

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

Minutes of the Regular Meeting held November 26, 2018

The meeting was called to order at 9:02 a.m.

Board Members Present: Deborah Ford
 Rudolph Konrad
 Tom Klusman
 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, Deputy Chief Investment Officer
 Thomas Courtright, Pension Investment Analyst
 Mary Turk, Business Operations Analyst
 Karen McElwee, Management Services Analyst
 Lisa Ory, Administrative Assistant II
 Jan Wills, Board Stenographer

Others Present: Michael McGuire, Northwest Passage; John Barmore, Retired Fire & Police Association; Miriam Horwitz, Andrea Fowler, Patrick McClain, City Attorney's Office; Gust Petropoulos, Adecco; Terry Siddiqui, DS Consulting, Inc.

Mr. Matson mentioned that Dr. Marvin Wagner, a former Medical Council member for years, passed away during the past week at age 99. He said Dr. Wagner provided great service for the ERS.

Mr. Matson introduced Mr. Barmore, former Chairman of the Board, who is the new President of the Retired Fire and Police Association, a fraternal organization with 800 members who meet four times each year.

Mr. Allen introduced Ms. Ory who joined the ERS in the Administration section.

Approval of Minutes. Mr. Matson presented the minutes of the Regular Meeting held October 22, 2018. It was moved by Mr. Konrad, seconded by Mr. Kovac, and unanimously carried, to approve the Minutes of the Regular Meeting held October 22, 2018.

Chief Investment Officer Report. As a matter of information, Board members received the November 26, 2018 performance report. Mr. Courtright noted Mr. Silber updated the report by replacing bar charts with longer rolling return charts. Mr. Courtright presented the performance report and said the Fund value as of October 31, 2018 was \$5.13 billion dollars, down approximately \$300 million from the last Board report. The Fund return of -4.6%, net of fees, underperformed the blended benchmark by approximately 44 basis points in October. Mr.

Courtright said the Fund's return exceeds the benchmark in all time periods shown, except October, net of fees. The main driver of October relative performance, Mr. Courtright stated, was Allianz with Allianz 1000 Plus subtracting 22 basis points and Allianz Portable Alpha AGG 250 subtracting 21 basis points. Mr. Courtright further stated the Fund return, as of November 23, 2018, is down -0.8% in November, and down -1.1% year-to-date, net of fees. He stated the Fund's approximate value, as of November 23, 2018, is \$5.09 billion dollars. He commented that 6 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 Real Assets asset classes, are outperforming their respective benchmarks year-to-date, net of fees. Mr. Courtright noted the Fund has generated a capital market loss of \$48.3 million, paid benefits and expenses of \$345.1 million, and received contributions of \$129.8 million, year-to-date. Mr. Courtright stated the ERS will be making cash withdrawals for benefit payments this month from Loomis Sayles at \$9 million, Reams at \$7 million, and BlackRock Bond Index at \$6 million.

Mr. Silber noted the next Investment Committee meeting is December 6.

Approval of Abbott Capital AP2019 Private Equity Fund of Funds Side Letter. Mr. Matson advised that the Annuity and Pension Board may vote to convene in closed session on the following item (II. 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. Kovac, and 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 9:12 a.m. and reconvened in open session at 9:25 a.m.

It was moved by Mr. Klusman, seconded by Mr. Kovac, and unanimously carried, to approve the Abbott Capital AP2019 Private Equity Fund of Funds Side Letter.

As a matter of information, Board members received an article from the November 26 *Wall Street Journal* entitled "No Refuge for Investors as 2018 Rout Sends Stocks, Bonds, Oil Lower." Mr. Silber said it is rare for stocks, bonds and commodities to all go down the same year. He said the article explains that all three could finish in the red for the first time in a quarter century. Mr. Silber said last year the Fund had a 16.4% return, net of fees.

Investment Committee Report. At its November 8 meeting, Mr. Matson stated, the Investment Committee heard a presentation from Principal Global Investors, the Fund's Real Assets manager. He stated Principal spoke about their firm, investment team, philosophy, process, objectives, and the real assets market in general. Mr. Matson noted Staff presented a 3rd quarter performance report that included preliminary returns for October. He commented on a few takeaways from the report as of October 31, 2018. With the exception of October 2018, Mr. Matson said the Fund was outperforming its blended benchmark over all time periods shown; a major flaw in standard performance reports was highlighted, which is that most reports are end

point sensitive and do not properly reflect the long-term decision-making process of investors such as CMERS; focusing on rolling returns and rolling excess returns were identified as much more meaningful; the Fund's reduced exposure to public equity, which was implemented earlier this year as a result of last year's ALM study, helped the Fund hold up better than it otherwise would have when stocks declined in October; the Total Fund, Public Equity allocation, and Fixed Income allocation, are all performing above median versus public fund peers during most time periods shown as of September 30. Mr. Matson said Staff also presented two routine Due Diligence reports on Mesirow Financial and AQR, respectively. He noted that Callan provided the Committee with an update on the real estate market and on the Fund's Real Estate portfolio. Mr. Matson said the Fund's Real Estate allocation continues to perform very well, and progress continues to be made related to the restructuring initiative that began last year. He also commented there were no Approval Items at the November 8 meeting.

New Business.

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

Active Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$19,819.79
Deferred Death Benefits reported	\$9,102.63
Retired Death Benefits reported	\$22,316.57
Survivor Death – Termination Benefits reported	\$10,657.51
Refund of Member Contributions paid	\$223,499.02

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

Conference Requests – November 2018 Board Meeting. Mr. Matson presented the Conference Requests this month.

Name:	Erich Sauer
Sponsor(s):	Callan and BlackRock
Location:	San Francisco, CA
Date(s):	January 27-30, 2019
Estimated Cost:	\$2,100.00

It was moved by Mr. Klusman, seconded by Mr. Konrad, and unanimously carried, to approve the Conference Requests – November 2018 Board Meeting.

Consider and potentially take action on Suspension of Ordinary Disability Benefits for Non-compliance with Re-exam Requirements of MCC-36. Mr. Matson noted this is a technical correction from the Board agenda last month where the agenda had said "Duty" instead

of “Ordinary.” Mr. Allen noted the memorandum, however, was correct in saying “Ordinary.” Mr. Allen noted Lora Monfre had not signed the medical release forms to have her medical records released for the re-examination process and the re-examination process cannot proceed.

It was moved by Mr. Konrad, seconded by Mr. Kovac, and unanimously carried, to approve the amended agenda caption language and ratify the Suspension of Ordinary Disability Benefits for Non-compliance with Re-exam Requirements of MCC-36.

Consider and potentially take action on Revocation of DDR Benefits for Non-compliance with Re-exam Requirements of MCC-36 for more than one year. Mr. Petropoulos noted that Yvette Jones, who is on Duty Disability, has not complied with re-exams since 2011. He noted she was suspended in 2014 for non-compliance with re-exams and in 2015 she stopped complying with reporting requirements in regard to her income. Mr. Petropoulos said she has not been in communication with the ERS after letters were sent to her. Mr. Allen noted this is for permanent revocation and has already been suspended for four years. Discussion ensued. The matter was referred back to staff for further investigation.

Proposed 2019 Board and Committee Meeting Dates. As a matter of information, Board members received the proposed 2019 Board and Committee Meeting dates. Mr. Matson said the notice of proposed meeting dates do not require approval but are placed on file. Because they are proposed dates, the Board has the option to change the dates.

It was moved by Mr. Konrad, seconded by Mr. Kovac, and unanimously carried, to place on file the Proposed 2019 Board and Committee Meeting Dates.

Medical Reports.

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

<u>Fire –New Applications – Duty</u>	<u>Recommendation</u>
Samuel Uribe	Denial
Julie Hall	Approval
	Effective 02/25/2018
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Michael Ambroch	Approval
Teresa Macguire	Approval
Timothy Newman	Approval
Christopher Underwood	Approval
<u>GC – New Applications – Ordinary</u>	<u>Recommendation</u>
Samuel Uribe (Fire)	Denial

<u>GC – Re-Examinations – Ordinary</u>	<u>Recommendation</u>
Jill Bondar	Approval
Sasha Gulley	Approval
Janet Hutcherson	Approval
Paul Ropel	Approval
Jewel Springfield	Approval

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

Disability Findings.

David Grycowski. Mr. Matson presented the findings submitted by Hearing Examiner Gerlach whose Decision states “I recommend that the decision of the Annuity & Pension Board denying David Grycowski’s application for Duty Disability benefits be affirmed.”

Ms. Horwitz advised there was a communication from the attorney representing the applicant objecting to the brief filed by the respondent contending it was untimely. Ms. Horwitz agreed it was untimely and recommended it not be considered as part of this determination. She said it was untimely because the relevant Board rule has a provision for a 45-day period to submit a brief. Ms. Horwitz said it was not necessary for either side to file a brief since the facts are so clearly recited and analyzed by the hearing examiner. Ms. Horwitz, asked, for the record, to disregard the brief that was filed by the respondent. Discussion ensued. Ms. Horwitz concluded that the Board made a delegation of authority to the hearing examiner for fact-finding and recommendation. She said given the Board’s fiduciary duty there would have to be a compelling reason not to approve that recommendation from the hearing examiner. Mr. Konrad suggested the Board rules be amended to provide that the attorney for the appellant should file a brief within 30 days and that the City have 15 days to respond in order to avoid this problem in the future. Mr. Matson referred the proposed amendment to the Legislative Committee for consideration.

It was moved by Mr. Klusman, seconded by Ms. Ford, and unanimously carried, to accept Hearing Examiner Gerlach’s decision.

Jacquelyn Jefferson. Mr. Matson presented the findings submitted by Hearing Examiner Manian whose Decision states “The decision of the Annuity and Pension Board to deny disability benefits to Ms. Jacqueline Jefferson is supported by a fair and objective review of the evidence. Therefore, upon the records, files and proceedings in this case, the decision of the Annuity and Pension Board is affirmed.”

It was moved by Mr. Klusman, seconded by Mr. Konrad, and unanimously carried, to approve the Disability Findings, Jacquelyn Jefferson.

Unfinished Business.

Legal Opinions and Service Requests Pending and Legal Opinions. Ms. Horwitz said three legal opinions are outstanding. She said there are Service Requests pending for two contracts.

Legislation Requests Pending and Proposed Legislation. Mr. Allen said there were no new items to add and no further activity on pending legislation

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.

Informational.

The following is a list of informational items:

- 1) Report on Claims and Litigation.
- 2) Conferences.
- 3) Class Action Income 2018 YTD.
- 4) Adjusted Quarterly Cost Basis of Equity.

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.

It was moved by Mr. Konrad, seconded by Mr. Kovac, 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 10:06 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.)