

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

Minutes of the Investment Committee Meeting
Held September 6, 2018

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

Committee Members Present: Martin Matson, Chair
 Deborah Ford
 Thomas Klusman
 Rudy Konrad

Committee Members Not Present: Nik Kovac (Arrived 9:10 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
 Arsh Salwan, Pension Investment Intern
 Jan Wills, Board Stenographer

Others Present: Jim Stark, Kevin Dolsen, CastleArk; Mike Joecken, Callan.

CastleArk Management Presentation. As a matter of information, Committee members received the CastleArk “The Direction of Growth, Small Company Growth Equity” booklet. Mr. Stark and Mr. Dolsen gave an overview of CastleArk’s structure, investment capabilities, and team. Their presentation topics included the CastleArk advantage, investment philosophy, identification, fundamental analysis, investment process, portfolio construction, investment performance, performance attribution, portfolio review and outlook, top 10 portfolio holdings, sector allocation, portfolio characteristics, and CastleArk Management, LLC small company growth composite annual disclosure presentation. Discussion ensued.

(Mr. Kovac arrived at 9:10 a.m.)

Approval of 2019 Private Equity Commitment Recommendation. Mr. Joecken talked about the ERS’ private equity portfolio and noted the private equity target was increased from 5% to 8% in 2017 during the asset liability study. He said the range was also adjusted with an upper limit of 13% and a lower limit of 5%. Mr. Joecken said the current investment allocation is at 6%. He said the core managers Abbott and Mesirow make up 70% of the portfolio while the specialty managers Neuberger Berman and Private Advisors make up 30% of the portfolio. Mr. Joecken said the entire program is performing well and is in the second quartile and above median in many time periods, and in the top quartile since the program’s inception. Mr. Joecken said it is expected to achieve the 8% target in 2023 and 9% in 2024. He concluded by saying Callan recommends committing \$20 million dollars to Abbott’s AP 2019 Fund to meet the funding levels for private equity in 2019.

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

Q1 2018 Private Equity Summary. As a matter of information, Committee members received the Private Equity Summary table. Mr. Courtright noted as of March 31, 2018, \$580 million dollars is committed to private equity with nearly \$339 million dollars of that capital being called and invested. He noted \$130 million dollars of distributions have been received. Mr. Courtright said two new commitments of \$20 million dollars and \$15 million dollars to Abbott and Private Advisors respectively, will be added bringing the total commitments to \$615 million dollars. Mr. Courtright also discussed the Vintage Year, Portfolio Companies by Ages of Investment, CMERS Private Equity Portfolio, Strategy Exposure, Geographic Exposure, and Industry Exposure.

Due Diligence Reports.

William Blair. Mr. Sauer spoke about the portfolio manager turnover with Ms. Braming's promotion from Portfolio Manager to Head of Investment Management due to the departure of the person in that position to another firm. Mr. Sauer said William Blair had added Mr. McAtamney as a Portfolio Manager and he and co-Portfolio Manager Mr. Fennell had worked together previously. Mr. Sauer stated there is stability with the analysts and there are no concerns with William Blair.

Dimensional Fund Advisors. Mr. Courtright talked about the due diligence visit to Dimensional Fund Advisors (DFA), one of the world's largest asset managers. He said they have a very systematic, disciplined, methodical process and are very stable. He noted the co-CEO and Co-CIO Mr. Repetto had announced his resignation in September 2017. As a result, he said, Mr. O'Reilly, was appointed co-CEO to serve alongside with Mr. Butler, co-CEO. Mr. Courtright said Mr. O'Reilly has accepted the responsibility to serve on the DFA board of directors and will continue to work as the firm's CIO. He said the U.S. Small-Cap Value Strategy has outperformed by 2.2% per year, except the three-year, since inception. Mr. Courtright said the International Small-Cap Value Strategy has had some underperformance in the near term but is not at a level for concern. He said the Large-Cap Value Strategy has been performing well in the eight months since inception. Discussion ensued.

Brandes Investment Partners. Mr. Courtright noted Mr. Brandes, the founder, announced his retirement in February 2018 but he has not managed the investments for the ERS for over 10 years. He stated the culture and executive leadership are intact. Mr. Courtright said Brandes has outperformed the benchmark across all time periods provided except for the three-year period. Discussion ensued.

CIO Report. Mr. Silber noted additional informational items were provided in the packet because of the August recess. He said the custodial services review is in process with Callan. He also presented the July performance report and said the benchmark was 1.4% with outperformance by 11 basis points. Mr. Silber said they had a 1.5% return in July that puts the year-to-date at 3.3%. He noted the one-, three-, and five-year are all at or higher than the discount rate. Mr. Silber stated the reason for the outperformance in July is the real estate reporting. As of September 5, he said the Fund's value is at \$5.38 billion. Mr. Silber noted the Fund has generated capital market gains

as of September 5, 2018 of \$177 million dollars, benefits and expenses of \$274 million dollars, and contributions of \$122 million dollars. He said the cash withdrawals for benefit payments in August were \$6 million dollars from Loomis Sayles, \$5 million dollars each from Polen and BlackRock 1000 Value Index, and \$4 million dollars from CastleArk. Mr. Silber said a \$40 million dollar distribution would occur in September or October due to the real estate restructuring. He stated they are close to the strategic policy with no huge overweights or underweights.

Informational.

**July Performance Report/Asset and Manager Allocation Pie Charts.
Class Action Income 2018 YTD.**

Adjusted Quarterly Cost Basis of Equity.

CMERS 2nd Quarter 2018 Performance Update – Final.

Callan 2nd Quarter 2018 Performance Report.

As a matter of information, Committee members received the informational items in their packets. Mr. Matson received and placed the information items on file.

There being no further business, Mr. Matson adjourned the meeting at 10:37 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.)