

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

Minutes of the Regular Meeting held July 23, 2018

The meeting was called to order at 9:00 a.m.

Board Members Present: Deborah Ford
 Tom Klusman
 Rudolph Konrad
 Nik Kovac
 Martin Matson, Chair

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
 Karen McElwee, Management Services Analyst
 Jan Wills, Board Stenographer

Others Present: Carla Gogin, Darlene Middleman, Wayne Morgan, Baker Tilly; Miriam Horwitz, Patrick McClain, City Attorney's Office; James Owczarski, City Clerk; James Campbell, MPD; Timothy Heling, MFD; Jean Burnside, Milwaukee Retirees' Association; Gust Petropoulos, Adecco; Terry Siddiqui, DS Consulting, Inc.

Approval of Minutes. Mr. Matson presented the minutes of the Regular Meeting held June 25, 2018. It was moved by Mr. Konrad, seconded by Mr. Kovac, and unanimously carried, to approve the Minutes of the Regular Meeting held June 25, 2018.

Chief Investment Officer Report. As a matter of information, Board members received the July 23, 2018 performance report. Mr. Sauer presented the performance report and said the Fund value as of June 30, 2018 was \$5.37 billion dollars. The Fund return of 0.1%, net of fees, outperformed the blended benchmark by approximately 25 basis points in June. Mr. Sauer said the Fund's return exceeds the benchmark in all other time periods shown, net of fees. The main driver of June performance, Mr. Sauer stated, was manager performance with Private Equity adding 31 basis points. Mr. Sauer further stated the Fund, as of July 20th, is up 1.1% in July, which brings the year-to-date return up 2.9%, net of fees. He stated the Fund's approximate value, as of July 20, 2018, is \$5.43 billion dollars. He commented that 11 out of 18 active managers are outperforming year to date, net of fees. 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. Sauer noted the Fund has generated a capital market gain of \$156.6 million, paid benefits and expenses of \$204.9 million, and received contributions of \$118.7 million, year-to-date. Mr. Sauer noted that cash withdrawals for benefit

payments and real estate restructuring in July were \$35 million from Reams, \$8 million from Polen, and \$5 million from CastleArk.

Mr. Silber noted to Board members the due diligence schedule for the second half of the year is being planned and it is a long-standing practice for due diligence visits to be open to Board members who are interested in attending. He reminded Board members to review the upcoming conference request schedule for details.

Investment Committee Report. At its July 19, 2018 Investment Committee Meeting, Mr. Matson, Committee Chair, stated the Committee heard a presentation from Abbott Capital, one of the Fund's private equity fund of funds managers. Abbott spoke about their firm, the Private Equity market, and CMERS' investments, which have met or exceeded long-term expectations to date. Mr. Matson said Staff presented a 2nd quarter performance report that included preliminary returns as of June 30. Some highlights from the report included that the Fund has generated a 9.6% return over the past year and a 9.0% annualized return over the past five years, both net of fees; the Fund outperformed its benchmark in all time periods shown, net of fees; and all five of the Fund's asset classes had returns that exceeded their respective benchmark year-to-date, net of fees. Mr. Matson noted there were no approval items at this meeting.

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	\$34,947.76
Deferred Death Benefits reported	\$61,815.57
Retired Death Benefits reported	\$14,355.96
Survivor Death – Termination Benefits reported	\$12,880.07
Refund of Member Contributions paid	\$64,746.60

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

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

David Silber, Thomas Courtright:	Loomis Sayles & MFS Due Diligence; Prologis meeting.
Sponsor:	Loomis Sayles, MFS, Prologis
Location:	Boston, MA
Date(s):	August 13-15, 2018
Estimated Cost:	\$1,400.00 per person
Erich Sauer	Newton Due Diligence (and additional potential meetings with MFS, Blair, DFA, Abbott, and BlackRock)
Sponsor:	Newton
Location:	London, UK
Date(s):	October 13-17, 2018
Estimated Cost:	\$2,950.00
Tom Klusman	2018 Public Pension Funding Forum
Sponsor:	NCPERS
Location:	Boston, MA
Dates:	September 16-18, 2018
Estimated Cost:	\$1,800.00

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

Acceptance of Baker Tilly 2017 Financial Audit. Mr. Morgan presented the findings for this year's audit. Mr. Morgan presented the required communications and Ms. Middleman presented the audit opinion. Mr. Morgan noted this would be his last presentation as a signing partner for the ERS pension plan and Carla Gogin will be the new signing partner in 2019. Ms. Gogin commented that she focuses on the governmental accounting side. Mr. Morgan stated there were no disagreements with management. Ms. Middleman stated there were no material weaknesses or significant deficiencies. Discussion ensued. It was moved by Ms. Ford, seconded by Mr. Klusman, and unanimously carried, to approve the Acceptance of Baker Tilly 2017 Financial Audit.

Approval of Annual Report of the Annuity & Pension Board 80th Edition, December 31, 2017. Mr. Gopalan presented the annual report and stated the investments had a great return. He noted the year-end net position was \$5.4 billion and \$5.35 billion from Investments. It was moved by Mr. Klusman, seconded by Mr. Konrad, and unanimously carried, to approve the Annual Report of the Annuity & Pension Board 80th Edition, December 31, 2017.

Approval to Suspend Disability Benefits for Non-Compliance with Outside Earnings Limitation. As a matter of information, Board members received the updated list of disability benefits to be suspended by persons who did not comply with the outside earnings. Mr. Matson said the number was currently at 12. It was moved by Mr. Konrad, seconded by Mr. Kovac, and

unanimously carried, to approve the Suspend Disability Benefits for Non-Compliance with Outside Earnings Limitation.

Approval of August Resolution. Mr. Allen presented the following Resolution:

WHEREAS, No regular meeting of the Board will be held during the month of August 2018; therefore, be it

RESOLVED, By the Annuity and Pension Board that the Secretary is authorized and directed to pay bills, retirement allowances, death claims and refund of contributions, and take whatever action may be necessary to administer the system, including approve disability reports of the Medical Council and Medical Panel applications, and report such action to the Board at the Regular meeting on September 24, 2018. Denials will be held for action by the Board at its next regular meeting.

It was moved by Mr. Kovac, seconded by Ms. Ford, and unanimously carried, to approve the Approval of August Resolution.

At this point, Mr. Matson took the meeting out of order at Mr. Allen's request to discuss item VI. A. Legal Opinions and Service Requests Pending and Legal Opinions in advance of discussing item IV. G. Approval of At Large Member Election Bulletin 193 and Revised Board Rules II. A. & B.

Legal Opinions and Service Requests Pending and Legal Opinions. Ms. Horwitz discussed the legal opinion request regarding Operation and Composition of the Annuity & Pension Board in light of the Wisconsin Supreme Court decision. She stated Mr. McClain is assigned to it and a motion to reconsideration is being drafted with respect to the Supreme Court decision. Ms. Horwitz stated the court's mandate issues automatically and the ERS is under obligation to comply with it immediately. By operation of law, she said, the Board seats for the mayoral appointees have been abolished. She noted the Board seats for the elected members are vacant because the elections for those seats were not done in accordance with the terms of the opinion which requires an election at large for all trustees by all ERS members voting for all three seats. Ms. Horwitz said the City Attorneys' opinion is for the Board to comply with the terms of the decision. She stated the most pressing matter now is the manner for holding the election for the three employee members. Discussion ensued. Ms. Horwitz also discussed the service requests for the Baker Tilly services agreement and Wells Fargo contract.

At this point, Mr. Matson returned the Board to item IV. G. Approval of At Large Member Election Bulletin 193 and Revised Board Rules II. A. & B.

Approval of At Large Member Election Bulletin 193 and Revised Board Rules II. A. & B. Mr. Owczarski, City Clerk, gave a presentation on election systems. He noted corporate boards now do cumulative voting which is mandated in seven states and Wisconsin has cumulative voting as an option. He stated in cumulative voting, a slate of candidates is presented and each elector is allowed to select a certain number of individuals from the panel. Mr. Owczarski said another option is an equal and even ballot which allows each elector to select three trustees from the slate of candidates on the ballot with the individuals receiving the most

votes elected. He said provision is made in case of a tie in the third position which would proceed to a run-off election. Mr. Allen added that the top three vote getters would be elected and each elector or active member of the system, as mandated by the court, would be able to vote for up to three candidates. He said members could also only vote for one or two candidates but if they vote for more than three candidates, their ballots will be spoiled and the ballots discarded. Mr. Allen also mentioned the need for an amendment to the current Board Rules since the current Board Rules provide for the winning candidate to receive one more than 50%. Discussion ensued. It was moved by Mr. Klusman, seconded by Mr. Kovac, and approved by a four-to-one vote, to approve the At Large Member Election Bulletin 193 and Revised Board Rules II. A. & B., as amended.

Mr. Matson called for a break at 10:18 a.m. Mr. Matson resumed the meeting at 10:30 a.m.

At this point, Mr. Matson took the meeting out of order to discuss agenda item V. Medical Reports before going into closed session and adjourning from closed session.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations. 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>
De Ronn Gillum	Approval
Robert Henry	Approval
Craig Wachowiak	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Scott Hoth	Approval
Thomas Kaminski	Approval
James Kopp	Approval
Scott Krahn	Approval
<u>GC – Re-Examinations – Duty</u>	<u>Recommendation</u>
<u>Frank Vrtochnick</u>	Approval
Gladys Williams	Approval

<u>GC – New Applications – Ordinary</u>	<u>Recommendation</u>
Laticia Robinson Effective 05/25/2018	Approval
Kathy Windham	Denial
<u>GC – Re-Examinations – Ordinary</u>	<u>Recommendation</u>
Wendylu Cox	Approval
Dwayne Edwards	Approval
Linda Gifford	Approval
Robert Jacoby	Approval
Terry Shaw	Approval
Heather Shefbuch	Approval

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

Unfinished Business.

Legal Opinions and Service Requests Pending and Legal Opinions. Mr. Matson noted this item was discussed earlier in the meeting.

Legislation Requests Pending and Proposed Legislation. Mr. Allen stated there is nothing new relative to the pension contribution offset report item but said there is a closed session item on Litigation today. He also said a legal opinion has been requested regarding the outside earnings test report item.

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 Administration & Operations Committee Held June 21, 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 Report.
- 8) Preliminary Performance Report/Asset and Manager Allocation Pie Charts.

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

At this point, Mr. Matson returned the Board to items IV. H. and IV. I.

Mr. Matson advised that the Annuity and Pension Board may vote to convene in closed session on the following item as provided in Section 19.85(1)(g), Wisconsin State Statutes, to confer with legal counsel concerning strategy to be adopted by the body with respect to litigation in which it is or is likely to become involved. The Board may then vote to reconvene in open session following the closed session.

Consideration of notices of claims of Milwaukee Professional Firefighters Association, Local #215, Jerry Allen (no relation to ERS Executive Director Jerry Allen), Robert J. Bressete, Brad (corrected to Brad) Davis, James Elliott, Chris Gauthier, Derek Geppert, Robert Hehn, Scott Hoth, Allen L. Jansen, Stanley Kaminski, Thomas Kaminski, John Kielpinski, Andrew J. Korducki, James Kronberg, Terry D. Lucas, Greg Marris, Pat Norton, Bruce Rightmyre, David Stoltz, James Youngblood, and Andy Wiegel.

It was moved by Mr. Konrad, seconded by Mr. Kovac, that the Board convene in closed session on this item. The motion prevailed by the following roll call vote: AYES: Ms. Ford, Messrs. Klusman, Konrad, Kovac, and Matson. NOES: None.

The Board convened in closed session at 10:41 a.m.

The Board reconvened in open session at 10:44 a.m.

It was moved by Ms. Ford, seconded by Mr. Konrad, and unanimously carried, to deny the notice of claims of Milwaukee Professional Firefighters Association, Local #215.

Mr. Matson advised that the Annuity and Pension Board may vote to convene in closed session on the following item, as provided in Section 19.85 (1)(c), for considering employment, promotion, compensation or performance evaluation data of any public employe over which the governmental body has jurisdiction or exercises responsibility. The Board may then vote to reconvene in open session following the closed session.

It was moved by Mr. Kovac, seconded by Ms. Ford, that the Board convene in closed session on this item. The motion prevailed by the following roll call vote: AYES: Ms. Ford, Messrs. Klusman, Konrad, Kovac, and Matson. NOES: None.

The Board convened in closed session at 10:44 a.m.

Chief Investment Officer Performance Review.

There being no further business, Mr. Matson adjourned the meeting from closed session at 11:15 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.)