

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

Minutes of the Regular Meeting held April 24, 2017

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

Board Members Present: John Barmore, Chair
 Thomas Bell
 Deborah Ford
 Tom Klusman
 Rudolph Konrad
 Nik Kovac
 Mark Nicolini
 Gerald Pace
 Gust Petropoulos

Board Members Not Present: Larry Holland (arrived 9:07 a.m.)
 Martin Matson (excused) represented by Ms. Aycha
 Sirvanci, Comptroller's office

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
 Terry Siddiqui, DS Consulting
 Karen McElwee, Management Services Analyst
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Larry Langer, Conduent Business Services, LLC; Hemanshu Parikh, Milwaukee Public Schools; Larry Woytek, City of Milwaukee Retirees' Association; Ellen Tangen, Andrea Fowler, Patrick McClain, City Attorney's Office; Aycha Sirvanci, Comptroller's Office; Molly King, Budget Office.

Approval of Minutes. Mr. Barmore presented the minutes of the Regular Meeting held March 27, 2017. It was moved by Mr. Kovac, seconded by Mr. Petropoulos, and unanimously carried, to approve the Minutes of the Regular Meeting held March 27, 2016.

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 March 31, 2017 was \$5.05 billion dollars. The Fund returned 0.8%, net of fees, and underperformed the blended benchmark by about 0.3% in March. The Fund has outperformed the benchmark, net of fees, in the one- and five-year periods. The Fund has underperformed the benchmark, net of fees, in the year-to-date, three- and 10-year periods. The main drivers of March returns, Mr. Sauer stated, were the alternative asset classes with Private Equity detracting 24 basis points and Real

Estate detracting 11 basis points due to the fourth quarter private equity reports not being available yet and Real Estate numbers just starting to come in. As of April 21, 2017, the Fund return is down 1 basis point, month-to-date and the Fund return is up 4.3% year-to-date, net of fees. The Fund's approximate value is \$5.05 billion as of that date. Mr. Sauer 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. Sauer said year-to-date, the Fund has generated a capital market gain of \$209.1 million, has paid benefits and expenses of \$103.1 million and has received contributions of \$65.5 million. Mr. Sauer stated the March cash withdrawals are \$10 million from BlackRock Global Alpha Tilts, \$7 million from Northern Trust, \$5 million from Polen, \$4 million from DFA International and \$4 million from Earnest.

Approval of Loomis Sayles Guideline Extension. Mr. Sauer noted that Loomis Sayles is asking for an additional six-month extension of its downgraded bonds where Chesapeake bonds comprises the vast majority of the downgraded bonds. Mr. Sauer commented the bonds have appreciated 190% since the first guideline extension and the investment staff recommends approval of the guideline extension where Loomis Sayles will return the account's downgrade bucket to under 3%. Discussion ensued. It was moved by Mr. Holland, seconded by Mr. Nicolini, with one nay by Mr. Klusman, to approve the Loomis Sayles Guideline Extension.

Mr. Silber noted the May 11 Investment Committee Meeting would include his presentation on options to consider related to Cornerstone's termination. He noted the meeting would include a first quarter performance report, contract amendments, and real estate updates. As a matter of information, Mr. Silber distributed to Board members a memo from Reams regarding a change in management. Mr. Silber noted that Carillon Tower Advisers has announced its intention to purchase Scout Investments and Reams Asset Management. Mr. Silber commented that a due diligence visit will be made to Reams this year. Discussion ensued.

Administration & Operations Committee Report. Mr. Barmore reported that at its April 20, 2017 meeting, the following items were approved and forwarded to the full Board for approval: a contract renewal with United Mailing Services, Inc., Hewlett-Packard name change to Enterprise Services LLC, the 2018 ERS Budget Request and the Proposed IT Reorganization.

Approval of United Mailing Services, Inc. (UMS) Contract Renewal. Mr. Allen noted that UMS was the lowest bidder for mailing of the pension statements and newsletters. It was moved by Mr. Barmore, seconded by Mr. Petropoulos, and unanimously carried, to approve the renewal of the United Mailing Services, Inc. (UMS) Contract.

Approval of Hewlett-Packard Amendment. It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to approve the Hewlett-Packard Amendment.

Approval of 2018 ERS Budget Request. Mr. Allen commented that there was a \$1.4 million reduction in the budget mainly due to the investment staff bringing the real estate investment portfolio in-house. He also noted a reorganization in the IT department which would result in three outside contractors being brought in-house that will result in a \$1.5 million reduction over a three-year period. Mr. Nicolini asked if there would be an increase in the investment staff. Mr. Silber is proposing the addition of a Deputy Chief Investment Officer so

the current three-person investment staff will have additional resources to manage the 20 money managers and 30 real estate managers. Discussion ensued. It was moved by Mr. Barmore, seconded by Mr. Nicolini, and unanimously carried, to approve the 2018 ERS Budget Request.

Approval of Proposed IT Reorganization. Mr. Allen said the goal was to bring three contractor positions in-house for the Database Administrator, Java Developer and Server Administrator positions. Discussion ensued. It was moved by Mr. Barmore, seconded by Mr. Pace, and unanimously carried, to approve the Proposed IT Reorganization.

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	\$10,733.79
Ordinary Death Benefits reported	\$0.00
Retired Death Benefits reported February 2017	\$131,954.56
Refund of Member Contributions paid February 2017	\$150,582.98

It was moved by Mr. Petropoulos, seconded by Mr. Holland, 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 Sponsor:	2017 Trustee Education Seminar National Conference on Public Employee, Retirement Systems (NCPERS)
Location:	Hollywood, Florida
Date:	May 20-21, 2017
Estimated Cost:	\$1,418.00
Thomas Courtright Sponsor:	AQR Forum AQR
Location:	Chicago, Illinois
Date:	May 8, 2017
Estimated Cost:	\$125.00

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

Proposed Amendment to Funding Policy (MCC-36-15-15).

Mr. Barmore stated the Proposed Amendment to Funding Policy (MCC-36-15-15) would be presented at the end of the meeting to accommodate Mr. Langer's arrival time.

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 – Re-examinations - Duty</u>	<u>Recommendation</u>
Monica Blazekovic	Approval
Matthew Kirklewski	Approval
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Sharon Turner-Young	Approval
Effective 10/09/2016	
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Michael Albright	Approval
Wendylu Cox	Approval
Gregory Dziadosz	Approval
Demetrick Eskridge	Approval
Cherie Jackson	Approval
Melissa Jones	Approval
Johnathan Saffold	Approval
Terry Shaw	Approval
Heather Shefbuch	Approval
David Slawnikowski	Approval
Joseph Whitfield	Approval

It was moved by Mr. Pace, seconded by Mr. Bell, 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. Mr. McClain represented Ms. Horwitz for the Legal Opinions and Service Requests. Mr. Allen noted he had sent a request to the City Attorney's office to evaluate any IRS requirements in connection with the IRS Favorable Determination Letter the ERS received that would mandate the ERS using a certain mortality table. Mr. Allen acknowledged Ms. Tangen who, with Mr. Allen, spoke with outside counsel Ice Miller firm who advised that mortality tables used for funding a public

pension plan need only be “reasonable and prudent” as public plans aren’t subject to ERISA funding requirements mandating any particular mortality table(s). Discussion ensued.

Legislation Requests Pending and Proposed Legislation. Mr. Allen stated there will be a Legislative Committee meeting scheduled the day of the May Board meeting.

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. It was moved by Mr. Holland, seconded by Mr. Kovac, and unanimously carried, to accept and place 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 March 16, 2017.

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.

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

Mr. Barmore called for a break at 10:15 a.m. and resumed the meeting at 10:38 a.m.

(Mr. Kovac left during the break.)

With Mr. Langer’s arrival, Mr. Barmore returned the meeting to the Proposed Amendment to Funding Policy (MCC-36-15-15).

Proposed Amendment to Funding Policy (MCC-36-15-15). Mr. Allen noted that funding policy requirements are hard-wired in the charter. He said Mr. Langer is recommending that the ERS use the entry-age normal method which 85% of public pension plans use. Mr. Langer talked about the asset liability modeling projections and Mr. Allen said the results will be presented at the June Board meeting. Discussion ensued.

There being no further business, Mr. Barmore adjourned the meeting at 11:17 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.)