

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

Minutes of the Regular Meeting held June 25, 2018

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

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

Board Members Not Present: Deborah Ford (arrived 9:14 a.m.)
 Nik Kovac (arrived 9:22 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
 Arsh Salwan, Pension Investment Intern
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Troy Jaros, Chih-Hung Peng, Conduent, Inc.; Mary Spicuzza, Milwaukee Journal Sentinel; Miriam Horwitz, City Attorney's Office; Molly King, Budget Office; Gust Petropoulos, Adecco; Terry Siddiqui, DS Consulting, Inc.

Approval of Minutes. Mr. Matson presented the minutes of the Regular Meeting held May 24, 2018. It was moved by Mr. Heling, seconded by Mr. Nicolini, and unanimously carried, to approve the Minutes of the Regular Meeting held May 24, 2018.

Chief Investment Officer Report. As a matter of information, Board members received the June 25, 2018 performance report. Mr. Courtright presented the performance report and said the Fund value as of May 31, 2018 was \$5.39 billion dollars. The Fund return of 1.0%, net of fees, outperformed the blended benchmark by approximately 55 basis points in May. Mr. Courtright said the Fund's return exceeds the benchmark in all other time periods shown, net of fees. The main driver of May performance, Mr. Courtright stated, was manager performance with Private Equity adding 33 basis points, William Blair adding 15 basis points, Polen adding 10 basis points and MFS adding 6 basis points. Mr. Courtright further stated the Fund, as of June 22nd, is up 0.4% in June, which brings the year-to-date return up 2.0%, net of fees. He stated the Fund's

approximate value, as of June 22, 2018, is \$5.41 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, Fixed Income, and Absolute Return 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 \$113.4 million, paid benefits and expenses of \$170.9 million, and received contributions of \$115.4 million, year-to-date. Mr. Courtright noted that cash withdrawals for benefit payments and real estate restructuring in June were \$21 million from Northern Trust, \$13 million from DFA US Small Cap Value, \$10 million each from MFS and Polen, \$9 million from DFA US Large Cap Value, and \$5 million each from CastleArk and Earnest.

Mr. Silber added that J.P. Morgan will be calling \$60 million in capital for the ERS' real estate portfolio.

Approval of Loomis Sayles Guideline Change. Mr. Sauer noted Loomis had requested a modification in the guideline of the minimum duration that the portfolio must keep. Mr. Fuss, Loomis Sayles, at his January presentation to the Investment Committee, had commented that he expected a slowly-rising interest rate environment. Mr. Sauer said Mr. Fuss wants to position the portfolio with lower duration bonds since they fall less than longer duration bonds in a rising interest rate environment. Mr. Sauer said Mr. Fuss proposes to change the lower bound of the range to 50% of the benchmark versus the current 80% in the old guidelines. Mr. Sauer said the Staff and Callan both approve of the guideline change Mr. Fuss proposes. It was moved by Mr. Bell, seconded by Mr. Parikh, and unanimously carried, to approve the Approval of Loomis Sayles Guideline Change.

(Ms. Ford arrived at 9:14 a.m.)

Investment Committee Report. At its June 7, 2018 Investment Committee Meeting, Mr. Holland, Committee Chair, stated that Callan provided the Investment Committee with a Custody presentation, discussing the important role a custodian has, functions a typical custodian offers, potential risks that investors need to monitor, and the services Callan provides clients with regard to evaluating a Fund's custodial services. He said that after Callan's presentation, the Committee went into closed session to discuss Northern Trust's Custodial Contract, as well as Callan's Custody Review offerings. Mr. Holland commented that the Committee also heard a presentation from MFS, one of the Fund's global equity managers. He said the Committee approved a Longevity Fee Schedule offered by Brandes Investment Partners, who CMERS hired 20 years ago to manage an international value equity mandate. Finally, Mr. Holland stated, Staff provided the Committee with a performance update. He also commented that the Committee recommended approving the Approval of Brandes Investment Partners Contract Amendment.

Mr. Matson questioned whether the Brandes Investment Partners Contract Amendment had already been approved. Mr. Silber reminded the Committee that the Investment Staff has the ability to act on Investment Committee approval when delaying final approval of the investment contract results in the loss of some advantage of the contract. Mr. Silber said because this is a fee schedule that does not become effective until July 1, there was no harm in bringing it to the Board at this meeting. It was moved by Mr. Holland, seconded by Mr. Klusman, and unanimously carried, to approve the Approval of Brandes Investment Partners Contract Amendment.

Administration & Operations Committee Report. At its June 21, 2018 Administration & Operations Committee Meeting, Mr. Bell reported that ERS staff presented a plan to bring vulnerability audits in house. He said annual audits would still be performed by Experis but ERS would, in addition, conduct quarterly audits. He said four software vendors were considered. Mr. Bell commented that the three-year cost of the software will be \$30,400. He said the committee approved the purchase and is forwarding it to the Board as a report item. Mr. Bell said the IT Projects Portfolio was received and placed on file. He noted the ERS is close to filling the Server Administrator vacancy as one more interview is scheduled and a finalist will be identified soon. He said the Storage Area Network replacement is in progress and will be completed soon. He commented that IT optimization is in progress and will be completed by the end of the year and various upgrades are also in progress. Mr. Bell said the phone system enhancements are experiencing some setbacks but are expected to be implemented soon. He commented that an outside expert reviewed and provided feedback on the way the ERS performs the MERITS code deployment process. Mr. Bell noted observations were largely favorable and the recommendations made were considered “nice to have” and the ERS is in the process of implementing some of them. He stated that the ERS staff presented a plan to provide IT desktop support to the Comptroller’s Office which will be billed and then reimbursed. The A&O committee supported the plan but did not want to see it expand or become long-term. Mr. Bell said the Organizational/Personnel Update was received and the ERS is working with DER to fill vacancies for a Pension Accounting Manager, Server Administrator, Records Technician II and Administrative Assistant II. He noted that the ERS continues to work with DER to classify the Deputy Chief Investment Officer position.

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	\$218,424.93
Deferred Death Benefits reported	\$0.00
Retired Death Benefits reported	\$39,175.49
Survivor Death – Termination Benefits reported	\$6,561.25
Refund of Member Contributions paid	\$284,128.10

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

Conference Requests — June 2018 Board Meeting. Mr. Matson presented the Conference Requests this month.

Thomas Courtright	CFA Society of Chicago – Advanced Excel for Data Analysis Conference/Training
Sponsor:	CFA Society of Chicago
Location:	Chicago, IL
Date:	June 13, 2018
Estimated Cost:	\$556.00

David Silber, Thomas Courtright, Erich Sauer	Mesirow Due Diligence
Sponsor:	Mesirow Financial
Location:	Chicago, IL
Dates:	July 26, 2018
Estimated Cost:	\$75.00 per person

David Silber	Roundtable for Consultants & Institutional Investors
Sponsor:	Institutional Investor
Location:	Chicago, IL
Dates:	October 2-5, 2018
Estimated Cost:	\$1,400.00

It was moved by Mr. Campbell, seconded by Mr. Konrad, and unanimously carried, to approve the Conference Requests — June 2018 Board Meeting.

(Mr. Kovac arrived at 9:22 a.m.)

Acceptance of Actuarial Valuation – January 1, 2018. As a matter of information, Board members received the January 1, 2018 Actuarial Valuation Board Presentation. Mr. Jaros and Mr. Peng of Conduent presented the Actuarial Valuation. The agenda items covered were the Overview of the 2017 Plan Year, the Actuarial Valuation Process, and the Report of Valuation Results as of January 1, 2018. Mr. Jaros said the objectives of the Actuarial Valuation are to determine the employer contribution for the year ended December 31, 2018 to be paid on or before January 31, 2019 based on the Stable Employer Contribution Policy, to check on the progress and security of promised benefits with comparison of assets to accrued liability, the funded status, and to compare expectation from prior valuation to what actually occurred during 2017 to determine net actuarial gain or loss. Mr. Peng presented the GASB 67/68 Information and Results. Discussion ensued. It was moved by Mr. Campbell, seconded by Mr. Nicolini, to approve the Acceptance of Actuarial Valuation – January 1, 2018.

Approval of PABF GASB 67 and GASB 68 Disclosures for Fiscal Year Ending December 31, 2017. Mr. Matson noted this had been discussed in a previous presentation. It was moved by Mr. Heling, seconded by Mr. Kovac, to approve the PABF GASB 67 and GASB 68 Disclosures for Fiscal Year Ending December 31, 2017.

Approval of Fire Member Election Bulletin 192. Mr. Allen noted Mr. Heling was elected to complete Mr. Barmore’s four-year term and that beginning in 2019, there is a new four-year term for a fire department member to be elected to the Board. Discussion ensued. Mr. Matson thought the bulletin was somewhat confusing with the omission of Mr. Heling’s name. Mr. Klusman suggested adding language “for the term currently held by Timothy Heling.” It was moved by Mr. Konrad, seconded by Mr. Campbell, and unanimously carried, to approve the Fire Department Member Election Bulletin 192 with the language addition of “currently being served by Mr. Heling.”

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations. Mr. Allen stated that no Medical Council meeting was held this month. Mr. Allen presented certifications of the Fire and Police Medical Panel Physicians relative to Duty Disability Retirement benefits as follows:

<u>Police – Re-examinations - Duty</u>	<u>Recommendation</u>
Nicole Belmore	Approval
John Fredericks	Approval
Graham Kunisch	Approval
Tracy Martinez	Approval
Jill Riley	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Kenneth Berget	Approval
Bradley Davis	Approval
Thomas Ptak	Approval
Phillip Quigley	Approval

It was moved by Mr. Heling, seconded by Mr. Nicolini, and unanimously carried, to approve the Duty Disability Re-examinations.

Unfinished Business.

Legal Opinions and Service Requests Pending and Legal Opinions. Ms. Horwitz stated there are no outstanding requests for Legal Opinions. She said two of the Service Requests were resolved in this cycle while others are underway and will be completed in the next cycle upon one attorney’s return. Ms. Horwitz noted the addition of a new city attorney Gregory Kruse.

Legislation Requests Pending and Proposed Legislation. Mr. Allen mentioned that the Common Council President re-appointed three Trustees – Deborah Ford, Nik Kovac, and Rudolph Konrad to additional two-year terms. He noted the decision of the Supreme Court case on the composition of the Board would be issued by the end of July. Mr. Allen stated they are also awaiting a Legal Opinion on the Outside Earnings Test from the City Attorney’s office.

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) Minutes of the Investment Committee Meeting Held May 10, 2018.
- 5) Minutes of the Administration & Operations Committee Held May 17, 2018.
- 6) Minutes of the Investment Committee Meeting Held June 7, 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 Report.
- 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 10:30 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.)