

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

Minutes of the Regular Meeting held March 27, 2017

The meeting was called to order at 9:05 a.m.

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

Board Members Not Present:           Deborah Ford (arrived 9:14 a.m.)  
  Larry Holland (excused)  
  Gerald Pace (arrived 9:10 a.m.)

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  
  Thomas Courtright, Pension Investment Analyst  
  Karen McElwee, Management Services Analyst  
  Mary Turk, Business Operations Analyst  
  Bertha Bentley, Administrative Assistant II  
  Jan Wills, Board Stenographer

Others Present: Miriam Horwitz, Peter Block, City Attorney's Office.

**Approval of Minutes.** Mr. Barmore presented the minutes of the Regular Meeting held February 27, 2017. It was moved by Mr. Bell, seconded by Mr. Matson, and unanimously carried, to approve the Minutes of the Regular Meeting held February 27, 2016.

**Chief Investment Officer Report.** As a matter of information, Board members received the performance report. Mr. Courtright presented the performance report. The Fund value as of February 28, 2017 was \$5.05 billion dollars. The Fund returned 1.7%, net of fees, and underperformed the blended benchmark by about 3 basis points in February. The Fund has outperformed the benchmark, net of fees, in the year-to-date, one-year and five-year periods. The Fund has underperformed the benchmark over the three-year and 10-year period, net of fees. The main drivers of February returns were manager performance. Mr. Courtright noted Public Equity subtracted 17 basis points while Real Estate added 10 basis points. As of March 24, 2017, the Fund return is up 0.2%, net of fees, month-to-date and 3.7% year-to-date. The Fund's approximate value is \$5.06 billion as of that date. Mr. Courtright commented that nine out of 16

active managers are outperforming year-to-date, net of fees. He commented that the Fixed Income and Absolute Return asset classes are outperforming their respective benchmarks year-to-date, net of fees. Mr. Courtright said year-to-date, the Fund has generated a capital market gain of \$186.2 million, has paid benefits and expenses of \$71.6 million and has received contributions of \$70 million. Mr. Courtright stated the March cash withdrawals are \$17 million from Cornerstone and \$17 million from Northern Trust.

**Approval of BlackRock Contract Amendment.** Mr. Silber noted this was a carryover item in closed session from the March 9 Investment Committee Meeting but is now an open record. Mr. Silber said he appreciated that the Committee terminated the Cornerstone contract promptly on March 14 and delegated authority to the staff and City Attorney's office. He noted the document was executed in three business days with the assistance of Ms. Fowler, Assistant City Attorney, BlackRock and Northern Trust. The cost of the transition which took place on March 20 was approximately five basis points and 90% of the assets were traded on one business day. Mr. Silber noted the \$160-\$170 million, with the exception of \$17 million withdrawn for benefits, is now invested in the Russell 1000 Value Index. Mr. Silber stated the amendment with the existing BlackRock contract simply allows for the added investment. It was moved by Mr. Petropoulos, seconded by Mr. Konrad, and unanimously carried, to approve the Approval of BlackRock Contract Amendment.

(Mr. Pace arrived at 9:10 a.m. and Ms. Ford arrived at 9:14 a.m. during the Approval of BlackRock Contract Amendment.)

**Investment Committee Report.** Mr. Petropoulos reported that at its March 9 meeting, the Investment Committee heard presentations from Polen Capital Management, one of the Fund's U.S. large cap equity managers, and Mesirow Financial, one of the Fund's private equity managers. Staff provided a performance update for the Fund and a routine due diligence report on Private Advisors, another one of the Fund's private equity managers. Staff also reported that the Fund's real estate transition from Townsend to Callan is complete and that Callan is preparing a number of analyses that will be presented to the Committee at an upcoming meeting. Staff also recognized Townsend for its excellent cooperation during the transition. The Committee discussed the following items in closed session: Recommendation regarding Public Equity Investment Manager and Mesirow Financial portfolio update. There was one item approved by the Investment Committee: Approval of Recommendation regarding Public Equity Investment Manager. This approval included giving permission to Staff and the City Attorney's Office to execute a contract amendment with BlackRock before the March Board meeting.

**Approval of Recommendation regarding Public Equity Investment Manager.** Mr. Barmore commented that the Board would not go into closed session as noticed. Mr. Silber noted that the recommendation was to terminate Cornerstone and that had been approved at the Investment Committee Meeting but still needed Board approval. It was moved by Mr. Petropoulos, seconded by Mr. Kovac, and unanimously carried, to approve the Approval of Recommendation regarding Public Equity Investment Manager.

**Administration & Operations Committee Report.** Mr. Barmore reported that at its March 16 meeting, Mr. Matson was elected Vice-Chair of the Administration & Operations Committee. He also reported that the Wells Fargo contract for banking services was extended through 2017 and

staff is also pursuing an RFP for that service. The Committee also recommended approving the Second Amendment to the Northern Trust Contract regarding the GASB 72 requirements. He also reported for the IT Project Portfolio review that the following projects have been completed: SAN Firmware Upgrades and Backup Exec Upgrades. Mr. Barmore stated all IT projects and tasks are on schedule and proceeding with no issues. The Member Education Videos are in progress and the Committee reviewed a beta test of that. He noted that Paul Benedict was hired for the senior network administrator position. Mr. Barmore presented the Organizational/Personnel Update and said the ERS Reclasses and Reorgs. are still in progress, the Disability Specialist Sr. and Pension Accounting Specialists positions have been filled and ERS is working with DER to fill the Pension Accounting Manager position.

**Approval of Renewal of Wells Fargo Banking Services Contract.** Mr. Klusman requested that Board members also receive redlined documents on future contracts so they can see what is being updated. It was moved by Mr. Barmore, seconded by Mr. Klusman, and unanimously carried, to approve the renewal of the Wells Fargo Banking Services Contract.

**Approval of Proposed Northern Trust Contract for Securities Level Determination Reporting.** Mr. Allen commented that under the GASB 72 requirements, all securities have to be classified as Level 1, Level 2, or Level 3 as required by the SEC. He also noted that the proposed agreement with Northern Trust for on-line web based reporting would facilitate this new accounting requirement. It was moved by Mr. Barmore, seconded by Mr. Nicolini, and unanimously carried, to approve the Proposed Northern Trust Contract for Securities Level Determination Reporting.

#### **New Business.**

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

Active Death Benefits reported	\$0.00
Deferred Death – Member Refund	\$117,160.91
Ordinary Death Benefits reported	\$0.00
Retired Death Benefits reported February 2017	\$22,205.42
Refund of Member Contributions paid February 2017	\$219,911.86

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 conference had been submitted.

Jerry Allen, David Silber	Madison Investment Conference
Sponsor:	CFA Society of Madison, SWIB, Wisconsin School of Business
Location:	Madison, WI
Date:	May 23-24, 2017
Estimated Cost:	\$375.00 per person

It was moved by Mr. Bell, seconded by Mr. Pace, and unanimously carried, to approve the Conference Request submitted by Messrs. Allen and Silber.

**Discussion of Open Meetings Requirements – Peter Block, Assistant City Attorney.** Mr. Block handles the public records and open meetings questions for the City of Milwaukee and stated they have been getting questions on how the open meetings law applies to recent technological advances, including social media, text messages and e-mail. He said they have been giving refresher courses to the various departments and Boards around the city on the state of the law. The public records law, he said, was last updated in 1983 and the open meetings law in 1976. Mr. Block stated meetings of government bodies have to be publicly-noticed and open to the public. He also mentioned the Wisconsin Supreme Court held that a meeting occurs when you have a sufficient number of people to take an action or block an action, have a quorum or negative quorum, and are meeting for a government purpose. Mr. Block said the Attorney General, who is statutorily authorized to interpret open meetings law, provides guidance and opinions. Mr. Block said meetings can be conducted via conference calls as long as they are properly noticed. He stated no Board business can be conducted over e-mail. Discussion ensued. Mr. Block stated that the Attorney General opined that meetings can be conducted via instant messaging as long as the meeting is publicly noticed.

**Fiduciary Education – Miriam Horwitz, Deputy City Attorney.** Ms. Horwitz gave a presentation on Fiduciary Education to the Board. She stated public pension plans are guided by trust law and that pension fund fiduciaries are subject to the highest legal standard of conduct. She listed Board responsibilities as acting as a trustee, living up to fiduciary standards and duties, overseeing the administration of benefits and investment of assets, reporting activities and performance and performing other duties assigned under state statutes and City ordinances. Ms. Horwitz stated the primary fiduciary duties are the duty of care and the duty of loyalty. Regarding the duty of care, Ms. Horwitz spoke to the prudent investor rules, prudent investor standard, duty to consult, duty of care as a prudent investor, prudent expert standard and prudent delegation. Regarding the duty of loyalty, Ms. Horwitz spoke to the exclusive benefit rules and fiduciaries acting solely for the benefit of the beneficiaries of a trust, impartiality, gift rules, communications, political contributions, prohibited transactions, undue influence ban, and conflicts of interest. Ms. Horwitz also spoke about fiduciary liability and its standard, delegated decisions, co-fiduciary liability, protection from liability and avoidance of liability. Discussion ensued.

(Mr. Pace left at 10:30 a.m. during the Fiduciary Education presentation.)

Mr. Barmore called for a break at 11:26 a.m. He resumed the meeting at 12:04 p.m.

**Referral to A&O Committee – Update of 2011 Staff Compensation Study.** Mr. Allen stated it was suggested by a trustee at the Administration & Operations Committee meeting to refresh the 2011 staff compensation study as four senior staff members (two in IT and two in Investments) are at the top of their pay range according to the salary ordinance and aren't eligible for another pay raise. He said an RFP would be done to obtain a vendor to do a compensation study. It was moved by Mr. Klusman, seconded by Ms. Ford, and unanimously carried, to approve the Referral to A&O Committee – Update of 2011 Staff Compensation Study.

**ERS Investment Staff Compensation (Analyst).** Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on this item as provided in Section 19.85 (1)(c), for considering employment, promotion, compensation or performance evaluation data of any public employe over which the governmental body has jurisdiction or exercises responsibility. The Board may then vote to reconvene in open session following the closed session. It was moved by Mr. Petropoulos, seconded by Mr. Matson, and unanimously carried, to convene in closed session.

The Board convened in closed session at 12:06 p.m. The Board reconvened in open session at 12:41 p.m.

**Referral to Legislative Committee regarding Member Contribution Offset for Duty Disability Retirement Conversion to Service Retirement.** Mr. Allen stated additional issues have arisen since the last Board meeting since accepting the City Attorney's opinion dated February 16, 2017 regarding the pension contribution offset that was part of contract settlements with the three protective services collective bargaining units. Mr. Allen requested the Legislative Committee review potential amendments to the Board rules to provide guidance. Discussion ensued. It was moved by Mr. Klusman, seconded by Mr. Konrad, and unanimously carried, to refer to Legislative Committee issues regarding Member Contribution Offset for Duty Disability Retirement Conversion to Service Retirement, Extended Life Duty Disability and related matters.

**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:

Police – Re-examinations - DutyRecommendation

John Burke	Approval
Robert Henry	Approval
Willie Huerta	Approval
Ayman Khatib	Approval
Deana Martinez	Approval
Tracy Martinez	Approval
Jason Mucha	Approval
Ron Trotter	Approval

Fire – New Applications – OrdinaryRecommendation

David Stoltz	Approval
Effective 10/06/2016	

Fire – Re-examinations - DutyRecommendation

Maureen Aniakudo	Approval
Gregory Ballering	Approval
Kristin Ciganek	Approval
Martin Kozlowski	Approval
Daniel Nikolaus	Approval
Phillip Quigley	Approval
Paul Singer	Approval

GC New Applications – OrdinaryRecommendation

Rakesh Parikh	Approval
Effective 2/13/2017	

Sebastian Raclaw  
Effective 3/28/2017

Approval

GC Re-examinations – OrdinaryRecommendation

Cynthia Allam	Approval
Evelyn Bivins	Approval
Chesterfield Hall	Approval
Willie Matthews	Approval
Damion Powell	Approval

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

### **Disability Findings**

**Henry Gonzalez.** Mr. Allen presented the findings submitted by Hearing Examiner Wasielewski whose Decision states “With regard to Henry Gonzalez’s application for Duty Disability benefits, I recommend that the decision of the Annuity & Pension Board denying his request be affirmed. With regard to Henry Gonzalez’s application of Ordinary Disability benefits, I recommend that the decision of the Annuity & Pension Board denying his request be reversed.” Mr. Barmore noted that neither party would be filing a brief in response to the Hearing Examiner’s Decision.

It was moved by Mr. Petropoulos, seconded by Mr. Nicolini, and unanimously carried, to accept the recommendations of Hearing Examiner Wasielewski.

### **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 reported there are no legal opinions pending. She noted service requests are in progress for a Hewlett Packard amendment for organizational changes, a Bank of New York Mellon amendment for organizational changes, and an amendment for Buck Consulting for a name change from Xerox to Conduent Business Services, LLC. Mr. Allen commented that the Hewlett Packard amendment is also in regard to cyber insurance.

**Legislation Requests Pending and Proposed Legislation.** Mr. Allen reported there are no pending charter ordinances for the Common Council. He stated there are pending changes to the Rules & Regulations regarding signatures needed for nominees from the membership base for Board elections and that will be taken up by the Legislative Committee at its next meeting and the Committee referral for it was acted upon today.

**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. A copy of Mr. Allen’s report is on file and by reference is incorporated herein. 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 Administration & Operations Committee Meeting Held February 16, 2017.
- 5) Minutes of the Investment Committee Meeting Held March 9, 2017.

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

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

It was moved by Mr. Kovac, 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 12:55 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.)