

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

Minutes of the Regular Meeting held June 26, 2017

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

Board Members Present: John Barmore, Chair
 Thomas Bell
 Larry Holland
 Tom Klusman
 Rudolph Konrad
 Martin Matson
 Mark Nicolini

Board Members Not Present: Deborah Ford (Excused)
 Nik Kovac (arrived 9:15 a.m.)
 Gust Petropoulos (Excused)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Melody Johnson, 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
 Lauryn Trautmann, Pension Investment Intern
 Jan Wills, Board Stenographer

Others Present: Carla Gogin, Darlene Middleman, Baker Tilly; David Driscoll, Troy Jaros, Kevin Peng, Conduent Business Services, LLC; Mike Joecken, Callan Associates; Miriam Horwitz, Ellen Tangen, Patrick McClain, City Attorney's Office; Himanshu Parikh, Milwaukee Public Schools; Molly King, Budget Office; Larry Woytek, Milwaukee Retirees Association; Terry Siddiqui, Partner, DS Consulting Group, LLC.

Approval of Minutes. Mr. Barmore presented the minutes of the Regular Meeting held May 22, 2017. Mr. Klusman had a correction for the May 22, 2017 minutes on page six to remove his comment on the outside earnings for the Legislative Committee agenda as the outside earnings item is now posted on the June 26, 2017 Board agenda. It was moved by Mr. Klusman, seconded by Mr. Holland, and unanimously carried, to approve the Minutes of the Regular Meeting held May 22, 2017.

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 May 31, 2017 was \$5.14 billion dollars. The Fund returned 1.7%, net of fees, and outperformed the blended benchmark by about 36 basis points for May. The Fund outperformed the benchmark in all time periods, net of fees, except for the 10-year period. The main drivers of May returns, Mr.

Sauer stated, were manager performance with Private Equity adding 20 basis points, MFS adding 8 basis points, and William Blair adding 7 basis points. As of June 23, 2017, the Fund return is up 0.4%, month-to-date and the Fund return is up 7.8% year-to-date, net of fees. The Fund's approximate value is \$5.18 billion as of that date. Mr. Sauer commented that 9 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 \$386.2 million, has paid benefits and expenses of \$168.9 million and has received contributions of \$70.8 million. Mr. Sauer stated the June cash withdrawals are \$8 million from BlackRock Global Alpha Tilts, \$7 million from Northern Trust (S&P 500), \$6 million from AQR, \$5 million each from Blair and Brandes. Discussion ensued. Mr. Barmore complimented the Staff for reporting net of fees versus gross of fees amounts. Mr. Silber noted the July 20 Investment Committee meeting where Callan will present an ALM follow-up, both capital market assumptions and high-level mixes.

Approval of the Domestic Large-Cap Value Factor-Based Recommendation. Mr. Silber noted the public record memo from Callan supporting bringing in DFA to interview for the U.S. Large-Cap Value Mandate that was created after Cornerstone was terminated. Mr. Silber discussed the famous Ibbotson Study that concluded 90% of the portfolio return is based on the asset allocation and asset class structure. Discussion ensued. It was moved by Mr. Bell, seconded by Mr. Kovac, and unanimously carried, to approve the Domestic Large-Cap Value Factor-Based Recommendation.

Investment Committee Report. At its June 8 meeting, Mr. Holland reported that the Investment Committee heard a presentation from Callan regarding the Fund's Real Estate program. He said Callan provided an update on the transition from Townsend oversight that was completed earlier this year, discussed 4th quarter performance, and provided a real estate market overview. Mr. Holland noted the Committee approved Callan's recommended changes to the Fund's Real Estate Investment Policy Statement. He added the Committee also approved in closed session recommendations that Callan made regarding the Fund's Real Estate program. Mr. Holland commented the Committee remained in closed session so that Callan could provide a U.S. Large Cap Value Factor-Based Search Profile update. He said that in open session, Staff presented a consent to assign Reams' contract, which became necessary when Carillon Tower Advisors announced their intention to purchase Scout Investments, Reams' parent company. Mr. Holland added that Staff also provided a performance update for the Fund through June 7. He stated the following items were recommended for approval by the Investment Committee in open session: Approval of Real Estate Investment Policy Statement and Approval of Reams Asset Management Request for Consent to Assignment of Contract. Mr. Holland also noted the Approval of Callan Real Estate Recommendations was recommended for approval by the Investment Committee in closed session.

Approval of Real Estate Investment Policy Statement. It was moved by Mr. Holland, seconded by Mr. Matson, and unanimously carried, to approve the Real Estate Investment Policy Statement.

Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on the following item (III. B.), 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.

The Board did not go into closed session on item III. B. and Mr. Silber noted that it was a placeholder.

Approval of Callan Real Estate Recommendations. It was moved by Mr. Holland, seconded by Mr. Konrad, and unanimously carried, to approve the Callan Real Estate Recommendations.

Approval of Reams Asset Management Request for Consent to Assignment of Contract. It was moved by Mr. Holland, seconded by Mr. Bell, and unanimously carried, to approve the Reams Asset Management Request for Consent to Assignment of Contract.

New Business.

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

Active Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$221,632.36
Retired Death Benefits reported	\$35,247.54
Survivor Death – Termination Benefits reported	\$7,905.28
Refund of Member Contributions paid	\$296,947.36

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

Conference Requests. Mr. Barmore reported that the Conference Requests was a placeholder and no conference requests had been submitted.

Acceptance of Baker Tilly 2016 Financial Audit. Ms. Gogin and Ms. Middleman presented the financial audit results for 2016. Ms. Middleman presented a report on the internal controls and the opinion on the financial statements. Discussion ensued. It was moved by Mr. Holland, seconded by Mr. Matson, and unanimously carried, to accept the Baker Tilly 2016 Financial Audit.

Acceptance of Actuarial Valuation – January 1, 2017. Mr. Driscoll and Mr. Jaros spoke on the results of the January 1, 2017 valuation. Mr. Driscoll and Mr. Jaros talked about how the actuarial valuation process works, the results of the ERS valuation and how the system looks on a financial basis. They also discussed the employer contribution based upon the Stable Contribution Policy. They further discussed the funding status of the Plan and actuarial

assumptions. Discussion ensued. It was moved by Mr. Kovac, seconded by Mr. Nicolini, and unanimously carried, to accept the Actuarial Valuation – January 1, 2017.

Acceptance of PABF Actuarial Valuation – January 1, 2017. Mr. Peng presented the PABF Actuarial Valuation. He said there are 27 beneficiaries receiving benefit payments. Discussion ensued. Mr. Barmore said a Staff recommendation regarding continuing the PABF Actuarial Valuation every other year or ending the valuation would be on the July agenda. Mr. Matson said he would also talk to his auditors. It was moved by Mr. Holland, seconded by Mr. Matson, and unanimously carried, to accept the PABF Actuarial Valuation – January 1, 2017.

Mr. Barmore called for a break at 10:36 a.m. The meeting resumed at 10:55 a.m.

Approval of Annual Report of the Annuity and Pension Board 79th Edition, December 31, 2016. It was moved by Mr. Kovac, seconded by Mr. Nicolini, and unanimously carried, to approve the Annual Report of the Annuity and Pension Board 79th Edition, December 31, 2016.

Approval of Police Member Election Bulletin 189. Mr. Barmore announced the election is for Mr. Petropoulos' seat on the Board. It was moved by Mr. Matson, seconded by Mr. Konrad, and unanimously carried, to approve the Police Member Election Bulletin 189.

Approval of Retired Member Election Bulletin 190. Mr. Barmore announced the election is for Mr. Klusman's seat on the Board. It was moved by Mr. Nicolini, seconded by Mr. Kovac, and unanimously carried, to approve the Retired Member Election Bulletin 190.

Approval of Modifications to Chapter 36-15-15-a-b of the Milwaukee City Charter. Mr. Barmore placed this item on hold for a month or two while the actuary of record is determined.

DDR Outside Earnings Test – Referral to Legislative Committee. As a matter of information, Board members received past legal opinions from the city attorney's office. Mr. Allen said the current Board rule refers to the IRS Form 1040 for outside earnings for adjusted gross earnings but the matter would need to be sent to the Legislative Committee for review, if amendment to the Board rule is desired. Mr. Konrad said some disability persons are hiding income while others are choosing not to work. Mr. Klusman suggested looking at best practices by other pension plans. It was moved by Mr. Klusman, seconded by Mr. Holland, and unanimously carried, to approve the DDR Outside Earnings Test – Referral to Legislative Committee.

Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on the following item (IV. K.), 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.

Conduent HR Consulting, LLC Contract. Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on the following item (IV. L.), as provided in Section 19.85(1)(g), Wisconsin State Statutes, to confer with legal counsel concerning strategy to be adopted by the body with respect to litigation in which it is or is likely to become involved. The Board may then vote to reconvene in open session following the closed session.

MPSO Open Records Request for Certain Retiree Home Addresses. It was moved by Mr. Holland, seconded by Mr. Nicolini, and unanimously carried to convene in closed session.

The Board convened in closed session at 11:15 a.m. Mr. Klusman recused himself from the closed session at 11:53 a.m. for the MPSO Open Records Request for Certain Retiree Home Addresses agenda item IV. L.

Mr. Nicolini left the Board meeting at 11:53 a.m.

The Board reconvened in open session at 12:04 p.m.

Mr. Barmore stated that the Board will make a due diligence trip regarding the Conduent HR Consulting, LLC Contract. He also said item IV. L. was discussed.

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>
Bradley Davis Effective 06/27/2017	Approval
Paul Polaske	Denial
<u>Police – Re-examinations - Duty</u>	<u>Recommendation</u>
Kimberlee Foster	Approval
Jasmine Lewis	Approval
Michael Pendergast	Approval
Craig Wachowiak	Approval
<u>Fire – Re-examinations - Duty</u>	<u>Recommendation</u>
Scott Hoth	Approval

<u>GC New Applications – Duty</u> Frank Vrtochnick*	<u>Recommendation</u> Approval
Effective 07/27/2016	
Lonnie Flagg	Denial
Andrew Weigel Effective 06/27/2016	Approval
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Kevin Cole Effective 09/26/2016	Approval
Lonnie Flagg Effective 09/04/2016	Approval
Sherry Rowsey-Brown Effective 10/09/2016	Approval
<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Augusto Gamboa	Approval
James Kruschke	Approval
Shirley Nation	Approval
James Ruplinger	Approval
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
David Brottlund	Approval
Judy Williams	Approval
Janice McNeary Terry	Approval
Mary Gee	Approval
Sheila Jones	Approval

It was moved by Mr. Holland, 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.

Anthony Leino. Hearing Examiner Frederick P. Kessler’s Decision states “The application of Anthony Leino for Ordinary Disability and for Duty Disability is denied.”

*See minutes dated July 31, 2017 for correction.

Sheila Milton. Hearing Examiner Gary Gerlach’s Decision states: “I recommend that the decision of the Annuity & Pension Board denying Ms. Milton’s request for duty disability benefits be affirmed. I recommend that the decision of the Annuity & Pension Board denying Ms. Milton’s request for ordinary disability be reversed.”

Ms. Horwitz said Assistant City Attorney Jenny Yuan will replace Ms. Houren regarding appeals of the Applicant and Respondent. Mr. Barmore reported a one-word omission of “not” on p. 24 of Ms. Milton’s disability findings. Mr. Allen added that Ms. Milton is disabled from her original full-duty job not the light-duty job that she later accepted. It was moved by Mr. Holland, seconded by Mr. Matson, and unanimously carried, to accept the recommendations of Hearing Examiner Kessler and Hearing Examiner Gerlach.

Unfinished Business.

Legal Opinions and Service Requests Pending and Legal Opinions. Ms. Horwitz stated there were no pending legal opinions for the City Attorney or Outside Legal Counsel.

Legislation Requests Pending and Proposed Legislation. Mr. Allen noted that a communication file was sent to the Finance & Personnel Committee to in-source three information technology positions that are currently outsourced. He said it was approved by the Finance & Personnel Committee and will now go to the Common Council. Mr. Allen said the Membership on the Board; Selection Process and Elections item will be taken up at the Legislative Committee after the July 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. Mr. Allen noted the Finance & Personnel Committee approved a vacancy request for the ERS’ Deputy Director position since Beth Cleary was appointed Deferred Compensation Plan Executive Director. Once DER finalizes the Deferred Compensation Plan Executive Director position, the ERS Deputy Director position will be filled. A copy of Mr. Allen’s report is on file and by reference is incorporated herein.

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 May 11, 2017.
- 5) Minutes of the Administration & Operations Committee Meeting Held May 18, 2017.
- 6) Minutes of the Investment Committee Meeting Held June 8, 2017.

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.

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

There being no further business, Mr. Barmore adjourned the meeting at 12:18 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.)