

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

Minutes of the Investment Committee Meeting
held May 10, 2018

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

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

Committee Members Not Present: Deborah Ford (arrived 9:12 a.m.)
 Nik Kovac (arrived 9:05 a.m.)

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

Others Present: Don Anderson, Anton Britton, Matt Lipuma, Northern Trust; Jonathan Gould, Sally Haskins, John Jackson, Mike Joecken, Callan; Miriam Horwitz, City Attorney's Office; Molly King, Budget Office.

Callan Real Estate Presentation. Ms. Haskins discussed the real estate market overview stating the real estate market is not overbuilt and has good employment growth. She concluded that market conditions have been balanced for a long time. Mr. Gould discussed the role of real estate in ERS' portfolio and the objectives of that classification. He said real estate is included in the ERS portfolio to enhance the diversification of the total portfolio, provide high current income and return that falls between stocks and bonds, lower the volatility of the total portfolio, and provide a hedge against unanticipated inflation. He said the net return target for real estate is to match or exceed the net returns of the benchmark over rolling five-year periods. Mr. Gould added that the benchmark is the NCREIF Fund Index Open-End Diversified Core Equity Index Value Weighted Net ("NFI-ODCE" or "ODCE"). The target allocation to real estate increased from 7% at the beginning of the year to 7.7% currently. As a matter of information, Committee members received a Real Estate Portfolio Summary from Mr. Gould showing the Fund's Real Estate Market Value at \$341.2 million for year-end 2017. He noted while the amount looks underweight, a total of \$137.5 million capital is waiting to be called which will add 2.6%. Mr. Gould and Ms. Haskins

discussed the Core and Non-Core funds and noted the portfolio is being actively re-positioned through re-allocations to Core funds and gradual winding down of the Non-Core investments. They noted 75% of the portfolio is targeted to Core Funds with no more than 25% in Non-Core Funds. Discussion ensued. Mr. Gould added that the Core Real Estate performance falls within the top quartile over the last three- five- and seven-year periods. He concluded by saying CMERS has made significant portfolio re-positioning progress in the last year with the open-end portfolio portion being reduced to five funds. He added that the portfolio performance is strong with the total portfolio outperforming the core benchmark on a net basis over the short- and medium-term.

Before going into closed session for Callan's Real Estate Performance Review, Mr. Holland took a moment to welcome new Board Member Timothy Heling who is a firefighter.

Mr. Holland advised that the Investment Committee may vote to convene in closed session on the following item (I.) 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 Committee may then vote to reconvene in open session following the closed session. The Committee convened in closed session by the following roll call vote. AYES: Ms. Ford, Messrs. Bell, Campbell, Heling, Holland, Klusman, Konrad, Kovac, Matson, Nicolini, and Parikh. NOES: None. The Committee convened in closed session at 9:38 a.m. It was moved by Mr. Campbell, seconded by Mr. Nicolini, and unanimously carried, to reconvene in open session. The Committee reconvened in open session at 9:57 a.m.

Mr. Holland called for a break at 9:57 a.m. The Committee resumed the meeting at 10:06 a.m.

Northern Trust Custody and Securities Lending Presentation. As a matter of information, Committee members received the Northern Trust Custody Trustee Services and Securities Lending booklets. Messrs. Britton, Lipuma, and Anderson discussed the change in Northern Trust executive management, financial solvency and stability of Northern Trust, business model and client service approach, the forensic items and day-to-day operations Northern Trust provides for the ERS, technology, and securities lending. Discussion ensued.

1st Quarter 2018 Performance Update. As a matter of information, Committee members received the 1st Quarter 2018 Performance Update. Mr. Silber stated the Fund benchmark was down -0.3 percent with the Total Fund outperforming that and remaining flat, net of fees, for the 1st quarter. He said during the last 12 months, the return was 11.6% net of fees, which outperformed the benchmark by 1% over the past year. Mr. Silber said the 5-year and 15-year numbers met or exceeded the discount rate. He said for the 7-year number, the Fund is underperforming by 10 basis points.

Mr. Courtright gave a presentation on Public Equity for the first quarter. He said the ERS Public Equity has done well and is in the top quartile in the one- three- and five-year periods. Mr. Courtright said many of the investment managers have surpassed the benchmark across those time periods. He presented the Public Equity Statistics as well as the Relative Investment Performance and said 10 equity managers outperformed during the quarter, net of fees. Discussion ensued.

Mr. Sauer gave a presentation on Fixed Income for the first quarter. He referred the Committee to the Portfolio Snapshot and said with the transition of the fixed income structure, both the credit quality and yield to maturity has gone up. He discussed the Relative Investment Performance for Fixed Income and for Absolute Return. Mr. Sauer followed up with a Performance Update and stated the Total Fund Market Value as of May 9 was \$5.39 billion.

There being no further business, Mr. Holland adjourned the meeting at 11:40 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.)