

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

Minutes of the Investment Committee Meeting
held March 8, 2018

The meeting was called to order at 9:07 a.m.

Committee Members Present: Thomas Bell
 James Campbell
 Larry Holland, Chair
 Thomas Klusman
 Nik Kovac
 Himanshu Parikh

Committee Members Not Present: Deborah Ford
 Rudy Konrad (Excused)
 Martin Matson (Excused; arrived 9:50 a.m.)
 Mark Nicolini (Excused)

Retirement Staff Present: Bernard J. Allen, Executive Director
 David Silber, Chief Investment Officer
 Erich Sauer, Pension Investment Analyst
 Tom Courtright, Pension Investment Analyst
 Jan Wills, Board Stenographer

Others Present: Scott Rosener, Reams Asset Management; John Jackson, Mike Joecken, Callan; Miriam Horwitz, City Attorney's Office; Molly King, Budget Office.

Election of Vice Chair. Mr. Holland called for nominations for Vice-Chair. It was moved by Mr. Klusman and seconded by Mr. Holland to nominate Mr. Nicolini for Vice-Chair. Mr. Holland said they had spoken with Mr. Nicolini earlier and he accepted the nomination. Mr. Holland asked three more times for any further nominations. There being no further nominations, nominations were closed and a unanimous vote was cast for Mr. Nicolini as Vice-Chair of the Investment Committee.

Reams Asset Management Presentation. As a matter of information, Committee members received the Reams Asset Management Presentation booklet. Mr. Rosener presented information to the Committee on Organizational Updates, Fixed Income Market Review, Client Relationship Overview, Performance Review, Portfolio Characteristics, Investment Themes and Market Insights, with Supplemental Materials. Reams has been an investment manager for the ERS since 2001. Mr. Rosener reminded the Committee that Scout Investments (owned by UMB Financial Bank) purchased Reams in 2010. He noted that in 2017 Reams Asset Management and Scout Investments were sold by UMB to Carillon Tower Advisers (a subsidiary of Raymond James Financial, Inc.). He noted that throughout the transition the investment team remained the same and continues to operate in an autonomous manner. Mr. Rosener highlighted two of their fixed

income products with Core Plus at \$6.4 billion and Unconstrained at \$6.2 billion. Discussion ensued throughout the presentation.

Due Diligence Reports.

Neuberger Berman. As a matter of information, Committee members received a Neuberger Berman due diligence report from Mr. Sauer. Mr. Sauer discussed the due diligence trip he and Mr. Holland made in September 2017 to Neuberger Berman. He said Neuberger Berman is one of four managers hired by the ERS to invest its Private Equity allocation via Fund of Funds. Mr. Sauer said the team is still intact and engaged with the portfolio and there are no concerns. Mr. Sauer noted the ERS has two investments (Fund III and Fund IV) with Neuberger Berman. He said Fund III has had significant progress and the Fund is old enough now to evaluate performance and it stands up well in the secondary market. Mr. Sauer said the size of Fund III was at \$2 billion and the size of Fund IV hit its hard cap at \$2.5 billion, keeping the growth reasonable. Discussion ensued.

(Mr. Matson arrived at 9:50 a.m.)

CastleArk Management. As a matter of information, Committee members received a CastleArk Management due diligence report from Mr. Courtright. Mr. Courtright discussed the due diligence trip he and Mr. Sauer made in October 2017 to CastleArk Management. He noted CastleArk is the ERS' small-cap growth manager for U.S. Equities. Mr. Courtright said their investment team is stable with the two portfolio managers very knowledgeable. He stated the Firm's assets under management have declined, from \$4.2 billion to \$3.4 billion, since the ERS' last visit. Mr. Courtright noted they added an international small-cap strategy. He said it has been four-and-a-half years since the inception of the mandate. Discussion ensued. Mr. Holland requested that CastleArk present at a future Investment Committee Meeting.

(Mr. Bell left at 10:14 a.m.)

Approval of Statement of Investment Policy Update. As a matter of information, Committee members received a summary of changes incorporating last month's approval items regarding the new Target Allocations as part of the recently completed Fixed Income and Absolute Return structure review. Mr. Silber said the updated Strategic Policy is being incorporated into the Statement of Investment Policy. It was moved by Mr. Kovac and seconded by Mr. Parikh, and unanimously carried, to approve the Statement of Investment Policy Update.

Value Add Analysis. As a matter of information, Committee members received the Historical Value Add Analysis. Mr. Silber stated over the last 23 years, the stock and bond portfolio added \$767 million dollars, net of management fees. He said \$133 million dollars has been added over the last two years.

4th Quarter 2017 Performance Report. As a matter of information, Committee members received the 4th Quarter 2017 Performance Report. Mr. Silber stated the 4th quarter return was 3.7% net of fees and slightly underperformed the benchmark that had a return of 3.8%. He said the 2017 return was 16.4%, net of fees, and reflects 60 basis points of outperformance. Mr. Silber said

the 3-year, 5-year, 7-year, and 15-year numbers met or exceeded the discount rate of 8.5% or 8.25% for many of these time periods. He said those time periods met or exceeded the benchmark with only the 10-year number underperforming the benchmark by 10 basis points. He noted the median public pension fund had an 8.8% return, gross of fees, over the last five years according to the Callan Public Fund Sponsor Database. Mr. Silber said the ERS' annualized 1.2% outperformance over the median public pension fund has added approximately \$300 million over the past five years. He said over the last 10 years the Fund paid out \$3.1 billion dollars in benefit payments. He said the Fund's value is now at \$5.36 billion at year-end. Mr. Silber said the ERS has \$2.6 billion in investment gains over the last 10 years, including 2008. Mr. Allen added that approximately \$400 million was paid out in benefits and expenses in 2017. Mr. Allen noted that there are 13 years' worth of benefit payments and expenses in the Trust Fund. He said in the early 2000s, there were over 30 years of payments in the Fund.

Mr. Sauer then spoke about the full-year attribution noting 2017 was a growth market. He said in terms of equities, BlackRock Global AlphaTilts added 35 basis points to the Fund while MFS added 34 basis points.

Mr. Sauer noted it was offset by the U.S. Small-Cap Value Equity exposure that detracted 68 basis points. He noted outperforming equity managers in the last year included BlackRock Global AlphaTilts with a 29.6% gain, MFS with a 32.7% gain, and William Blair with a 31.2% gain.

Mr. Courtright talked about Public Equity and Private Equity, noting the latter is maturing nicely. He noted the uncalled commitments to be called in the future are approaching \$279 million.

Mr. Silber noted a new slide, "Notable CMERS Manager Events," first added to the Performance Report last quarter. He said they are not contractual or guideline violations but just items for the Board to know about.

Mr. Silber concluded by providing a Fund update saying the ERS Total Fund Market Value was approximately \$5.43 billion as of March 7, 2018. He said the portfolio is outperforming the benchmark.

As a matter of information, the Committee received the Callan Investment Measurement Service Quarterly Review dated December 31, 2017.

There being no further business, Mr. Holland adjourned the meeting at 11:10 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.)