

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

Minutes of the Regular Meeting held April 30, 2018

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

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

Board Members Not Present:            Nik Kovac (Arrived at 9:13 a.m.)

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

Others Present: Shawn C. Lauda, Jon Cermele, Milwaukee Police Association; Miriam Horwitz, Patrick McClain, City Attorney's Office; Molly King, Budget Office; Gust Petropoulos, Adecco; Jean Burnside, Milwaukee Retirees Association.

**Approval of Minutes.** Mr. Matson presented the minutes of the Regular Meeting held March 22, 2018. It was moved by Mr. Nicolini, seconded by Mr. Bell, and unanimously carried, to approve the Minutes of the Regular Meeting held March 22, 2018.

**Chief Investment Officer Report.** As a matter of information, Board members received the April 30, 2018 performance report. Mr. Sauer presented the performance report and said the Fund value as of March 31, 2018 was \$5.36 billion dollars. The Fund return of -0.5%, net of fees, underperformed the blended benchmark by approximately 13 basis points in March. The Fund's return matches or exceeds the benchmark in all other time periods shown, net of fees. The main driver of March returns, Mr. Sauer stated, was a detractor in manager performance from Private Equity which showed minus 39 basis points due to the delay in receiving 1<sup>st</sup> quarter reports, which are carried as a zero and are compared to a benchmark which incorporates the 4<sup>th</sup> quarter Russell 3000 return which was strong. He said the value would go up as the 1<sup>st</sup> quarter reports come in. Mr. Sauer said the Style Bias benefited from US Small- and Mid-Cap Equity

which added 23 basis points. Mr. Sauer further stated the Fund is up 0.7% in April, which is also the year-to-date return, net of fees. He stated the Fund's approximate value, as of April 27, 2018, is \$5.37 billion dollars. He commented that 13 out of 18 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. Sauer noted the Fund has generated a capital market gain of \$37.2 million, paid benefits and expenses of \$134.3 million, and received contributions of \$109 million, year-to-date. Mr. Sauer noted that cash withdrawals for benefit payments in April were \$8 million from Brandes, \$6 million each from Earnest and William Blair, \$5 million each from CastleArk, DFA International Small Cap Value and MFS, and \$3 million from DFA US Small Cap Value.

**Approval of Loomis Sayles Guideline Extension.** As a matter of information, Board members received a letter and memo from Loomis Sayles and Mr. Sauer, respectively, requesting a six-month extension to allow greater than 3% of the account value to be comprised of securities that have been downgraded below B- or B3 by both Standard and Poor's and Moody's. Mr. Sauer said that Loomis Sayles reported the Chesapeake Energy bonds, the largest credit in the downgrade bucket, have appreciated 178% in market value since being downgraded. He said one more upgrade from either agency would end the upgrade requirement. Mr. Sauer noted this would extend to the October 2018 Board meeting. Discussion ensued. It was moved by Mr. Holland, seconded by Mr. Campbell, and unanimously carried, to approve the Loomis Sayles Guideline Extension.

**Approval of Private Advisors Small Company Private Equity Fund VIII Side Letter for the purpose of investing in private equity.** Mr. Silber noted last September that Callan had provided a pacing schedule for the upcoming year. He stated commitments had been made to Abbott Capitol, Mesirow and Private Advisors, with Abbott and Mesirow already completed. Mr. Sauer said this was similar to the two Funds with Private Advisors. It was moved by Mr. Holland, seconded by Mr. Campbell, and unanimously carried, to approve the Private Advisors Small Company Private Equity Fund VIII Side Letter for the purpose of investing in private equity.

**Administration & Operations Committee Report.** At its April 19, 2018 Administration & Operations Committee, Mr. Bell reported that four responses to an RFP for financial auditing services were submitted to the ERS. He said the staff scored the responses, the results were presented to the committee and the decision for the financial auditor is before the Board today.

Mr. Bell also said the Committee received an IT Projects Portfolio showing a network upgrade was completed. He said the insourcing of IT positions is now complete. He noted an IT Vulnerability Audit was completed and a report will be presented to the Committee in May. Mr. Bell said the ERS' phone system enhancements are in progress. Mr. Bell added that the Committee received the Organizational/Personnel Update showing two ERS employees have accepted in-house positions while a non-city employee started as an Accounting Assistant II. Mr. Bell said the ERS is working with DER to fill several other vacancies.

**Approval of Financial Auditor Selection.** Mr. Matson advised that the Administration & Operations Committee may vote to convene in closed session on the following item (III. 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 Committee may then vote to reconvene in open session following the closed session. The Committee convened in closed session by the following roll call vote: AYES: Ms. Ford, Messrs. Bell, Holland, Klusman, Konrad, Kovac, Nicolini, Parikh, Campbell, and Matson. NOES: None.

The Committee convened in closed session at 9:15 a.m. The Committee reconvened in open session at 9:18 a.m.

**Approval of 2019 Draft City Budget Request.** Mr. Bell reported at its April 19, 2018 Administration & Operations Committee, a draft of the ERS 2019 Budget Request was presented. He said there was a \$454,254 decrease from the 2018 Adopted Budget that was primarily due to reductions in IT expenses and a decrease in the fees expected for MMRO, the service provider for the processing of disability claims. It was moved by Mr. Bell, seconded by Ms. Ford, and unanimously carried, to approve the 2019 Draft City Budget Request.

**Legislative Committee Report.** Mr. Konrad reported that at its April 25, 2018 Legislative Committee Meeting, a proposed amendment to Board Rule VII.G. regarding contracting authority relating to investment contracts was discussed. He said the Committee recommends that full authority be given to the Investment Committee in the execution of contracts as long as there is a quorum of the Board voting in favor. He noted the quorum is six votes. In addition, Mr. Konrad stated the Committee recommends that a Board rule be drafted which states that all members of the Board are members of the Investment Committee. He commented these rule changes are before the Board today. Mr. Konrad said the ERS staff gave a presentation regarding the outside earnings methodology for members receiving a disability retirement allowance. He commented that a proposed new Board rule that would trigger an Earnings Capacity Evaluation for members receiving a disability retirement allowance was discussed. Mr. Konrad stated the Committee went in to closed session to discuss a certain case related to the outside earnings and this case was referred for further investigation.

#### **Review and Approval of Contracts.**

**Proposed amendment to Board Rule VII.G. regarding contracting authority of Investment Committee.** Mr. Allen stated the City Attorneys' office will draft the language for the Board Rule for Investment Committee authority of execution of contracts and it will be brought back to the Board for a full vote.

**Proposed amendment of Board Rule XVII.G. regarding Earnings Capacity Evaluation of DDR Beneficiaries pursuant to MCC-36-07-2-a and Case Review pursuant to MCC-36-05-3-c-1-b.** Mr. Matson stated the Board would not go into Closed Session since that concluded the Legislative Committee Report. He confirmed with Ms. Horwitz that the Board Rule would go back to the Legislative Committee for further deliberation.

#### **New Business.**

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

Active Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$18,040.96
Deferred Death Benefits reported	\$0.00
Retired Death Benefits reported	\$19,517.97
Survivor Death – Termination Benefits reported	\$11,178.22
Refund of Member Contributions paid	\$238,412.04

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

**Conference Requests – April 2018 Board Meeting.** Mr. Matson presented the conference requests this month.

David Silber	AQR Forum
Sponsor:	AQR
Location:	Chicago, IL
Date:	May 16, 2018
Estimated Cost:	\$115.00

Jerry Allen, Erich Sauer, Thomas Courtright	2018 Madison Investment Conference
Sponsor:	CFA Society Madison
Location:	Madison, WI
Date:	May 30, 2018
Estimated Cost:	\$250.00 per person

Thomas Bell	William Blair Due Diligence
Sponsor:	William Blair
Location:	Chicago, IL
Date:	June 11, 2018
Estimated Cost:	\$75.00

Miriam Horwitz, Patrick McClain, Ellen Tangen	2018 Legal Education Conference
Sponsor:	NAPPA
Location:	Savannah, GA
Date:	June 26-29, 2018
Estimated Cost:	\$2,700.00 per person

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

**Suspension of Ordinary Disability Benefits – Jewel Springfield.** Mr. Allen noted Ms. Springfield is up for suspension, is incarcerated and is unable to attend her re-exam. Mr. Petropoulos said she was up for re-examination at the beginning of last year and has not been able to comply with the re-examination as the incarceration facility does not allow outside physicians to come in. Mr. Petropoulos said she will be released in July and will have the opportunity to complete the re-examination process. Ms. Horwitz said if it is determined that Ms. Springfield is still disabled, her benefit would be reinstated. Mr. McClain said criminal activity resulting in incarceration is a voluntary act and the beneficiary, rather than the Fund, bears the responsibility in such situations. Discussion ensued. It was moved by Mr. Nicolini, seconded by Ms. Ford, and unanimously carried, to approve the Suspension of Ordinary Disability Benefits – Jewel Springfield.

### **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>
Maria Guerra	Denial
<u>Police – Re-examinations - Duty</u>	<u>Recommendation</u>
John Burke	Approval
Dwight Copeland	Approval
Dexter Love	Approval
Rayford Weston	Approval
<u>Fire – Re-examinations - Duty</u>	<u>Recommendation</u>
Gregory Ballering	Approval
Monica Blazekovic	Approval
Pieter Gallagher	Approval
Chad Hendricks	Approval
Claude Hunter	Approval
John Kielpinski	Approval
Martin Kozlowski	Approval
Paul Singer	Approval

<u>GC New Applications – Duty</u>	<u>Recommendation</u>
Harold Cross	Denial
Mary Nelston-Taite	Denial
James Youngblood Effective 10/01/2017	Approval
<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Rodney Lemberger	Approval
Isaac Watson	Approval
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Harold Cross Effective 10/06/2017	Approval
Karen Moe Effective 02/06/2018	Approval
Mary Nelson-Taite Effective 09/09/2017	Approval
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Suzanne Castro	Approval
Henry Gonzalez	Approval
Kim Linwood	Approval
Damion Powell	Approval

It was moved by Mr. Holland, seconded by Mr. Konrad, 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 stated there are no outstanding Legal Opinions on Service Requests. She also said the four remaining Service Requests are underway.

**Legislation Requests Pending and Proposed Legislation.** Mr. Allen stated the Board approved today the Review and Approval of Contracts. He also noted the Outside Earnings Test was held over at the Committee level for further discussion.

**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 March 8, 2018
- 5) Minutes of the Administration & Operations Committee Meeting Held March 15, 2018.

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.

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

There being no further business, Mr. Matson adjourned the meeting at 9:44 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.)