EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
ANNUITY AND PENSION BOARD

Minutes of the Regular Meeting held May 24, 2018

The meeting was called to order at 9:04 a.m.

Board Members Present:	Thomas Bell James Campbell Timothy Heling Tom Klusman Rudolph Konrad Martin Matson, Chair Mark Nicolini
Board Members Not Present:	Deborah Ford (Excused) Larry Holland (Excused) Nik Kovac (Excused) Himanshu Parikh (Excused)
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 Arsh Salwan, Pension Investment Intern Karen McElwee, Management Services Analyst Mary Turk, Business Operations Analyst Jan Wills, Board Stenographer

Others Present: Miriam Horwitz, Patrick McClain, City Attorney's Office; Molly King, Budget Office; Gust Petropoulos, Adecco; Terry Siddiqui, DS Consulting, Inc.

Introduction of New Board Member. Mr. Matson welcomed Mr. Heling, the recently-elected Firefighter Member of the Board. Mr. Heling said he is excited to be here and commented that he has been a firefighter for 13 years, a paramedic for 10 years, and a lieutenant for about seven years.

Approval of Minutes. Mr. Matson presented the minutes of the Regular Meeting held April 30, 2018. It was moved by Mr. Konrad, seconded by Mr. Nicolini, and unanimously carried, to approve the Minutes of the Regular Meeting held April 30, 2018.

Chief Investment Officer Report. As a matter of information, Board members received the May 24, 2018 performance report. Mr. Sauer presented the performance report and said the Fund value as of April 30, 2018 was $5.37 billion dollars. The Fund return of 0.7%, net of fees, outperformed the blended benchmark by approximately 33 basis points in April. Mr. Sauer said the Fund's return matches or exceeds the benchmark in all other time periods shown, net of fees.

The main drivers of April performance, Mr. Sauer stated, was manager performance with Brandes adding 11 basis points, both Allianz SA 1000 Plus and Real Estate adding 6 basis points, and Loomis Sayles adding 5 basis points. Mr. Sauer further stated the Fund, as of May 23rd, is up 1% in May, which brings the year-to-date return up 1.6%, net of fees. He stated the Fund's approximate value, as of May 23, 2018, is $5.42 billion dollars. He commented that 12 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 $88.8 million, paid benefits and expenses of $136.2 million, and received contributions of $111.6 million, year-to-date. Mr. Sauer noted that cash withdrawals for benefit payments in May were $6 million each from MFS and Polen, $5 million each from CastleArk and Earnest, and $4 million each from Brandes and DFA US Small Cap Value.

Mr. Silber noted that for the June 7 Investment Committee Meeting, MFS, one of the Fund's global equity managers, will be here to present. He said Callan will also do a special presentation on custody and will be bringing their custody expert from San Francisco. Mr. Silber noted a decision will need to be made on how to proceed with the custody contract as the ERS has had Northern Trust for 20 years and he said the ERS is very happy with their services but the contract expires in 2019. Discussion ensued.

Approval of Private Advisors Fund VIII LP Consent for the purpose of investing in Private Equity. Mr. Matson advised that the Annuity and Pension Board 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 Board may then vote to reconvene in open session following the closed session. It was moved by Mr. Campbell and seconded by Mr. Nicolini that the Board convene in closed session on this item. The motion prevailed by the following roll call vote: AYES: Messrs. Bell, Heling, Klusman, Konrad, Nicolini, Campbell, and Matson NOES: None.

The Board convened in closed session at 9:15 a.m. The Board reconvened in open session at 9:31 a.m.

It was moved by Mr. Bell, seconded by Mr. Campbell, and unanimously carried, to approve the Private Advisors Fund VIII LP Consent for the purpose of investing in Private Equity.

Investment Committee Report. At its May 10, 2018 Investment Committee Meeting, Mr. Nicolini, reporting on behalf of Mr. Holland, Committee Chair, stated that Callan provided the Investment Committee with an update on the Fund's Real Estate portfolio. He said the Fund's Real Estate program outperformed its benchmark in 2017 and progress continues to be made related to the restructuring initiative that began last year. Mr. Nicolini commented that the Committee also heard a presentation from Northern Trust, the Fund's custodian and securities lending provider. Finally, he said, Staff presented the Fund's 1st Quarter Performance report. Mr. Nicolini stated that some highlights from the report included that the Fund outperformed in the one-, three-, and five-year time periods; 10 of the Fund's 11 active equity managers outperformed during the quarter; and the Fund completed implementation of the new Fixed

Income and Absolute Return structure during the quarter. Mr. Nicolini said there were no Approval Items at this meeting.

Administration & Operations Committee Report. At its May 17, 2018 Administration & Operations Committee, Mr. Bell reported that Experis presented the report of the IT Vulnerability Assessment of internal and external networks with all vulnerabilities identified and addressed by ERS staff. He said Experis also presented the Risk Assessment and Internal Audit Plan for Fiscal Year 2018. Mr. Bell commented that the committee agreed to the audit plans' audit of Investments in 2018 with a three-year cycle going forward. He said the remainder of the plan was also approved. Mr. Bell noted the A&O Committee Audit Charter and Internal Audit Charter for 2018 were approved and forwarded to the Board. He commented that only the dates changed on the two charters. Discussion ensued. Mr. Bell said the IT Projects Portfolio was received. He commented that ERS received a list for the Server Administrator position and it is a healthy list. Mr. Bell noted the Storage Area Network replacement is in progress and will be completed soon. He said Optimization is in progress and will be completed by the end of the year while various upgrades are also in progress. Mr. Bell said the phone system enhancements are expected to go live in the next couple of weeks. He also said the Organizational/Personnel Update was received and noted that ERS is working with DER to fill vacancies for a Pension Accounting Manager, Server Administrator, Records Technician II and Administrative Assistant II. He commented that all positions are expected to be filled by the end of summer.

Approval of A&O Committee Audit Charter and Internal Audit Charter. It was moved by Mr. Bell, seconded by Mr. Heling, and unanimously carried, to approve the A&O Committee Audit Charter and Internal Audit Charter.

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	$141,603.44
Deferred Death Benefits reported	$0.00
Retired Death Benefits reported	$13,412.70
Survivor Death – Termination Benefits reported	$7,589.65
Refund of Member Contributions paid	$260,406.71

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

Conference Requests ─ May 2018 Board Meeting. Mr. Matson noted there were no conference requests this month.

Cancellation of Protective Survivorship Option – Calvin Abney. Mr. Allen read the provision from the charter that the Board can approve Cancellation of Protective Survivorship Option. He noted persons receive letters six months in advance of their retirement eligibility to select a survivor in case the employee dies while in active service. Discussion ensued. It was moved by Mr. Klusman, seconded by Mr. Campbell, and unanimously carried, to approve the Cancellation of Protective Survivorship Option – Calvin Abney.

Pension Board Election Results – Firefighter Member. Mr. Allen referenced the letter from the Election Commission certifying results of the Special Firefighter Member Trustee Election. He noted Mr. Heling received 242 votes and Mr. Felsecker received 43 votes.

Approve Paid Time for Employee-Elected Trustee to Attend Board Meetings and Board Assigned Travel per Sec. 350-219. Mr. Allen noted this item was for Mr. Heling to attend meetings for the remainder of the year as well as for Trustee education, training, and due diligence trips. He said the City Charter provides for 32 hours of paid time off and provides for additional time off which must be approved by the Finance and Personnel Committee. Discussion ensued. It was moved by Mr. Campbell, seconded by Mr. Konrad, and unanimously carried, to approve Paid Time for Employee-Elected Trustee to Attend Board Meetings and Board Assigned Travel per Sec. 350-219.

Approval of Proposed amendment to Board Rules IV. and VII.G. regarding contracting authority of Investment Committee. Mr. Allen noted the Investment Committee has traditionally operated as a committee of the whole for many years and the proposed amendment to Board Rule IV. merely codifies that practice. In regard to the proposed amendment of Board Rule VII.G., Mr. McClain laid out criteria which would not require approval of an investment management agreement by the full Board. If the Investment Committee approves the proposed agreement upon recommendation by the staff and investment consultant as necessary to avoid delay that might tend to adversely impact investment results, and the number of Trustees present voting in favor of approving the agreement is at least equal to a quorum of the full Board, then it would not be necessary to convene the full Board to confirm approval of the agreement. A copy of proposed amendments to Board Rules IV. and VII.G. are on file at ERS with the Board Secretary and by reference are hereby incorporated as a part of these minutes. Mr. Silber added this rule would only apply in select instances where time is of the essence. Discussion ensued. It was moved by Mr. Nicolini, seconded by Mr. Bell, and unanimously carried, to approve the Proposed amendment to Board Rules IV. and VII.G. regarding contracting authority of Investment Committee.

Approval of Request by City of Milwaukee to engage Conduent, Inc. regarding Actuarial Modeling. Mr. Matson passed the gavel to Vice-Chair Mr. Konrad for discussion of a proposal by the Comptroller's office to engage the actuary for a financial modeling project. Mr. Konrad received the gavel and stated Conduent, Inc. is well versed in the nuances of ERS' System while an outside actuary would require a significant learning curve at substantial expense for the City. He said there is a Board Rule in a similar vein, relating to collective bargaining that the City or the Union, with approval of the Board, can engage the System's actuary when they need actuarial analysis. Mr. Konrad said the City or the Union would pay the cost in such instances. Discussion ensued. Mr. Matson mentioned the City is meeting with Moody's in July to

discuss their rating methodology. He stated that the proposed actuarial analysis would be useful in their presentation to Moody's and confirmed that the City would pay the cost of the analysis. It was moved by Mr. Bell, seconded by Mr. Nicolini, and unanimously carried, to approve the Request by City of Milwaukee to engage Conduent, Inc. regarding Actuarial Modeling.

Mr. Konrad passed the gavel back to Mr. Matson.

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:

Police – Re-examinations - Duty	Recommendation
Willie Huerta	Approval
Robert Kendziorski	Approval
Ayman Khatib	Approval
Joel Kujawa	Approval
Justine Schmidt	Approval

Fire – New Applications – Duty	Recommendation
Andrew Korducki Effective 05/25/2018	Approval

GC Re-examinations – Duty	Recommendation
Albert Henry	Approval

GC Re-examinations – Ordinary	Recommendation
Mary Wenzel	Approval
Timothy Williams	Approval

It was moved by Mr. Bell, seconded by Mr. Klusman, 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 current Legal Opinions and one Service Request for a Request for Proposal Boilerplate Agreement.

Legislation Requests Pending and Proposed Legislation. Mr. Allen mentioned the Legislative Committee Referral for the Review and Approval of Contracts for Board Rules IV. and VII.G. which was approved at today's 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 the 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) Adjusted Quarterly Cost Basis of Equity.
5) Minutes of the Administration & Operations Committee Meeting Held April 19, 2018.
6) Minutes of the Legislative Committee Meeting Held April 25, 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.
11) NASRA Issue Brief: Public Pension Plan Investment Return Assumptions.

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

There being no further business, Mr. Matson adjourned the meeting at 10:04 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 Employes' Retirement System, 789 N. Water Street, Suite 300.)