

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

Minutes of the Regular Meeting held February 26, 2018

The meeting was called to order at 10:03 a.m.

Board Members Present: Thomas Bell
 James Campbell
 Deborah Ford
 Larry Holland
 Tom Klusman
 Rudolph Konrad
 Nik Kovac
 Martin Matson, Chair
 Mark Nicolini
 Himanshu Parikh

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Melody Johnson, Deputy Director
 Kelly Reid, Chief Technology Officer
 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: Andrea Fowler, Miriam Horwitz, Patrick McClain, City Attorney's Office; Woomin King, Reinhart (via teleconference); Dennis Yaccarino, Molly King, Budget Office; Jean Burnside, Milwaukee Retirees Association.

Approval of Minutes. Mr. Matson presented the minutes of the Annual Meeting held January 22, 2018. It was moved by Mr. Nicolini, seconded by Mr. Kovac, and unanimously carried, to approve the Minutes of the Annual Meeting held January 22, 2018.

Mr. Matson presented the minutes of the Special Meeting held February 8, 2018. It was moved by Mr. Kovac, seconded by Mr. Holland, and unanimously carried, to approve the Minutes of the Annual Meeting held February 8, 2018.

Appointment of Committees for 2018. Mr. Matson noted the Administration & Operations Committee consists of Mr. Parikh, Mr. Bell (Chair), and Mr. Matson. He asked if anyone else would like to be on the Committee to speak with him afterwards. Mr. Matson reminded the Board that the Investment Committee is a Committee of the whole with the entire Board serving on the Investment Committee. He said the Legislative and Litigation Committees are pending as there are no current agenda items for those Committees.

At this point, Mr. Matson said the meeting would be taken out of order to go into closed session ahead of the Chief Investment Officer Report.

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

Approval of Portable Alpha Manager Side Letter for the purpose of investing in portable alpha on top of fixed income beta.

Approval of Portable Alpha Manager Investment Guidelines.

Approval of Fixed Income and Absolute Return Structure.

Selection of Portable Alpha Manager.

The Board convened in closed session by the following roll call vote: AYES: Ms. Ford, Messrs. Holland, Klusman, Konrad, Kovac, Nicolini, Parikh, Bell, Campbell, and Matson. NOES: None.

The Board convened in closed session at 10:06 a.m.

The Board reconvened in open session at 10:26 a.m.

It was moved by Mr. Holland, seconded by Mr. Bell, and unanimously carried, to approve the Portable Alpha Manager Side Letter for the purpose of investing in portable alpha on top of fixed income beta.

It was moved by Mr. Campbell, seconded by Mr. Parikh, and unanimously carried, to approve the Portable Alpha Manager Investment Guidelines.

Mr. Matson directed the Board back to item III.

Chief Investment Officer Report. As a matter of information, Board members received the February 26, 2018 performance report. Mr. Silber presented the performance report and said the Fund value as of January 31, 2018 was \$5.59 billion dollars. The Fund return of 3%, net of fees, outperformed the blended benchmark by approximately 24 basis points in January. The Fund outperformed the benchmark in all time periods, net of fees, except for 10 years. The main driver of January returns, Mr. Silber stated, was manager performance with Loomis Sayles and Brandes each adding 10 basis points. He said the Fund's overall allocation added 8 basis points from being underweight fixed income. Mr. Silber said the Fund's Style Bias and exposure to US Small Cap Value Equity detracted 17 basis points in January. He stated the Fund's return in February as of February 23, 2018 is down -1.7% but the Fund return is up 1.2% year-to-date, net of fees. Mr Silber further stated the Fund's current value as of February 23, 2018 is \$5.49 billion dollars.

He commented that 12 out of 17 active managers are outperforming year to date. He added that the Total Fund, along with the Public Equity and Fixed Income asset classes, are outperforming their respective benchmarks year-to-date, net of fees. Mr. Silber noted the Fund has generated a capital market gain of \$65.2 million, paid benefits and expenses of \$36 million, and received contributions of \$104 million, year-to-date. Mr. Silber noted that due to city and agency contributions in January, the ERS will not need to make any cash withdrawals for benefit payments this month.

Investment Committee Report. Mr. Holland reported at its February 8 meeting, the Investment Committee spent the majority of its time in closed session, discussing how to structure the Fund's Fixed Income and Absolute Return allocations going forward. He said after receiving Structure Review presentations from Callan and Staff, and after having in-depth discussion, the Committee approved Alternative #1 from Callan's presentation. Also in closed session, Mr. Holland stated the Investment Committee received a Portable Alpha Manager Search update from Callan, and Selected a Portable Alpha manager consistent with the new Alternative #1 structure previously mentioned. Finally, Staff provided a performance update through February 7, stating that the Fund's performance was roughly flat year-to-date, and the Fund's managers were holding up relatively well given the increased volatility. He said the Committee recommends approving the following items: Approval of Fixed Income and Absolute Return Structure – Alternative #1, and Selection of Portable Alpha Manager.

It was moved by Mr. Holland, seconded by Mr. Bell, and unanimously carried, to approve the Fixed Income and Absolute Return Structure.

It was moved by Mr. Campbell, seconded by Mr. Konrad, and unanimously carried, to approve the Selection of Portable Alpha Manager.

Administration & Operations Committee Report. Mr. Bell reported that at its February 15 meeting, Baker Tilly reported on the progress of the financial audit. He said their fieldwork was conducted in January and will be completed in April with the final audit report presented in June. Mr. Bell said Experis presented the results of the Social Engineering Audit in closed session. He said a new agreement for Hearing Examiner Services was approved and will be sent to the Board. He noted that a close-out of the 2017 budget was approved and will be sent to the Board. Mr. Bell reported that a final payment of \$1,636,286.99 is required for settlement of 2017 expenses. He commented that the IT Projects Portfolio was received. He noted that Altiris and What's Up Gold Application upgrades have been completed while an IT Vulnerability Audit is currently in progress. Mr. Bell also noted that insourcing of positions is nearly complete. He said the Organizational/Personnel Update was received and an offer has been made for the position of Database Administrator and the salary is being negotiated with DER. Mr. Bell commented that ERS is working with DER to fill several vacancies and to reclassify a Pension Accounting Specialist position.

Approval of Hearing Examiner Services Agreement. It was moved by Mr. Bell and seconded by Mr. Nicolini to approve the template for the Hearing Examiner Services Agreement.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity for the month of January 2018.

Active Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$0.00
Deferred Death Benefits reported	\$0.00
Retired Death Benefits reported	\$17,952.58
Survivor Death – Termination Benefits reported	\$9,874.27
Refund of Member Contributions paid	\$210,212.78

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

Conference Requests. Mr. Matson presented the conference requests this month.

James Campbell, DFA and Brandes Due Diligence
 David Silber,
 Thomas Courtright
 Sponsors: DFA, Brandes
 Location: Santa Monica, CA (DFA)
 San Diego, CA (Brandes)
 Date: April 10-12, 2018
 Estimated Cost: \$1,500 per person

James Campbell Trustee Educational Seminar (TEDS)
 Sponsor: NCPERS
 Location: New York, NY
 Date: May 11-13, 2018
 Estimated Cost: \$1,880.00

David Silber Allianz, AQR, UBS Due Diligence
 Sponsors: Allianz, AQR, UBS
 Location: New York
 Date: June 18-20, 2018
 Estimated Cost: \$1,500.00

Thomas Courtright	Allianz, AQR, and UBS Due Diligence, and Neuberger Berman Annual Client Conference
Sponsors:	Allianz, AQR, UBS, and Neuberger Berman
Location:	New York
Date:	June 18-21, 2018
Estimated Cost:	\$1,900.00

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

Approval of 2017 Securities Lending Budget. Mr. Allen noted the Charter requires that each year the income is approved from the earnings from the securities lending activity from the prior year and swept into the combined fund to pay disbursements, particularly benefit payments. He noted the amount for the combined fund this year is \$1,531,736.79. It was moved by Mr. Campbell, seconded by Ms. Ford, and unanimously carried, to approve the 2017 Securities Lending Budget.

Approval of City Request to Access Actuary. Mr. Allen noted the Budget Office would like to engage the ERS's actuary to price out proposed collective bargaining changes. He noted the Budget Office will pay the expenses and no trust money is involved. He said the Budget Office will keep him and the Board apprised of their progress. Mr. Allen noted this was a routine request which comes up whenever there is collective bargaining. Discussion ensued. It was moved by Ms. Ford, seconded by Mr. Klusman, and unanimously carried, to approve the City Request to Access Actuary.

Approval of Resolution for Annuity & Pension Board Member, Chairman, and Firefighter John Barmore.

WHEREAS, Firefighter John D. Barmore, served with distinction as a Trustee of the Employees' Retirement System of the City of Milwaukee continuously from January 2007 until his retirement in January 2018, serving as Vice Chairman of the Annuity and Pension Board for 2010 and 2011 and as Chairman from January 2012 until his retirement, and faithfully and conscientiously discharged his duty to solely represent the interests of all the Members and Beneficiaries of the System during his tenure of office; and

WHEREAS, Firefighter John D. Barmore's 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 diligent stewardship in pursuing adequate funding for the System; and

WHEREAS, Firefighter John D. Barmore served on the Investment Committee of the Annuity and Pension Board throughout his tenure 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 helped guide the System safely through perilous times with a steady and able hand; and

WHEREAS, Firefighter John D. Barmore served as Chair of the Administration and Operations Committee throughout most of his long tenure; and

WHEREAS, Firefighter John D. Barmore’s departure is a great loss to the Annuity and Pension Board and all the Members and Beneficiaries of the Employes' Retirement System; therefore, be it

RESOLVED, By the Annuity and Pension Board that it hereby expresses its deep and sincere appreciation and gratitude to Firefighter John D. Barmore 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 Firefighter John D. Barmore.

Mr. Matson publicly thanked Mr. Barmore for his service and said Mr. Barmore, when he started, was a little surprised at the complexity of the system but Mr. Matson stated he did a fantastic job and served us all quite well and was a good Board Chair.

It was moved by Mr. Holland, seconded by Mr. Kovac, and unanimously carried, to approve the Resolution for Annuity & Pension Board Member, Chairman, and Firefighter John Barmore.

Security Awareness Training for Board Members. Ms. Reid noted the ERS staff recently received the Security Awareness Training and she was pleased to present the training to the Board. Ms. Reid presented topics pertaining to Security and Business Alignment, Security Management Roles, Electronic Communications, Social Engineering, and Location of Policies. Ms. Reid noted the Board members as custodians are required to maintain the integrity of the Board materials. Discussion ensued.

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>
Angel Alderman	Approval
<u>Fire – Re-examinations - Duty</u>	<u>Recommendation</u>
Denise Bekeris	Approval
Robert Bresette	Approval
David Fass	Approval (Exempt from Re-Exam)
Maurya Lomen	Approval

Patrick Nogalski	Approval
Patrick Norton	Approval
Walter Price	Approval
Thomas Scholz	Approval
Todd Schultz	Approval
Anthony Wichman	Approval

GC Re-examinations – Ordinary

Recommendation

Scott Geiger	Approval
Gerald Kinnard	Approval
Daniel Lazarski	Approval
Freddie Lewis	Approval
Stuart Smith	Approval

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

A correction was made to the January 22, 2018 Annuity and Pension Board Meeting Minutes in the Medical Reports section. Ms. Cunningham, Disability Specialist – Senior, noted that Ms. Melanie Beasley’s application for duty disability is still pending with the State of Wisconsin, Department of Workforce Development. Since Ms. Beasley was erroneously listed as Denial for Duty Disability, that line was removed and the minutes updated on www.cmers.com. Ms. Beasley was listed correctly for Denial in Ordinary Disability.

Disability Findings – Scott Geiger. Mr. Matson presented Hearing Examiner Francis T. Wasielewski’s Decision which states “I recommend that with regard to Mr. Scott Geiger’s application for Duty Disability benefits the Decision of the Annuity and Pension Board denying his request be affirmed.” It was moved by Mr. Nicolini, seconded by Mr. Parikh, and unanimously carried, to accept Hearing Examiner Francis T. Wasielewski’s decision.

Unfinished Business.

Legal Opinions and Service Requests Pending and Legal Opinions. Ms. Horwitz stated there are no legal opinions outstanding. She said Ms. Fowler has prioritized the service requests and a few items remain from 2017. Mr. Matson noted the MailCom Consulting LLC contract on the service requests and Mr. Allen stated it would be on next month’s agenda.

Legislation Requests Pending and Proposed Legislation. Mr. Allen said there are no new items to report since last month.

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.

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 January 17, 2018.
- 5) Minutes of the Administration & Operations Committee Meeting Held January 18, 2018.
- 6) Minutes of the Investment Committee Meeting Held February 8, 2018.

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.

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

There being no further business, Mr. Matson adjourned the meeting at 11:23 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.)