERS requested reclasses are still in progress. ERS is working with DER to fill the Disability Specialist Sr. position and plans to begin interviewing candidates for the Pension Accounting Manager position within the next couple of months. Item 4 was the close out of the 2016 Budget. Staff reviewed the Intergovernmental Cooperation Agreement provision between the City and the ERS regarding reimbursement to the City from the Trust for actual expenditures. To close out the 2016 Budget, the ERS will make a final payment to the City of \$963,242. Item 5 was the Approval of SSR Contract for Sr. Network Administrator. The Committee met in closed session to discuss the SSR Contract. The Committee recommended approval of the Contract to the Board. Mr. Barmore stated the Board did not need to go into closed session for the SSR Contract. Discussion ensued. Mr. Barmore accepted and placed the report on file.

Mr. Barmore resumed the agenda at Item III.

Chief Investment Officer Report. As a matter of information, Board members received the performance report. Mr. Sauer presented the performance report. The Fund value as of January 31, 2017 was \$4.99 billion dollars. The Fund returned 1.8%, net of fees, and outperformed the blended benchmark by about 16 basis points in January. The Fund has also outperformed the benchmark, net of fees, in the one-year and five-year periods. The Fund has matched the

benchmark over the past three years, and underperformed, net of fees, in the 10-year period. The main driver of January returns was manager performance. Mr. Sauer noted 13 out of 17 active managers outperformed with Loomis Sayles adding 10 basis points, MFS adding 5 basis points and Earnest adding 4 basis points, while 10 additional managers had smaller contributions. Partially offsetting manager performance, Mr. Sauer noted, was the fund style bias, with the US small cap value equity subtracting 15 basis points. As of February 24, 2017, the Fund return is up 1.7% month-to-date and 3.5% year-to-date. The Fund's approximate value is \$5.08 billion as of that date. The Total Fund, Fixed Income, and Absolute Return asset classes are outperforming their respective benchmarks year-to-date, net of fees. Mr. Sauer said year-to-date, the Fund has generated a capital market gain of \$172 million, has paid benefits and expenses of \$34.7 million and has received contributions of \$67.4 million. Mr. Sauer commented that due to city and agency contributions received in January, the ERS will not need to make any cash withdrawals this month.

Mr. Silber reminded Board members of the Investment Committee meeting on Thursday, March 9. He noted two investment managers, Mesirow, one of the private equity managers, as well as Polen, one of the U.S. Large Cap concentrated managers with a growth bias, will be presenting. Mr. Silber mentioned the meeting would include a due diligence report, an update on the real estate transition, and a closed session item regarding a Cornerstone development.

Investment Committee Report. Mr. Petropoulos reported that at its February 9 meeting, the Investment Committee spent the majority of time receiving a presentation from Callan regarding the Fund's 2017 capital market expectations. There was a lot of discussion throughout the presentation. This was the first meeting related to the Fund's Asset Liability Modeling study scheduled to take place in 2017 and the Committee requested a number of follow-up items to be presented later this year. Staff presented the annual value-added analysis that showed the Fund's public equity and fixed income allocations added a total of \$94 million to the Fund's value in 2016, \$66 million over the past 10 years, and \$728 million over the past 22 years. These amounts are all net of fees. Staff also provided an update on the Fund's Real Estate transition reporting that Callan, Townsend, the City Attorney's Office, and Staff were working well together and that the transition was moving smoothly. Staff provided routine due diligence reports on William Blair and Mesirow and discussed Cornerstone in closed session. Finally, Staff presented the Fund's 4th quarter performance report, noting that the Fund had a very successful 2016, generating an 8.8% return, net of fees, outperforming its benchmark by 1.5%, and performing in the top quartile of its peers. There were no action items at this meeting. Mr. Barmore accepted and placed the report on file.

Administration & Operations Committee Report. Mr. Barmore noted that he had read the Administration & Operations Committee Report earlier in the meeting.

Close out of 2016 Budget. Mr. Barmore asked Ms. Johnson to comment on professional services fees budgeted for \$18 million with actual fees of just \$11 million. Ms. Johnson noted that the amounts are largely attributable to investment manager fees. She stated the investment manager fees for the year were \$9.2 million. Other amounts are for medical exams, membership dues and miscellaneous items. Mr. Silber noted that fees were lower because the Fund assumed 8% growth in 2015, 8% growth in 2016, and achieved an 8.8% rate in 2016, but only returned about 1% in 2015, resulting in a lower asset value than budgeted. Mr. Sauer noted the invoiced

fees decreased, but fees taken from NAV went up. The remaining payment to the City, Mr. Barmore stated, is \$963,242.

It was moved by Mr. Barmore, seconded by Mr. Petropoulos and unanimously carried, to approve the Close out of 2016 Budget.

Approval of SSR Contract for Senior Network Administrator. Mr. Barmore questioned whether the SSR Contract for Senior Network Administrator needed to go into closed session. Ms. Horwitz said the proposed contract itself did not require closed session and would only require closed session for competitive bargaining or business reputation reasons. Ms. Fowler noted it was a standard contract but SSR only provides \$3 million of umbrella insurance coverage versus the \$5 million recommended by the city's insurance consultant.

It was moved by Mr. Matson, seconded by Mr. Holland and unanimously carried, to approve the SSR Contract for Senior Network Administrator.

New Business.

Presentation by Conduent Business Services, LLC (formerly Buck Consultants). Mr. Barmore noted Mr. Langer had already presented at the beginning of the meeting.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity for the month of February 2017.

Active Death Benefits reported	\$0.00
Deferred Death – Member Refund	\$18,811.60
Ordinary Death Benefits reported	\$98,883.89
Retired Death Benefits reported January 2017	\$14,844.89
Refund of Member Contributions paid January 2017	\$250,105.18

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

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

Thomas Bell, Mark Nicolini Sponsor: Location:	Midwest Institutional Real Estate Investor Forum Markets Group Chicago, Illinois
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Date: March 16, 2017
 Estimated Cost: \$60.00 per person

Thomas Courtright DFA Annual Institutional Symposium
 Sponsor: Dimensional Fund Advisors
 Location: Austin, TX
 Date: April 24-26, 2017
 Estimated Cost: \$1,250.00

Thomas Courtright Real Assets Conference
 Sponsor: JP Morgan
 Location: New York, NY
 Date: May 17-18, 2017
 Estimated Cost: \$1,200.00

Mr. Holland also requested to attend the JP Morgan Real Assets Conference.

It was moved by Mr. Klusman, seconded by Mr. Kovac, and unanimously carried, to approve the Conference Requests submitted by Messrs. Bell, Courtright, Holland, and Nicolini.

2017 Securities Lending Budget. Ms. Johnson requested a \$1.3 million dollar transfer from the Securities Lending Fund for 2017 anticipated expenditures. Mr. Allen noted the City Charter requires the ERS to make a transfer once a year or forego this revenue. Ms. Johnson noted a typo of “2016” Securities Lending Budget instead of “2017” Securities Lending Budget.

It was moved by Mr. Kovac, seconded by Mr. Pace, and unanimously carried, to approve the transfer of 2016 securities lending earnings to the ERS Combined Fund.

2017 Board and Committee Meeting Dates – One Board Meeting Date Change. Mr. Barmore requested the July Board Meeting be changed from Monday, July 24 to Monday, July 31 since he would not be able to attend the July 24 meeting.

Discussion of Open Meetings Requirements – Peter Block, Assistant City Attorney. Mr. Barmore announced that the Discussion of Open Meetings Requirements would be rescheduled at Ms. Horwitz’s request due to time constraints.

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>
Patrice Bayer	Approval
Nicole Belmore	Approval

Norma Boyd	Approval
Dwight Copeland	Approval
Joseph Farina	Approval
De Ronn Gillum	Approval
Christian Hlavinka	Approval
Robert Kendziorski	Approval
Stacy Lopez	Approval
Dexter Love	Approval
Jill Riley	Approval
Justine Schmidt	Approval

Fire – Re-examinations - DutyRecommendation

Denise Bekeris	Approval
Chad Hendricks	Approval
Claude Hunter	Approval
Annette Johnson	Approval
Robert Bresette	Approval
John Kielpinski	Approval
Anthony Wichman	Approval

GC New Applications – OrdinaryRecommendation

Janet Hutcherson	Denial
Effective 4/09/2016	

GC Re-examinations – DutyRecommendation

Dewreal Ford	Approval
Veronica Jackson Williams	Approval
Kevin Zaremba	Approval

GC Re-examinations – OrdinaryRecommendation

Thomas Lalasz	Approval
Daniel Lazarski	Approval

It was moved by Mr. Matson, seconded by Mr. Petropoulos, 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 report. Ms. Horwitz introduced Assistant City Attorney Mr. Roovers who helped author an opinion regarding whether to include the member contribution offset in “current annual salary” for duty disability benefit purposes. Ms. Horwitz stated the question arose due to recent public safety collective bargaining agreement settlements. Following

extended discussion, Mr. Barmore stated the opinion would be accepted and placed on file. Ms. Horwitz had no other items for her report and stated they are currently working on two other service requests.

It was moved by Mr. Kovac, seconded by Mr. Holland, and unanimously carried, to accept the Legal Opinions and Service Requests Pending and Legal Opinions.

Legislation Requests Pending and Proposed Legislation. Mr. Allen congratulated Mr. Holland, Mr. Nicolini and Mr. Pace on reappointment to the Board by the Mayor. Mr. Allen mentioned the substitute ordinance, passed by the Common Council, related to health insurance benefits for new hires of the non-represented, sworn employees of the fire department and police department. Mr. Allen also noted there was a referral to the Legislative Committee at last month's meeting to review the number of signatures needed by a candidate on his/her nomination papers for the Annuity & Pension Board elections.

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 a Network Administrator, Mr. Xa Xiong, had been hired and interviews are underway for a Pension Accounting Specialist position. He noted Member Education Videos are in progress. Mr. Allen stated the IRS has issued a favorable determination letter to the ERS.

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) Adjusted Quarterly Cost Basis of Equity, February 28, 2017.
- 5) Minutes of the Investment Committee Meeting Held January 11, 2017.
- 6) Minutes of the Administration & Operations Committee Meeting Held January 19, 2017.
- 7) Minutes of the Investment Committee Meeting Held February 9, 2017.

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

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

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

There being no further business, Mr. Barmore adjourned the meeting at 12:03 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.)