

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

Minutes of the Regular Meeting held February 25, 2019

The meeting was called to order at 9:01 a.m.

Board Members Present: Matthew Bell
James Campbell
Deborah Ford
Rudolph Konrad
Tom Klusman
Martin Matson, Chair
Carmelo Patti

Board Members Not Present: Nik Kovac (arrived 9:15 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, Deputy Chief Investment Officer
Thomas Courtright, Pension Investment Analyst
Mary Turk, Business Operations Analyst
Lisa Ory, Administrative Assistant II
Jan Wills, Board Stenographer

Others Present: John Barmore, Retired Fire & Police Association; Jim Zalewski, Milwaukee Retiree Association; Miriam Horwitz, Patrick McClain, Greg Kruse, City Attorney's Office; Molly King, Budget Office; Terry Siddiqui, DS Consulting, Inc.; Gust Petropoulos, Adecco.

Approval of Minutes. Mr. Matson presented the minutes of the Annual Meeting held February 4, 2019. It was moved by Mr. Konrad, seconded by Mr. Campbell, and unanimously carried, to approve the Minutes of the Annual Meeting held February 4, 2019.

Appointment of Committees for 2019. Mr. Matson appointed the following members to serve on the committees listed below:

Administration & Operations Committee. Mr. Klusman, Chair; Mr. Campbell, and Mr. Matson.

Investment Committee: Committee of the whole: Mr. Patti, Chair; Mr. Konrad, Vice Chair.

Legislative Committee: Mr. Konrad, Chair; Ms. Ford, and Mr. Klusman.

Litigation Committee: Ad hoc. To be appointed when necessary.

Chief Investment Officer Report. As a matter of information, Board members received the February 25, 2019 performance report. Mr. Sauer presented the performance report and said the Fund value as of January 31, 2019 was \$5.22 billion dollars. He noted the Fund return of 4.8% outperformed the blended benchmark by approximately 50 basis points in January. Mr. Sauer said the Fund's return exceeds the benchmark in all other times shown, net of fees. The main driver of January returns, Mr. Sauer stated, was manager performance with the two strategies of Allianz Structured Alpha adding 15 basis points, and Brandes and Loomis Sayles each adding 12 basis points. He noted the Fund return is up 1.6% as of February 22 and up 6.5% year to date with the Fund value at approximately \$5.30 billion. He said 15 out of the 18 active managers are outperforming year to date. Mr. Sauer also noted the public equity, fixed income, and absolute return asset classes are outperforming their benchmarks year-to-date. Mr. Sauer noted the Fund had a capital market gain of \$324.8 million, paid benefits and expenses of \$36.7 million, and received contributions of \$77.1 million for 2019. He said that due to City and Agency contributions in January, the ERS did not make any manager withdrawals for benefit payments this month.

Mr. Silber said the next Investment Committee Meeting is March 14 and Staff would be preparing the annual value add report which shows how the fixed income and public equity asset classes did compared to how those two asset allocations would have done had they been indexed. Mr. Silber also said two long-term managers DFA and Brandes would be presenting at the meeting.

Investment Committee Report. Mr. Patti reported at its February 14 meeting the Investment Committee unanimously elected Mr. Konrad as its Vice-Chair. Mr. Patti said the Committee heard a presentation from William Blair, the Fund's international growth equity manager. He noted they spoke about their firm, investment team, philosophy, process, portfolio characteristics, and international markets. Mr. Patti also mentioned the Staff's Education Presentation to the Committee, which focused on defining and understanding risk, providing historical context around the Fund's current asset allocation, demonstrating how the sequence of returns can affect the Fund's projected funded status, and discussing some of the Fund's competitive advantages and the meaning of being a long-term investor. Mr. Patti noted Staff reported on routine due diligence visits to Earnest Partners as well as Loomis Sayles. He added that Staff also presented a 4th quarter 2018 performance report, including a Fund update through February 13, 2019. Mr. Patti noted there were no approval items at the meeting.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity for the month of January 2019.

Active Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$0.00
Deferred Death Benefits reported	\$32,883.51
Retired Death Benefits reported	\$16,935.02

Survivor Death – Termination Benefits reported	\$15,948.49
Refund of Member Contributions paid	\$177,195.29

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

Conference Requests – February 2019 Board Meeting. Mr. Matson presented the Conference Requests this month.

Erich Sauer	2019 Public Funds Roundtable Conference
Sponsor:	Institutional Investor
Location:	Los Angeles, CA
Date:	April 23-26, 2019
Estimated Cost:	\$2,000.00

David Silber	Redefining Fixed Income Forum
Sponsor:	Institutional Investor
Location:	Chicago, IL
Date:	May 13 – 15, 2019
Estimated Cost:	\$1,000.00

Additional conference requests were made by Mr. Klusman to attend the SALT Conference in Las Vegas, Nevada from May 7-10, 2019 at an estimated cost of \$2,800.00 and by Deborah Ford to attend the NCPERS Annual Conference & Exhibition in Austin, Texas from May 15-17, 2019 at an estimated cost of \$3,500.00. It was moved by Mr. Bell, seconded by Mr. Patti, and unanimously carried, to approve the Conference Requests – February 2019 Board Meeting.

Approval of Contract Amendment to Extend the Contract with MMRO (Managed Medical Review Organization). As a matter of information, Board members received the Contract Amendment to Extend the Contract with MMRO (Managed Medical Review Organization). Mr. Petropoulos noted the amendment was to extend the contract by six months to continue the negotiations on how to improve the contract. He stated the MMRO contract is for disability operations where MMRO obtains records, compiles records and does a summary as well as assisting with Independent Medical Exams (IMEs). Discussion ensued. It was moved by Mr. Patti, seconded by Mr. Klusman, and unanimously carried, to approve the Contract Amendment to Extend the Contract with MMRO (Managed Medical Review Organization).

(Mr. Kovac arrived at 9:15 a.m.)

Approval of Agreement with Wells Fargo Bank. As a matter of information, Board members received the Collateralization Contract between the ERS, Wells Fargo, and Bank of New York Mellon as well as a letter from Mr. Kruse. Mr. Kruse said the Bank of New York Mellon holds the collateral as custodian. He said the alternative to the collateral agreement is to put the money in a sweep account where money each business day is swept into a money market fund. Mr. Kruse noted during the business day amounts in excess of FDIC limits would be unsecured, but secured in off hours by the money market account. Mr. Kruse's letter stated the

contract provides that collateral held by the Bank of New York Mellon would act as security for the funds in the existing account with Wells Fargo. He said if Wells Fargo defaults, the amounts in the ERS account would be unsecured by the collateral. Discussion ensued. It was moved by Mr. Patti, seconded by Mr. Klusman, and unanimously carried, to approve the Agreement with Wells Fargo Bank.

Approval of Contract Amendment to Change the Name of Level 3 Communications, LLC. As a matter of information, Board members received the First Amendment to the Master Services Agreement between the Employees' Retirement System of the City of Milwaukee and Level 3 Communications, LLC. It was moved by Mr. Konrad, seconded by Mr. Campbell, and unanimously carried, to approve the Contract Amendment to Change the Name of Level 3 Communications, LLC to CenturyLink Communications, LLC.

Approval of Proposed Extension of Buck Consulting Agreement in Connection with Conversion of Actuarial Services. As a matter of information, Board members received the Buck letter (the "Addendum") as well as Exhibit A (Scope of Services) and Exhibit B (Schedule of Fees). Mr. Allen stated this addendum relates to the conversion to the new actuary Cavanaugh Macdonald Consulting. Buck is requesting the valuation-ready data from the 2018 valuation. He said Buck is willing to provide it but their contract has expired and they need an extension agreement for any billable hours within a six-month period. It was moved by Mr. Campbell, seconded by Ms. Ford, and unanimously carried, to approve the Proposed Extension of Buck Consulting Agreement in Connection with Conversion of Actuarial Services.

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 said this was before the Board last fall but needed more information before making a final decision on this case. He noted a process server delivered a notice to Ms. Jones. Mr. Petropoulos contacted social services at Milwaukee County who assigned it to a social worker. Further, Mr. Petropoulos and Mr. Campbell visited her to discuss her benefits. Mr. Petropoulos stated she was not interested in submitting to a re-exam. Mr. Matson stated due diligence had been done. Mr. Campbell noted she said she would never comply with the re-exam requirements. Mr. Petropoulos added her words were "I'll pass." Mr. Petropoulos said she was suspended for more than a year and an earnings offset was issued around the same time as the suspension for non-compliance. Mr. Petropoulos said he also explained to her she could convert to a service retirement at age 60 and then no re-exams would be required but she would have to comply with a re-exam now for the conversion to be effective. It was moved by Mr. Patti, seconded by Ms. Ford, and unanimously carried, to revoke her DDR benefit.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations. Mr. Allen presented certifications (February 2019) of the Fire and Police Medical Panel Physicians relative to Duty Disability Retirement benefits as follows:

<u>Police – New Applications – Duty</u>	<u>Recommendation</u>
Raymond Groth	Denial

<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Christopher Gauthier	Approval
Maurya Lomen	Approval
Patrick Nogalski	Approval
<u>GC – Re-Examinations – Duty</u>	<u>Recommendation</u>
Brandon Baranowski	Approval
<u>GC – Re-Examinations – Ordinary</u>	<u>Recommendation</u>
Chesterfield Hall	Approval
Daniel Lazarski	Approval

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

Unfinished Business.

Legal Opinions and Service Requests Pending and Legal Opinions. Ms. Horwitz stated the legal opinions are being worked on, the contracts are on the agenda, there is a request to review one of the rules as it relates to the filing of written briefs with the Board, and ongoing contract negotiations with Northern Trust for custody, securities lending, and ancillary services are in progress.

Legislation Requests Pending and Proposed Legislation. Mr. Allen stated the City Attorney’s office drafted an amendment to the Charter to comply with the Wisconsin Supreme Court decision made in July 2018 regarding composition of the Annuity & Pension Board. Mr. Matson noted Mr. McClain did an excellent job explaining the ordinance to the Finance & Personnel Committee.

Mr. Allen noted in the pending Legislative Committee referrals, litigation is still ongoing for the pension contribution offset. He added the earnings capacity evaluation was referred to the Legislative Committee to review the earnings capacity methodology, and that the Committee had previously requested the City Attorney’s Office draft the appropriate Board rule. Mr. Allen said the Committee also requested the City Attorney’s Office to review the provisions of the filing of written briefs in the Administrative Appeal process.

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 2019 YTD.

The following is a list of activities since the last Board meeting, copies sent with meeting notice and attached to minutes:

- 4) Report on Bills.
- 5) Deployment of Assets.
- 6) Securities Lending Revenue and Budget Report.
- 7) Preliminary Performance Report/Asset and Manager Allocation Pie Charts.
- 8) ERS Holdings Report.

Mr. Matson accepted and placed the aforementioned items on file.

There being no further business, Mr. Matson adjourned the meeting at 9:44 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.)