

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

UPDATED Minutes of the Annual Meeting held January 22, 2018

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

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

Board Members Not Present: Deborah Ford (arrived 9:15 a.m.)
 Himanshu Parikh (arrived 9:13 a.m.)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Melody Johnson, Deputy Director
 Daniel Gopalan, Chief Financial Officer
 David Silber, Chief Investment Officer
 Erich Sauer, Pension Investment Analyst
 Thomas Courtright, Pension Investment Analyst
 Gust Petropoulos, Retiree Emeritus
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Miriam Horwitz, Patrick McClain, City Attorney's Office; Molly King, Budget Office; Jean Burnside, Milwaukee Retirees Association.

Introduction of New Board Members. Mr. Barmore welcomed new Board member Mr. Campbell, representing the Police Department. He has served as a City of Milwaukee employee for 18 years. Mr. Barmore also welcomed returning Board member Mr. Klusman who is representing the retirees.

Trustee Succession. Mr. Allen commented a letter was received from Mr. Barmore on the occasion of his final Board meeting. In the letter, Mr. Barmore summarized his tenure with the Board and associations with trustees and staff over the years. Mr. Allen stated City charter provision 36-15-3 requires that a Board vacancy be filled for the unexpired term. Mr. Allen also said a special election could be held and the vacancy filled by June 2018. Mr. Barmore noted if there were only one candidate the vacancy could be filled in April or May 2018. Mr. Allen further said the election bulletin can be prepared administratively and submitted as a report in next month's Board materials. Discussion ensued.

Officers for 2018.

Election of Chair. Mr. Barmore asked for any nominations for Board Chair. Mr. Klusman nominated Mr. Matson. Mr. Barmore asked three more times for any further nominations. There being no further nominations, a unanimous vote was cast for Mr. Matson as Chair of the Annuity and Pension Board. Mr. Barmore passed the gavel to Mr. Matson.

Election of Vice-Chair. Mr. Matson nominated Mr. Konrad as Vice-Chair. Mr. Matson asked three more times for any further nominations. There being no further nominations, a unanimous vote was cast for Mr. Konrad as Vice-Chair of the Annuity and Pension Board.

Approval of Minutes. Mr. Matson presented the minutes of the Regular Meeting held December 21, 2017. It was moved by Mr. Holland, seconded by Mr. Klusman, and unanimously carried, to approve the Minutes of the Regular Meeting held December 21, 2017.

(Mr. Parikh arrived at 9:13 a.m. and Ms. Ford arrived at 9:15 a.m.)

Chief Investment Officer Report. As a matter of information, Board members received the January 22, 2018 performance report. Mr. Sauer presented the performance report and said the Fund value as of December 31, 2017 was \$5.36 billion dollars. The Fund return of 16.4%, net of fees, outperformed the blended benchmark by approximately 57 basis points in 2017. The Fund outperformed the benchmark in all time periods, net of fees, except for the one-month and 10-year periods. The main driver of 2017 returns, Mr. Sauer stated, was manager performance with Loomis Sayles, BlackRock Global Alpha Tilts and MFS among the best performing managers. He said the Fund's overall allocation also added to Fund performance with equities being up every month. He noted Equities were overweight in their allocation causing Fixed Income to have a corresponding underweight for the majority of the year. Mr. Sauer said when Equities go up, it benefits the Fund to be overweight. He said that since Fixed Income was underweight, it also benefited the Fund. Mr. Sauer said counteracting some of the positives were the Fund's Style Bias and exposure to US Small Cap Value Equity that detracted from Fund returns in 2017. He commented that Public Equity, Fixed Income, and Absolute Return asset classes, along with the Total Fund, outperformed their respective benchmarks in 2017, net of fees. Mr. Sauer commented that 7 out of 16 managers outperformed, net of fees. Mr. Sauer said the Fund generated a capital market gain of \$791.8 million, paid benefits and expenses of \$402.6 million, and received contributions of \$92.2 million in 2017. He said the Fund is up 2.9% in January which brings the Fund value to \$5.52 billion, the largest value the Fund has ever had. He commented that 10 out of 17 active managers are outperforming year to date. Mr. Sauer said there is a capital market gain of \$155.9 million and the Fund has received contributions of \$10.3 million. Mr. Sauer stated on January 19, \$1.9 million was paid in expenses. Mr. Sauer noted that due to city and agency contributions in January, the ERS will not need to make any cash withdrawals in January.

Mr. Silber noted the next Investment Committee Meeting is February 8. He said a follow-up to Callan's Portable Alpha Search, authorized in December, will be discussed. The Fixed Income and Absolute structure review, approved in September, will also be discussed. The biggest potential change, he said, is how the Portable Alpha addition can impact the Fixed Income and

Absolute Return exposure. He noted the strong 2017 year with the three- and five-year numbers being second to none.

Investment Committee Report. Mr. Holland reported that Mr. Fuss of Loomis Sayles spoke to the Investment Committee and followed with another presentation at the Milwaukee Athletic Club.

Administration & Operations Committee Report. Mr. Barmore reported that the A&O Committee meeting was held Thursday, January 18, 2018. He stated that the contract amendment with Wells Fargo was approved and forwarded to the Board for action. Mr. Barmore reported that the IT Strategic Plan was received and the five-year plan for IT was presented, focusing on six key areas of security, customer service, innovative solutions, staffing, continuity of operations, and financial. In the Organizational/Personnel update, Mr. Barmore stated Mr. Gopalan was hired as the Chief Financial Officer and he welcomed him to the team. He said Mr. Lolugu was hired as a software developer. Mr. Barmore said a candidate for the Pension Accounting Manager has been identified and ERS is negotiating with DER for a salary offer. He added that ERS is working with DER to reclassify the Pension Accounting Specialist position.

Approval of the Contract Amendment with Wells Fargo. Ms. Horwitz commented that the amendment was an extension. It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to approve the Contract Amendment with Wells Fargo.

New Business.

Authorization to Sign Vouchers. Mr. Allen noted the authorization is the annual certificate of incumbency to set forth the authority for the officers and staff to sign documents as required. It was moved by Mr. Konrad, seconded by Mr. Barmore, and unanimously carried, to approve the Authorization to Sign Vouchers.

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

Active Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$0.00
Deferred Death Benefits reported	\$0.00
Retired Death Benefits reported	\$3,118.89
Survivor Death – Termination Benefits reported	\$2,089.01
Refund of Member Contributions paid	\$244,949.30

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

Conference Requests. Mr. Allen noted there were no conference requests this month.

Referral to A&O Committee – Close out of 2017 Budget. Mr. Allen noted this was a routine referral item and does not need a vote.

Referral to A&O Committee – Baker Tilly Financial Audit Communication. Mr. Allen noted this was a routine referral item and does not need a vote.

Approval of Independent Reviewer/Hearing Examiner – Dennis P. Moroney. Mr. Allen commented that another hearing examiner is being added due to a retirement in that group. Mr. Petropoulos commented that he is familiar with Mr. Moroney’s work and he is objective and fair and would bring that reputation to his service as a reviewer/hearing examiner. Mr. Campbell commented that as a detective and police officer, he had been in front of Judge Moroney for 14 or 15 years when Judge Moroney was in criminal court and has always been fair, ruling against the City when appropriate. It was moved by Mr. Campbell, seconded by Mr. Konrad, and unanimously carried, to approve the Independent Reviewer/Hearing Examiner – Dennis P. Moroney.

Annual Obligation of Trustees and ERS Officers to Submit Annual Statement of Economic Interest. Mr. Allen noted there is an annual requirement to submit a statement of financial interests to the Ethics Board by its February 28 deadline.

Approval of Resolution for Annuity & Pension Board Member Detective Gust Petropoulos.

WHEREAS, Detective Gust P. Petropoulos, served with distinction as a Trustee of the Employees’ Retirement System of the City of Milwaukee continuously from June 2010 until his retirement in December 2017 and faithfully and conscientiously discharged his duty to solely represent the interests of all the Members and Beneficiaries of this System during his tenure of office; and

WHEREAS, Detective Gust P. Petropoulos’ knowledge of pension benefits enabled him to make many valuable contributions to the Annuity and Pension Board and the well-being of the Employees’ Retirement System of the City of Milwaukee and its thousands of participants, including, and especially his role in the fair and impartial adjudication of disability retirement benefits in adherence to the terms and conditions set forth in Chapter 36 of the City Charter; and

WHEREAS, Detective Gust P. Petropoulos served on the Investment Committee of the Annuity and Pension Board throughout his tenure and as its Chair from July 2016 until his retirement assisting in the development of the Employees’ Retirement System’s Strategic Asset Allocation which has generated hundreds of millions of dollars of long-term excess returns for the exclusive benefit of the System’s Members and Beneficiaries, and exhibited the courage, discipline and composure necessary to preserve the Board’s Investment Policy in the aftermath of the Global Financial Crisis and help guide the System safely through perilous times with a steady and able hand; and

WHEREAS, Detective Gust P. Petropoulos' departure is a great loss to the Annuity and Pension Board and all the Members and Beneficiaries of the Employees' Retirement System; therefore, be it

RESOLVED, By the Annuity and Pension Board that it hereby expresses its deep and sincere appreciation and gratitude to Detective Gust P. Petropoulos for his invaluable, selfless and loyal service; and be it

FURTHER RESOLVED, That this resolution be recorded in the permanent records of this Board and that a suitably engrossed copy be forwarded to Detective Gust P. Petropoulos.

It was moved by Mr. Bell, seconded by Mr. Parikh, and unanimously carried, to approve the Resolution for Annuity & Pension Board Member Detective Gust Petropoulos.

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 – New Applications - Duty</u>	<u>Recommendation</u>
Paul Sanchez	Denial
<u>Police – Re-examinations - Duty</u>	<u>Recommendation</u>
Alejandro Arce	Approval
Christopher Manney	Approval
Barbara O’Leary	Approval
<u>Fire – Re-examinations - Duty</u>	<u>Recommendation</u>
Robert Hehn	Approval
Allen Jansen	Approval
James Merchant	Approval
Brett Michalowski	Approval
Thomas Repaci	Approval
<u>GC New Applications – Duty</u>	<u>Recommendation</u>
Brandon Baranowski Effective 01/23/2017	Approval
Victoria Diges	Denial
Linnis Rucks	Denial

<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Melanie Beasley	Denial
Victoria Diges Effective 01/27/2017	Approval
Bonnie Heikkinen Effective 07/22/2017	Approval
Linnis Rucks Effective 12/07/2016	Approval
<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Rosa Romo	Approval
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Cynthia Kittler Austin	Approval
Dorothy McLaurin	Approval
Ripton Stewart	Approval

It was moved by Ms. Ford, seconded by Mr. Nicolini, and unanimously carried, to approve the Duty & Ordinary Disability Applications & Re-examinations.

Unfinished Business.

Legal Opinions and Service Requests Pending and Legal Opinions. Ms. Horwitz reported on a legal opinion from Ice Miller, the city's outside counsel for tax advice. She said there was an inquiry about whether or not the current charter provision that authorizes withdrawal of member contributions by public safety employees upon termination of employment conforms to U.S. Internal Revenue Code Requirements. She said the analysis presented reviews the history of the law prior to adoption of ERISA. She remarked that public plans are not governed by ERISA, but with the adoption of ERISA the general public became accustomed to employee contributions being subject to withdrawal upon termination of employment. Ms. Horwitz said the legal opinion states City charter withdrawal provisions conform to IRS requirements for qualified retirement plans. Discussion ensued.

Legislation Requests Pending and Proposed Legislation. Mr. Allen noted that additional time off with pay beyond 32 hours per year for elected employees to attend meetings was approved by the Council. Mr. Allen noted the next item is a substitute resolution authorizing city departments to expend monies appropriated in the 2018 city budget for Special Purpose Accounts. He said the ERS has a couple special purpose accounts. Mr. Allen stated the Board, under the City Charter, administers the City's life insurance program and the retiree health insurance on behalf of the City. He said the cost is not paid out of the trust fund as it is not a pension benefit and the City pays costs associated with administration of those functions.

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 which is on file with ERS. Discussion ensued.

Mr. Barmore stated he was appointing Mr. Bell and Mr. Parikh to the A&O Committee and requested they be at the January 18, 2018 meeting.

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 December 21, 2017.
- 5) Copies of the Board Rules and Regulations and ERS Ethics Policy.

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.
- 10) ERS Holdings Report.

Mr. Matson accepted and placed on file the aforementioned informational items.

There being no further business, Mr. Matson adjourned the meeting at 9:45 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.)