

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

Minutes of the Regular Meeting held September 25, 2017

The meeting was called to order at 9:09 a.m.

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

Board Members Not Present: Deborah Ford (arrived 9:11 a.m.)
 Mark Nicolini (arrived 10:23 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
 Marcia Cunningham, Disability Specialist Senior
 Karen McElwee, Management Services Analyst
 Mary Turk, Business Operations Analyst
 Liisa Gary, Administrative Assistant II
 Jan Wills, Board Stenographer

Others Present: Troy Jaros, Stuart Schulman, Conduent HR Consulting Services, LLC; John Jackson, Callan Associates; Jason Ellement (via teleconference), Callan Associates; Miriam Horwitz, Andrea Fowler, Patrick McClain, City Attorney's Office; Molly King, Budget Office; Tom Hayes, former City Attorney; Terry Siddiqui, Partner, DS Consulting Group, LLC; Shirley Reaves, Retired; Scott Charles, Richard Hoffman, ERS Members; Rosalie Pellegrine, John Budzinski, Grace Budzinski, Jo Anne Sadowski, Paul Abher, Peter Picciurro, Paul Drzenieki, David Pigg, Gregg Duran, Milwaukee Residents; Kimberlee M. Foster, Milwaukee Police Department ERS; John Picciurro, Milwaukee Business Owner; Pamela Budzinski, Milwaukee Resident/Property Owner.

Approval of Minutes. Mr. Barmore presented the minutes of the Regular Meeting held July 31, 2017. It was moved by Mr. Petropoulos, seconded by Mr. Holland, and unanimously carried, to approve the Minutes of the Regular Meeting held July 31, 2017.

Chief Investment Officer Report. As a matter of information, Board members received the performance report. Mr. Courtright presented the performance report and said the Fund value as

of August 31, 2017 was \$5.20 billion dollars. The Fund return of 0.5%, outperformed the blended benchmark by approximately 2 basis points in August. The Fund outperformed the benchmark in all time periods, net of fees, except for the 10-year period. The main drivers of August returns, Mr. Courtright stated, were manager performance from William Blair at 7 basis points, Real Estate at 5 basis points and BlackRock Global Alpha Tilts at 4 basis points. He said the U.S. Value Equity style bias detracted 16 basis points. As of September 22, 2017, the Fund return is up 1.2%, month-to-date and 11.8% year-to-date, net of fees. The Fund's approximate value is \$5.26 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 \$573.7 million, has paid benefits and expenses of \$268.8 million and has received contributions of \$81.5 million. Mr. Courtright stated the July ERS cash withdrawals were slightly higher as money was moved to the Absolute Return asset class. The withdrawals, he said, are \$9 million from Blair, \$8 million from AQR, \$8 million from BlackRock Global Alpha Tilts, \$7 million from DFA International, \$5 million from MFS, \$5 million from Polen, \$4 million from Brandes and \$3 million from Earnest. Mr. Silber directed the Board to his memo and talked about the ALM study and the plan to implement it. Mr. Silber stated before the majority of the new asset mix can be incorporated, the absolute return and fixed income structures need to be gone through since absolute return and fixed income are most impacted by the proposed changes. Mr. Silber stated Allianz currently manages an absolute return strategy for the Fund and they could be considered to do a portable alpha on top of a fixed income strategy. Mr. Silber said Allianz will be at the Investment Committee meeting in November to discuss the current strategy and portable alpha strategy. Mr. Silber said a small piece of the asset liability study can be implemented right away by increasing absolute return from 8% to 9% and real assets from 10% to 11%.

Approval of U.S. Large-Cap Value Manager Contract for the purpose of investing in U.S. Equities.

Approval of Real Estate Manager Side Letter Agreement for the purpose of investing in real estate.

Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on items (II. A. and 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, and 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 Annuity and Pension Board may then vote to reconvene in open session following the closed session.

It was moved by Mr. Holland and seconded by Mr. Bell to convene in closed session. The Board voted to convene in closed session by the following roll call vote: AYES: Ms. Ford, Messrs. Bell, Holland, Klusman, Konrad, Kovac, Matson, Parikh, Petropoulos and Barmore. NOES: None.

(Mr. Nicolini was not in attendance for Closed Session.)

The Board convened in closed session at 9:21 a.m.

The Board reconvened in open session at 10:08 a.m. Mr. Barmore stated there would be a one-minute pause to let the public know that open session was resuming.

Mr. Barmore stated the Board was on item II. A. Approval of U.S. Large-Cap Value Manager Contract for the purpose of investing in U.S. Equities and item II. B. Approval of Real Estate Manager Side Letter Agreement for the purpose of investing in real estate. It was moved by Mr. Petropoulos to approve item II. A. and B. predicated on the five-day document dispersal to the Board in lieu of the education and information provided by staff and outside counsel. It was moved by Mr. Petropoulos, seconded by Mr. Holland, and unanimously carried to approve items II. A. and B.

Investment Committee Report. At its September 7 meeting, Chairman Petropoulos 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 analysis of how different portfolio mixes would perform under various market environments, and discussed the risk and return characteristics of each mix. After thorough discussion, the Committee approved Mix 5 from Callan's presentation. Callan also presented the annual Private Equity pacing schedule and recommendation to the Committee. The Committee approved the recommendation to commit to Abbott, Mesirov, and Private Advisors. Staff presented a contract amendment with Northern Trust Investments that reduces the fee schedule that the Fund currently pays for its S&P 500 Index allocation. The contract amendment was approved by the Committee. Staff also provided a performance update, noting that the Fund is performing very well. Finally, the Committee discussed and Approved a Real Estate Manager Confirmation Letter and a Real Estate Manager Side Letter Agreement in closed session. The following items were recommended for approval by the Investment Committee in open session: Approval of Asset Allocation Mix, Approval of 2018 Private Equity Commitment Recommendation and Approval of Northern Trust Investments Contract Amendment. The following items were recommended for approval by the Investment Committee in closed session: Approval of Real Estate Manager Confirmation Letter for the purpose of investing in real estate and Approval of Real Estate Manager Side Letter Agreement for the purpose of investment in real estate.

Callan Asset Liability Study Presentation – Phase 2.

a. Approval of Asset Allocation Mix.

Approval of 2018 Private Equity Commitment Recommendation.

Approval of Northern Trust Investments Contract Amendment.

Please be advised that the Investment Committee may vote to convene in closed session on the following items (D. and E.) 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, and 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 Investment Committee may then vote to reconvene in open session following the closed session.

Approval of Real Estate Manager Confirmation Letter for the purpose of investing in real estate.

Approval of Real Estate Manager Side Letter Agreement for the purpose of investing in real estate.

Mr. Barmore stated Mr. Silber said items D. and E. did not need to go into closed session for approval of the Real Estate Manager Confirmation Letter and Real Estate Manager Side Letter Agreement. It was moved by Mr. Petropoulos, seconded by Mr. Matson, and unanimously carried, to approve items III. A. through E for the Approval of the Asset Allocation Mix, Approval of 2018 Private Equity Commitment Recommendation, Approval of Northern Trust Investments Contract Amendment, Approval of Real Estate Manager Confirmation Letter for the purpose of investing in real estate and Approval of Real Estate Manager Side Letter Agreement for the purpose of investing in real estate.

Administration & Operations Committee Report. At its September 21, 2017 Administration & Operations Committee Meeting, Mr. Barmore reported on the IT Projects Portfolio and that there are no problems with the projects. He also commented that for the Organizational/Personnel Update, positions continue to be filled and IT is moving forward with the new IT plan and IT is working with the Department of Employee Relations. The report was accepted and placed on file.

New Business.

Proposed amendment to Board Rule VII. (G.) regarding contracting authority of Investment Committee. Mr. Allen commented that item VII. (G.) is referral to the Legislative Committee. Mr. Silber stated the Investment Committee consists of all Board members and it is being requested to change the Board Rule so that certain time-sensitive items approved by the Investment Committee don't need to be approved again a couple of weeks later by the Board. He said they will be working with the City Attorney's office and the Legislative Committee. Mr. Barmore said the amendment will now be referred to the Legislative Committee since there were no objections.

Conduent Presentation of 5 year Experience Study. Mr. Jaros gave a presentation to the Board on the proposed demographic assumptions and Mr. Schulman discussed economic assumptions and inflation. Mr. Ellement, who led the ALM study for Callan, joined the presentation via teleconference. Mr. Jaros said the presentation would consist of the experience review process study and comparing actual experience compared to the assumptions being used. He said they would also look at demographics, economics, and discussion of the funding policy. Over the short term, he said the actuarial valuation determines the contribution based on the current assumptions recommended by Conduent and adopted by the Board. Over the long-term, he said, with actual experience fluctuations, the contribution is adjusted. Discussion ensued throughout the presentation. The Board requested Mr. Jaros prepare further analysis using various interest rates. Mr. Nicolini requested Mr. Allen submit a title-only file to the Common Council for changes in the funding method for the Charter.

(Mr. Nicolini arrived at 10:23 a.m.)

Mr. Barmore called for a break at 11:55 a.m. The meeting resumed at 12:10 p.m.

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

Active Death Benefits reported	
July 2017	\$0.00
August 2017	\$0.00
Ordinary Death Benefits reported	
July 2017	\$22,037.91
August 2017	\$102,696.31
Retired Death Benefits reported	
July 2017	\$26,119.07
August 2017	\$181,018.41
Survivor Death – Termination Benefits reported	
July 2017	\$4,133.88
August 2017	\$6,011.47
Refund of Member Contributions paid	
July 2017	\$202,502.02
August 2017	\$205,054.60

It was moved by Ms. Ford, seconded by Mr. Bell, 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.

Gust Petropoulos, John Barmore	Public Safety Employees Pension & Benefits Conference
Sponsor:	NCPERS
Location:	San Antonio, TX
Date:	October 1-4, 2017
Estimated Cost:	\$2,500.00 per person
Thomas Courtright, Erich Sauer	CastleArk Due Diligence
Sponsor:	CastleArk
Location:	Chicago, IL
Date:	October 13, 2017
Estimated Cost:	\$100.00 per person

Mark Nicolini Factor-Based Investing
 Sponsor: Pensions & Investments
 Location: Chicago, IL
 Date: October 17, 2017
 Estimated Cost: \$100.00

David Silber Chicago Investment Forum
 Sponsor: Dimensional Fund Advisors
 Location: Chicago, IL
 Date: October 19, 2017
 Estimated Cost: \$100.00

John Barmore Visions Insights & Perspectives (VIP) Americas 2018
 Sponsor: Institutional Real Estate, Inc.
 Location: Dana Point, CA
 Date: January 23-26, 2018
 Estimated Cost: \$2,000.00

John Barmore Public Funds Roundtable
 Sponsor: Institutional Investor
 Location: Los Angeles, CA
 Date: April 24-27, 2018
 Estimated Cost: \$2,000.00
 Date: October 23-25, 2017
 Estimated Cost: \$1,900.00

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

At this point, Mr. Barmore took the meeting out of order. He stated that action needed to be taken on item VI. A. All Duty & Ordinary Disability Applications & Re-examinations (August and September) before taking action on item V. E. Request for Waiver of Medical Panel Re-examination – April B. Hoffman.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations (August and September). 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 – New Applications - Duty

April Hoffman
 Effective 02/14/2013

Recommendation

Approval

Fire – Re-examinations - DutyRecommendation

Jerry Allen	Approval
Mark Ashworth	Approval
Gilbert Baltutis	Approval
Robert Biskobing	Approval
Nancy Hutchinson	Approval
Christine Jacobs	Approval
James Kopp	Approval
James Kronberg	Approval
Glenn Mish	Approval
John Schmaelzle	Approval
Robert Smith	Approval

GC New Applications – DutyRecommendation

Derek Geppert Effective 04/09/2017	Approval
David Grycowski	Denial
Terry Lucas Effective 01/16/2017	Approval
Mark Palkowski Effective 02/26/2017	Approval
Paul Ropel	Denial

GC New Applications – OrdinaryRecommendation

Jill Bondar Effective 05/08/2017	Approval
Renee Gibbs Effective 08/13/2016	Approval
Margaret Hunt Effective 04/11/2017	Approval
Julianne Kurlinski Effective 04/23/2017	Approval
Paul Ropel Effective 02/25/2017	Approval

<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Lynette Lowery-Cowser	Approval
 <u>GC Re-examinations – Ordinary</u>	 <u>Recommendation</u>
Marina Bartleson	Approval
David Braam	Approval
Saverio Bruno	Approval
David Grutza	Approval
Peter Helfenstein	Approval
Kara Koceja	Approval
Karen Jackson	Approval
Glenda Lipson	Approval
Edward Nelson	Approval
Lisa Ordonez	Approval
Scott Sciphio	Approval
Cassandris Smith	Approval
Ronald Watson	Approval
Gloria Green Williams	Approval
Laura Wustner	Approval

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

Mr. Barmore resumed the meeting at 5.E.

Request for Waiver of Medical Panel Re-examination – April B. Hoffman. Mr. Barmore returned to agenda item V.E. since the Board had just approved Ms. Hoffman for 90% duty disability. Mr. Barmore stated Ms. Hoffman filed a request for waiver of medical panel re-examination. Mr. Allen referred Board members to the Charter where it states “in the event however that such fireman or policeman who is eligible to recover duty disability has a disability involving the loss of use of both eyes or the full loss of use of one eye and one limb or the full loss of the use of 2 limbs or an equivalent disability that would impair the member’s (retiree’s) ability to earn a livelihood and such disability is determined by majority action of the medical panel or medical council, then in such event the disabled fireman or policeman shall receive a duty disability pension of 90% of his current salary, and the board may waive the annual medical examination by the said panel or medical council of physicians; but in lieu thereof the disabled fireman or policeman annually shall submit a report from his personal physician to the board.” Discussion ensued. It was moved by Ms. Ford, seconded by Mr. Bell, and unanimously carried, to deny the request for a waiver of medical panel re-examination by Ms. Hoffman.

Unfinished Business.

Legal Opinions and Service Requests Pending and Legal Opinions. Ms. Horwitz stated there were no outstanding legal opinions for the City Attorney.

Legislation Requests Pending and Proposed Legislation. Mr. Allen stated the pending changes to the Rules & Regulations involving membership on the Board; selection process and elections for the number of signatures needed by a candidate is being held, upon the Legislative Committee's recommendation, pending the resolution of supreme court litigation. He said oral argument is scheduled for November and it may or may not be decided by the end of the year. Mr. Allen also said the Legislative Committee recommended the pension contribution offset matter be held pending resolution of litigation regarding the claim against the city. Ms. Horwitz stated they were successful in the Circuit Court and the Court of Appeals.

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.

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.
- 5) Minutes of the Administration & Operations Committee Meeting Held July 19, 2017.
- 6) Minutes of the Investment Committee Meeting Held July 20, 2017.
- 7) Minutes of the Legislative Committee Meeting Held July 31, 2017.
- 8) Minutes of the Investment Committee Meeting Held September 7, 2017.

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

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

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

There being no further business, Mr. Barmore adjourned the meeting at 1:00 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.)