

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

Minutes of the Regular Meeting held September 24, 2018

The meeting was called to order at 8:32 a.m.

Board Members Present: Deborah Ford
 Rudolph Konrad
 Martin Matson, Chair

Board Members Not Present: Tom Klusman (excused)
 Nik Kovac (arrived 8:36 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
 Karen McElwee, Management Services Analyst
 Jan Wills, Board Stenographer

Others Present: Debbie Sweeney, Hays Companies; Andrea Fowler, Patrick McClain, Greg Kruse, City Attorney's Office; Gust Petropoulos, Adecco; Terry Siddiqui, DS Consulting, Inc.

As a subcommittee initially, Mr. Matson took the meeting out of order and began with the Chief Investment Officer Report.

Chief Investment Officer Report. As a matter of information, Board members received the September 24, 2018 performance report. Mr. Courtright presented the performance report and said the Fund value as of August 31, 2018 was \$5.42 billion dollars. The Fund return of 0.8%, net of fees, outperformed the blended benchmark by approximately 15 basis points in August. Mr. Courtright said the Fund's return exceeds the benchmark in all time periods shown, net of fees. The main driver of August performance, Mr. Courtright stated, was manager performance with William Blair and CastleArk adding 10 basis points and 9 basis points, respectively. Mr. Courtright further stated the Fund return, as of September 21, 2018, is up 0.2% in September, which brings the year-to-date return up 4.3%, net of fees. He stated the Fund's approximate value, as of September 21, 2018, is \$5.44 billion dollars. He commented that 10 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. Courtright noted the Fund has generated a capital market gain of \$233.9 million, paid benefits and expenses of \$275.4 million, and received contributions of \$124.9 million, year-to-date. Mr. Courtright noted that cash withdrawals for benefit payments in September will be \$10 million from Loomis Sayles, \$7 million from

Northern Trust, \$7 million from Polen, and \$5 million from CastleArk. Mr. Courtright added that each asset class is outperforming in all time periods shown. Mr. Silber noted that Callan will be at ERS to do their custody evaluation and at ERS on October 11 at 9:00 a.m. to present their Callan Custody Education Session.

(Mr. Kovac arrived at 8:36 a.m.)

With quorum present, Mr. Matson returned the meeting to the order of agenda items.

Approval of Minutes. Mr. Matson presented the minutes of the Regular Meeting held July 23, 2018 and the minutes of the Special Meeting held August 27, 2018. It was moved by Mr. Konrad, seconded by Ms. Ford, and unanimously carried, to approve the Minutes of the Regular Meeting held July 23, 2018 and the minutes of the Special Meeting held August 27, 2018.

Investment Committee Report. At its September 6, 2018 Investment Committee Meeting, Mr. Matson, Committee Chair, stated the Investment Committee heard a presentation from CastleArk, the Fund's U.S. Small Cap growth public equity manager. CastleArk spoke about their firm, investment philosophy, process, and about some of the stocks within CMERS' portfolio. Callan presented its Private Equity annual pacing analysis and recommendation to the Committee. The Committee approved the recommendation to commit \$20 million to Abbott Capital's AP2019 Fund of Funds vehicle. Staff presented three routine Due Diligence reports on William Blair, Dimensional Fund Advisors, and Brandes Investment Partners, respectively. Staff also presented the Fund's Q1 2018 Private Equity Summary and provided a performance update. The Committee recommended approving the following item: Approval of 2019 Private Equity Commitment Recommendation.

Approval of 2019 Private Equity Commitment Recommendation. It was moved by Ms. Ford, seconded by Mr. Kovac, and unanimously carried, to approve the 2019 Private Equity Commitment Recommendation.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity for the months of July and August 2018.

Active Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$58,467.34
Deferred Death Benefits reported	\$61,815.57
Retired Death Benefits reported	\$167,772.93
Survivor Death – Termination Benefits reported	\$27,932.80
Refund of Member Contributions paid	\$204,602.15

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

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

Thomas Courtright:	DFA Investment Forum & William Blair Conference.
Sponsor:	DFA & William Blair
Location:	Chicago, IL
Date(s):	October 17-18, 2018
Estimated Cost:	\$500.00 per person

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

Mr. Matson advised that the Annuity and Pension Board may vote to convene in closed session on the following items (C. and D.), 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. 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. Konrad, Kovac, and Matson. NOES: None. EXCUSED: Mr. Klusman.

The Board convened in closed session at 8:45 a.m.

It was moved by Mr. Konrad, seconded by Ms. Ford that the Board reconvene in open session. The Board reconvened in open session at 9:02 a.m.

Approval of Proposed Contract for Financial Audit Services. It was moved by Mr. Kovac, seconded by Ms. Ford, and unanimously carried, to approve the Proposed Contract for Financial Audit Services with Baker Tilly.

Approval of Proposed Contract for Actuarial Services. It was moved by Mr. Konrad, seconded by Ms. Ford, and unanimously carried, to approve the Proposed Contract for Actuarial Services provided by Cavanaugh Macdonald Consulting, LLC. For the record, Mr. Matson stated that Mr. Klusman objects to any actuarial service contract being executed. Mr. Klusman believed a full Board of eight-members should have taken up the actuarial services contract rather than the diminished Board at this time.

Approval of Renewal of Fiduciary Liability Insurance. Ms. Sweeney said the ERS program contains five different policies at \$10 million dollars each, with a total of \$50 million dollars in coverage. At the last renewal, she also said the structure was changed with the primary policy moved from the incumbent RLI Insurance Company to Hudson Insurance Company. She said some enhanced coverage terms were achieved and also a small premium savings was

realized. Ms. Sweeney also noted RLI has \$20 million of coverage in the program. Ms. Sweeney noted they were able to get Hudson to agree to an automatic renewal endorsement. Discussion ensued.

It was moved by Ms. Ford, seconded by Mr. Kovac, and unanimously carried, to approve the Renewal of Fiduciary Liability Insurance.

Consider Suspension of DDR Benefits for Non-compliance with Re-exam Requirements of MCC-36. Mr. Petropoulos discussed one member who is not complying with the re-exam procedure. Discussion ensued.

It was moved by Mr. Kovac, seconded by Mr. Konrad, and unanimously carried, to approve the Suspension in October of DDR Benefits for Non-compliance with Re-exam Requirements of MCC-36 in as much as pension benefit payments for September have already been processed prior to today’s meeting.

Consider Revocation of DDR Benefits for Non-compliance with Re-exam Requirements of MCC-36 for more than one year. Mr. Allen stated the member requested to be removed from the disability payroll. Mr. Petropoulos explained the details of the case. Discussion ensued.

It was moved by Ms. Ford, seconded by Mr. Kovac, and unanimously carried, to approve the Revocation of DDR Benefits for Non-compliance with Re-exam Requirements of MCC-36 for more than one year.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations. Mr. Allen presented certifications (August and September 2018) of the Fire and Police Medical Panel Physicians relative to Duty Disability Retirement benefits as follows:

<u>Police –Applications – Duty</u>	<u>Recommendation</u>
Kimberlee Foster	Denial
<u>Police – Re-examinations – Duty</u>	<u>Recommendation</u>
Kurt Lacina	Approval
Jasmine Lewis	Approval
Keith Miller	Approval
Jason Mucha	Approval
Michael Pendergast	Approval

Fire – Re-examinations – DutyRecommendation

Nicholas Adamski	Approval
Jerry Allen	Approval
Mark Ashworth	Approval
Thomas Locke	Approval
Glenn Mish	Approval
John Schmaelzle	Approval

GC – New Applications – DutyRecommendation

Edward Hamilton	Denial
Michael Jasso	Denial
Tina Swanson	Denial

GC – New Applications – OrdinaryRecommendation

Edward Hamilton Effective 07/01/2018	Approval
Michael Jasso Effective 04/25/2018	Approval
Darvin McKnight Effective 05/28/2018	Approval
Maurice Nicholson Effective 06/25/2018	Approval
Kelly Thomas Effective 05/02/2018	Approval

GC – Re-Examinations – DutyRecommendation

Andrew Weigel	Approval
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GC – Re-Examinations – OrdinaryRecommendation

Saverio Bruno	Approval
Ywanda Bryant	Approval
Gregory Budnik	Approval
Rita Coker	Approval
Kevin Cole	Approval
Jenitza Crespo	Approval
Augusto Gamboa	Approval
Mark Laska	Approval
Janice McNeary Terry	Approval

Edward Nelson	Approval
Arthur Ray	Approval
Sherry Rowsey-Brown	Approval
Sciphio Scott	Approval
Cassandris Smith	Approval
Sharon Turner-Young	Approval

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

Disability Findings – Natasha Padgett. Mr. Matson stated that Independent Hearing Examiner Michael J. Hogan’s Conclusion states: “I recommend that the board reverse the findings of the Medical Council and the independent review. In this hearing, the evidence demonstrated that Ms. Padgett was totally and permanently and totally (sic) incapacitated for duty as a natural and proximate result of an injury occurring at some definite time and place, on December 14, 2008 while in the actual performance of her duties. I further recommend that Ms. Padgett should qualify for the 75% disability because she has shown some ability to work.” Discussion ensued.

It was moved by Mr. Konrad, seconded by Ms. Ford, and unanimously carried, to approve the Disability Findings – Natasha Padgett.

Unfinished Business.

Legal Opinions and Service Requests Pending and Legal Opinions. Mr. McClain said a draft for approval is with the City Attorney for the Operation and Composition of the Annuity & Pension Board and will be completed this week. He said he is working on the remaining three legal opinions. Mr. McClain said the first opinion answered the question whether the offset should be included in duty disability recipients’ current annual salaries for those recipients who never received the offset as retroactive payment or a matter of payroll. The second opinion reached a similar conclusion for DDR beneficiaries first receiving benefit payment subsequent to the initial opinion referenced above.

Mr. McClain discussed the 5.8% pension contribution offset second opinion having to do with protective safety personnel who have been earning pension offset since the time of the first opinion which was limited in scope. He said they asked the City Attorney’s office for a second opinion for active protective safety personnel who have been receiving pension contribution offset since the time of that opinion.

Mr. Matson said receiving the City Attorney opinion regarding Calculation of Retirement Allowance would need to be removed from the agenda since Mr. Allen said research and analysis of facts is still being conducted and it would be brought to the October meeting. It was moved by Ms. Ford, seconded by Mr. Kovac, and unanimously carried, to approve the Legal Opinions and Service Requests Pending and Legal Opinions.

Legislation Requests Pending and Proposed Legislation. Mr. Allen stated there were no new items to report for Legislation Requests Pending.

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 Income 2018 YTD.
- 4) Minutes of the Investment Committee Held July 19, 2018.
- 5) Minutes of the Investment Committee Held September 6, 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 Report.
- 9) Preliminary Performance Report/Asset and Manager Allocation Pie Charts.

It was moved by Mr. Konrad, seconded by Ms. Ford, and unanimously carried to approve the Informational items and place the aforementioned items on file.

There being no further business, Mr. Matson adjourned the meeting at 9:50 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.)