

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

Minutes of the Regular Meeting held March 22, 2018

The meeting was called to order at 9:06 a.m.

Board Members Present: Thomas Bell
 James Campbell
 Deborah Ford
 Larry Holland
 Tom Klusman
 Nik Kovac
 Martin Matson, Chair

Board Members Not Present: Rudolph Konrad (Excused)
 Mark Nicolini (Excused)
 Himanshu Parikh (Arrived at 9:13 a.m.)

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

Others Present: Miriam Horwitz, Andrea Fowler, Patrick McClain, City Attorney's Office; Molly King, Budget Office; Terry Siddiqui, DS Consulting, Inc.; Gust Petropoulos, Adecco; Jean Burnside, Milwaukee Retirees Association.

Approval of Minutes. Mr. Matson presented the minutes of the Regular Meeting held February 26, 2018. It was moved by Mr. Holland, seconded by Mr. Bell, and unanimously carried, to approve the Minutes of the Regular Meeting held February 26, 2018.

Chief Investment Officer Report. As a matter of information, Board members received the March 22, 2018 performance report. Mr. Courtright presented the performance report and said the Fund value as of February 28, 2018 was \$5.42 billion dollars. The Fund return of -2.5%, net of fees, outperformed the blended benchmark by approximately 13 basis points in February. The Fund outperformed the benchmark in all time periods, net of fees, except for 10 years. The main driver of February returns, Mr. Courtright stated, was manager performance with Brandes adding 18 basis points, Real Estate managers adding 7 basis points, and the Allianz 1000 Plus strategy subtracted -13 basis points. He stated the Fund's return as of March 21, 2018 is up 0.3% in March and the Fund return is up 0.9% year-to-date, net of fees. Mr. Courtright further stated the Fund's current value as of March 21, 2018 is \$5.44 billion dollars. He commented that 14 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. Courtright noted the Fund has generated a capital market gain of \$44.2 million, paid benefits and expenses of \$69.8 million, and received contributions of \$105.4 million, year-to-date. Mr. Courtright 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. Mr. Bell asked when cash withdrawals are made and Mr. Courtright and Mr. Sauer clarified that withdrawals are made at the end of the month. Mr. Allen added that the withdrawals are from overweight asset classes.

Investment Committee Report. Mr. Holland reported at its March 8 meeting, the Investment Committee unanimously elected Mr. Mark Nicolini as its Vice-Chair. He stated the Committee heard a presentation from Reams Asset Management, one of the Fund's fixed income managers. He remarked that Staff provided a due diligence report on Neuberger Berman, one of the Fund's private equity managers and CastleArk Management, the Fund's U.S. small-cap growth manager. Mr. Holland said Staff presented the annual value add analysis, which showed the Fund's stock and bond allocations adding \$128 million to the Fund's value over the past 10 years, and \$767 million to the Fund's value over the past 23 years, net of fees. He commented the Committee approved updates to the Statement of Investment Policy that reflect the new Strategic Policy and Interim allocations approved as part of last month's Fixed Income and Absolute Return structure review. Mr. Holland said a change was also made within the Statement of Investment Policy to allow for an increase in the Fund's volatility, as measured by tracking error to the benchmark, from 2% to 2.5% over a market cycle. He commented that Staff presented the Fund's 4th Quarter Performance report, which showed the Fund generated a 16.4% return in 2017 and has generated an annualized 9.8% return over the past 5 years, net of fees. Mr. Holland stated the Committee recommends approving the Statement of Investment Policy Update.

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

Administration & Operations Committee Report. At its March 15, 2018 Administration & Operations Committee, Mr. Bell reported that The First Amendment to an Agreement with CenturyLink, Inc. reflecting a name change from Level 3 was approved and is forwarded to the Board, a service agreement with ABT MailCom to distribute 1099R forms was approved and is forwarded to the Board, and a new RFP for Actuarial Services was reviewed. The Committee made suggestions for improvements and several additional appendixes will be included in the RFP. He said the IT Projects Portfolio was received and a network upgrade, Struts 2 and Optimization are in progress. Mr. Bell stated an IT Vulnerability Audit has been done and a report is forthcoming. He noted the insourcing of positions is nearly complete. Mr. Bell reported that the Organizational/Personnel Update was received and the Database Administrator and Accounting Assistant II positions have been filled. He said a Pension Accounting Specialist position has been reclassified to Pension Accounting Manager. He commented that two recent retirements resulted in the movement of personnel to new positions and ERS is working with DER to fill several other vacancies.

Approval of First Amendment to Agreement with CentryLink, Inc. It was moved by Mr. Bell, seconded by Mr. Campbell, and unanimously carried, to approve the First Amendment to Agreement with CentryLink, Inc.

Approval of Contract with American Business Technologies, Inc. dba ABT Mailcom. It was moved by Mr. Ford, seconded by Mr. Klusman, and unanimously carried, to approve the Contract with American Business Technologies, Inc. dba ABT Mailcom.

New Business.

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

Active Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$168,495.99
Deferred Death Benefits reported	\$13,323.96
Retired Death Benefits reported	\$10,084.13
Survivor Death – Termination Benefits reported	\$11,154.75
Refund of Member Contributions paid	\$196,328.27

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

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

Mark Nicolini,	4 th Annual Redefining Fixed Income Forum
Sponsor:	Institutional Investor
Location:	Chicago, IL
Date:	May 17-18, 2018
Estimated Cost:	\$700.00

David Silber,	William Blair Due Diligence
Tom Courtright,	
Erich Sauer	
Sponsor:	William Blair
Location:	Chicago, IL
Date:	June 5, 2018
Estimated Cost:	\$75.00 per person

Mark Nicolini, 5th Annual Midwest Institutional Investor Forum
 Jerry Allen
 Sponsor: Markets Group
 Location: Chicago, IL
 Date: June 12, 2018
 Estimated Cost: \$75.00 per person

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

Approve Paid Time for Employee-Elected Trustee to Attend Board Meetings and Board Assigned Travel per Sec. 350-219. Mr. Allen noted this request was for newly-elected Trustee Mr. Campbell. He stated the ordinance requires approval by the Finance & Personnel Committee for all paid time off hours above 32 hours. He said the routine meeting hours amount is 80 hours. He said the additional hours are for trustee education, training and due diligence oversight. Mr. Allen said if the Board approves this item, he will appear before the Finance & Personnel Committee to request the time off for Mr. Campbell. It was moved by Mr. Parikh, seconded by Mr. Bell, and unanimously carried, to approve the Paid Time for Employee-Elected Trustee to Attend Board Meetings and Board Assigned Travel per Sec. 350-219.

Approval of Experis Contract Amendment. Mr. Allen noted this was a one-day contract to have an Experis CPA provide a seamless transition of financial statement preparation with the new Chief Financial Officer. Mr. Allen stated Experis prepared the financial statements in 2016 after the departure of the ERS’ CPA to another organization. Discussion ensued. It was moved by Mr. Klusman, seconded by Mr. Holland, and unanimously carried, to approve the Experis Contract Amendment.

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>
Anthony Bialecki	Approval
Vidal Colon	Approval
Christian Hlavinka	Approval
<u>Fire – Re-examinations - Duty</u>	<u>Recommendation</u>
Kyle Dannies	Approval
Thomas Gillespie	Approval
Mark Tesch	Approval

<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Daniel Ellis	Approval
Robert Heather	Approval

<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Thomas Alderson	Approval
Jennifer Eigner	Approval
Mark Johnson	Approval
Ivette Rivera Soto	Approval
Elizabeth Shannon	Approval

It was moved by Mr. Holland, seconded by Mr. Parikh, 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 commented that the Request for Proposal for Actuarial Services is in progress. She also said the internet service provider agreement is pending, but other items are up-to-date.

Legislation Requests Pending and Proposed Legislation. Mr. Allen stated there are no new items to report. Mr. Matson noted two items, Outside Earnings Test and the Review and Approval of Contracts, are referred to the Legislative Committee but currently there is no Legislative Committee. Discussion ensued regarding the Outside Earnings Test and the Review and Approval of Contracts. Mr. Matson said a Legislative Committee will be created at the next 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, 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 Administration & Operations Committee Meeting Held February 15, 2018.

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

- 5) Report on Bills.
- 6) Deployment of Assets.
- 7) Securities Lending Revenue and Budget Reports.
- 8) Preliminary Performance Report/Asset and Manager Allocation Pie Charts.
- 9) Rules and Regulations of the Employees' Retirement System (ERS) Annuity and Pension Board.

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

There being no further business, Mr. Matson adjourned the meeting at 9:57 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.)