

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

Minutes of the Regular Meeting held July 31, 2017

The meeting was called to order at 9:03 a.m.

Board Members Present:           John Barmore, Chair  
  Larry Holland  
  Tom Klusman  
  Rudolph Konrad  
  Martin Matson  
  Himanshu Parikh  
  Gust Petropoulos

Board Members Not Present:    Thomas Bell (arrived 10:15 a.m.)  
  Deborah Ford (arrived 9:08 a.m.)  
  Nik Kovac (Excused)  
  Mark Nicolini (arrived 9:04 a.m.)

Retirement System Staff Present:   Bernard J. Allen, Executive Director  
  Melody Johnson, Deputy Director/Chief Financial Officer  
  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: David Driscoll, Troy Jaros, Conduent Business Services, LLC; Mike Joecken, Callan Associates; Patrick McClain, City Attorney's Office; Molly King, Budget Office; Tom Hayes, former City Attorney; Terry Siddiqui, Partner, DS Consulting Group, LLC.

**Approval of Minutes.** Mr. Barmore presented the minutes of the Regular Meeting held June 26, 2017. Mr. Petropoulos had a correction for the June 26, 2017 minutes to list Mr. Frank Vrtochnick as a New Application under Police Duty Disability instead of General City Duty Disability. It was moved by Mr. Petropoulos, seconded by Mr. Holland, and unanimously carried, to approve the Minutes of the Regular Meeting held June 26, 2017.

**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 June 30, 2017 was \$5.14 billion dollars. The Fund returned 0.60%, net of fees, and underperformed the blended benchmark by about 15 basis points for June. The Fund outperformed the benchmark in all time periods, net of fees, except for the 10-year period. The main drivers of June returns, Mr. Courtright stated, were manager performance across all asset classes except for Fixed Income. In Style Bias, US Small Cap Equity added 18 basis points. As of July 28, 2017, the

Fund return is up 1.7%, month-to-date and the Fund return is up 9.8% year-to-date, net of fees. The Fund's approximate value is \$5.20 billion as of that date. Mr. Courtright commented that 10 out of 16 active managers are outperforming year-to-date, net of fees. He commented that the Fixed Income and Absolute Return asset classes along with the Total Fund 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 \$480.3 million, has paid benefits and expenses of \$232.6 million and has received contributions of \$76.7 million. Mr. Courtright stated the July ERS cash withdrawals are \$5 million from Blair, \$5 million from MFS, \$5 million from Polen, \$4 million from BlackRock Global Alpha Tilts, \$4 million from DFA International and \$4 million from Earnest. Mr. Courtright also noted the Total Equity Asset Class is outperforming in all time periods except the 10-year period. Mr. Silber reminded the Board the next Investment Committee meeting is September 7 with Callan returning to discuss asset mixes. He said some contracts may also be ready for that meeting. He noted they will also be working with Callan on the Private Equity annual pacing model.

**Investment Committee Report.** At its July 20 meeting, Mr. Holland reported the Investment Committee heard a presentation from Callan regarding the Fund's Asset Liability Study. Callan presented their 10- and 30-year Asset Class assumptions, provided examples of optimal portfolio mixes, and emphasized the importance of this review. At the September Investment Committee meeting, Callan plans to provide a deeper analysis of Mixes 1 through 6 and hopes to be able to incorporate the Fund's liability assumptions into its analysis. The Committee also asked Callan to provide additional information on downside risk at the next meeting. The Committee interviewed Dimensional Fund Advisors for a U.S. Large Cap Value public equity mandate. Dimensional Fund Advisors manages the U.S. Large Cap Value strategy similar to how it manages the U.S. Small Cap Value strategy that CMERS has invested in, with great results, over the past 20 years. The Committee discussed the interview and made a decision regarding the U.S. Large Cap Value Manager in closed session. Staff presented the Fund's preliminary 2<sup>nd</sup> Quarter performance report.

**Selection of U.S. Large Cap Value Manager.** Mr. Silber noted this agenda item is a placeholder and they have enough direction to proceed.

**Administration & Operations Committee Report.** At its July 19, 2017 Administration & Operations Committee Meeting, Mr. Barmore reported it was approved and forwarded to the Board to contract with Spectrum for a 100Meg internet circuit for the Femrite location and the City Attorney's Office will draft a new contract. He reported a revised Medical Council Physician Services Agreement as recommended by the City Attorney's Office was reviewed. Mr. Barmore said the change would shift some potential liability to the physicians in the event they violate medical confidentiality. He said it was agreed that staff should investigate further the financial impact of the changes in discussion with Medical Council physicians. Mr. Barmore commented the matter will be revisited by the committee after further review by staff. Mr. Barmore also reported the IT Projects Portfolio and the Organizational/Personnel Update were received.

**Closed Session Regarding Approval of Spectrum 100Meg Internet Circuit for Femrite.** Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on the following item (IV. A.) 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. Petropoulos, and seconded by Mr. Holland, and unanimously approved by the Board, to convene in closed session on this item.

The Board convened in closed session at 9:15 a.m. and reconvened in open session at 9:19 a.m. It was moved by Mr. Matson, and seconded by Ms. Ford, and unanimously carried, to approve the Spectrum 100Meg Internet Circuit for Femrite.

### **New Business.**

**Presentation by Conduent HR Consulting, LLC Regarding Proposed Funding Policy.** Mr. Driscoll and Mr. Jaros gave a presentation to the Board regarding various actuarial projects scheduled for the remainder of 2017 and 2018. Mr. Barmore commented the presentation is on the Funding Policy Proposal that Conduent brought to the Board in February. Mr. Driscoll said there are changes in actuarial techniques (amortization of UAL) that accompany actuarial assumptions that should be considered separately from the experience study. He said the way the system is funded now is with a five-year stable contribution policy to meet or exceed funding levels under the prior policy. Mr. Driscoll said the ERS uses the projected unit credit method and recommended ERS change to the entry-age normal method. The other two items discussed were the amortization of unfunded actuarial liability and the asset smoothing corridor. Mr. Jaros discussed the projected unit credit method versus the entry-age normal method. Mr. Jaros said GASB 67 and 68 require the entry-age normal method. Mr. Allen commented that the funding policy is hard-coded in the city charter and the proposed funding policy changes also require Board approval under the charter. Discussion ensued. Mr. Driscoll said the funding proposals are timely because an experience study is about to be conducted where assumptions are reviewed and a reset of the stable contribution percentage is about to be completed.

**Due Diligence Report Conduent HR Consulting, LLC.** Mr. Allen noted Messrs. Barmore, Matson and Nicolini and he made a due diligence visit to Conduent's offices in Naperville, Illinois. He said Conduent was formerly a business services subsidiary of Xerox and was spun-off to its shareholders. Mr. Allen described the Naperville office and said it's actually a virtual office as the actuaries practice primarily from their homes. Mr. Allen recommended the current five-year study and resetting of the contribution could be completed by Conduent and further recommended extending Conduent's contract by one year. He further recommended an RFP be done after completion of these projects. Discussion ensued. Mr. Barmore noted the September Board agenda would include renewal of Conduent's contract.

**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	\$87,012.02
Survivor Death – Termination Benefits reported	\$4,245.27
Refund of Member Contributions paid	\$98,788.86

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 reported that requests to attend the following conferences had been submitted.

David Silber	Principal Due Diligence
Sponsor:	Principal Global Investors
Location:	Des Moines, Iowa
Date:	August 21-22, 2017
Estimated Cost:	\$475.00
Erich Sauer	Reams Due Diligence
Sponsor:	Reams
Location:	Columbus, Indiana
Date:	August 29-30, 2017
Estimated Cost:	\$600.00
Erich Sauer & Larry Holland	Abbott, Neuberger Berman, GTA Due Diligence
Sponsors:	Abbott, NB, GTA
Location:	New York, NY
Date:	September 11-12, 2017
Estimated Cost:	\$1,000.00 per person
David Silber	2017 Abbott Capital Private Equity Client Conference & Annual Meeting
Sponsor:	Abbott Capital
Location:	New York, New York
Date:	September 27-28, 2017
Estimated Cost:	\$1,000.00
Larry Holland	2017 Summit Series Forums
Sponsor:	Principal
Location:	Chicago, Illinois
Date:	October 23-25, 2017
Estimated Cost:	\$1,900.00
Larry Holland	2018 National Conference
Sponsor:	Callan Associates
Location:	San Francisco, California
Date:	January 29-31, 2018
Estimated Cost:	\$2,500.00

It was moved by Mr. Petropoulos, seconded by Mr. Konrad, and unanimously carried, to approve the Conference Requests.

**Approval to Suspend Disability Benefits for Non-Compliance with Outside Earnings Limitation.** Mr. Allen noted 12 disability retirees have not complied with providing their outside earnings but when they do comply, they will be reinstated and receive their back payments. It was moved by Mr. Klusman, seconded by Ms. Ford, and unanimously carried, to approve the Suspension of Disability Benefits for Non-Compliance with Outside Earnings Limitation.

**Approval to Discontinue Preparing PABF Actuarial Valuation.** Mr. Allen said Chapter 35 of the City Charter was already amended to permit the City to fund the PABF on a pay-as-you-go basis. The cost of the annual actuarial valuation is \$5,000 per year but there may not be a need to do a valuation if funding is pay-as-you-go. He also said 27 people remain on PABF but the valuation may be needed for financial statements for the City. Mr. Matson said the amount of PABF obligation is immaterial to the City's financials. It was moved by Mr. Matson, seconded by Mr. Holland, and unanimously carried, to approve the Discontinuation of Preparing PABF Actuarial Valuation.

**Approval of August Resolution.** It was moved by Mr. Holland, seconded by Mr. Konrad, and unanimously carried, to approve the August Resolution which allows for benefit payments during the meeting recess.

Mr. Barmore called for a break at 10:24 a.m. The meeting resumed at 10:35 a.m.

**Closed Session Regarding Litigation.** Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on the following item (V. H.), 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.

**Chief Investment Officer Performance Review.** Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on the following item (V. I.), 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. Holland, and seconded by Mr. Klusman, and unanimously approved, to convene in closed session on both items. The Board convened in closed session at 10:36 a.m. and reconvened in open session at 11:41 a.m.

## **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>
Virgil Cotton	Approval
Graham Kunisch	Approval
<u>Fire – Re-examinations - Duty</u>	<u>Recommendation</u>
Nicholas Adamski	Approval
Jeffery Anderson	Approval
Thomas Locke	Approval
<u>GC New Applications – Duty</u>	<u>Recommendation</u>
Timothy Heipel	Approval
Effective 06/27/2016	
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Bryant Law	Approval
Effective 07/07/2016	
<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Ricky Daniels	Approval
Robin Karinen	Approval
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Marsha Conner	Approval
Rodney DePass	Approval
Tracy Ingram	Approval
Mary Krzywda	Approval
Mark Laska	Approval
Dean Sass	Approval
Yoron Whitfield	Approval
Aaron Wilson	Approval
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Rochelle Roundtree	Denial
Effective 06/09/2011	

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

### **Disability Findings.**

**Rochelle Baldwin.** Mr. Barmore presented the findings submitted by Hearing Examiner Michael J. Hogan's whose Decision states "The decision of the Medical Council's certification is supported by the facts and medical expert opinions in this matter by a preponderance of the evidence. I find the same. It is recommended that the Annuity and Pension Board affirm the decision of the Medical Council and its initial determination and deny duty disability to the Appellant."

**Janet Hutcherson.** Mr. Barmore presented the findings submitted by Independent Hearing Examiner Gary A. Gerlach's whose Decision states "I recommend that the decision of the Annuity & Person Board denying Ms. Hutcherson's request for ordinary disability be reversed."

It was moved by Ms. Ford, seconded by Mr. Matson, and unanimously carried, to accept the recommendations of Hearing Examiner Hogan and Hearing Examiner Gerlach.

### **Unfinished Business.**

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

**Legislation Requests Pending and Proposed Legislation.** Mr. Allen noted Mr. Parikh was appointed to the Annuity & Pension Board by the Mayor with appointment confirmed by the Common Council on July 11, 2017. Mr. Allen said a bill is pending in the State legislature regarding worker's compensation claims by certain public safety employees for post-traumatic stress disorder. He noted this bill would make post-traumatic stress disorder a presumptive work-related illness for worker's compensation purposes. Mr. Allen also commented 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. He congratulated Melody Johnson on her promotion to Deputy Director pursuant to City Service Rules Section 4-9 after former Deputy Director Beth Cleary was promoted to Executive Director of the Deferred Compensation Plan. Mr. Allen talked with the Board about splitting the Deputy Director position into two positions by adding a position for disability oversight. Mr. Allen added that five of eight ERS open positions will be filled in August as well as one in September. 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 Administration & Operations Committee Meeting Held July 19, 2017.
- 5) Minutes of the Investment Committee Meeting Held July 20, 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. Parikh, seconded by Mr. Konrad, and unanimously carried, to accept and place on file the aforementioned informational items.

There being no further business, Mr. Barmore adjourned the meeting at 12:20 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.)