

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

Minutes of the Regular Meeting held March 25, 2019

The meeting was called to order at 9:00 a.m.

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

Board Members Not Present: Matthew Bell
 Nik Kovac (arrived 9:07 a.m.)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Melody Johnson, Deputy Director
 Daniel Gopalan, Chief Financial Officer
 Erich Sauer, Deputy Chief Investment Officer
 Thomas Courtright, Pension Investment Analyst
 Robin Earleywine, Pension Accounting Manager
 Mary Turk, Business Operations Analyst
 Lisa Ory, Administrative Assistant II
 Jan Wills, Board Stenographer

Others Present: Larry Langer, Pat Beckham, Cavanaugh Macdonald; John Barmore, Retired Fire & Police Association; Miriam Horwitz, Andrea Fowler, Patrick McClain, City Attorney's Office; Molly King, Eric Pearson, Budget Office; Terry Siddiqui, DS Consulting, Inc.; Gust Petropoulos, Adecco.

Approval of Minutes. Mr. Matson presented the minutes of the Regular Meeting held February 25, 2019. It was moved by Mr. Konrad, seconded by Ms. Ford, and unanimously carried, to approve the Minutes of the Regular Meeting held February 25, 2019.

Chief Investment Officer Report. As a matter of information, Board members received the March 25, 2019 performance report. Mr. Sauer presented the performance report and said the Fund value as of February 28, 2019 was \$5.27 billion dollars. He noted the Fund return of 1.5% outperformed the blended benchmark by approximately 17 basis points in February. Mr. Sauer said the Fund's return exceeds the benchmark in all time periods shown, net of fees. The main driver of February returns, Mr. Sauer stated, was style bias with US Small Cap Equity adding 10 basis points, and manager performance with William Blair adding 8 basis points, Loomis Sayles adding 7 basis points, MFS adding 6 basis points, and Brandes subtracting 18 basis points. He noted as of March 22, the Fund return is up 0.3% in March and up 6.7% year to date with the Fund value at approximately \$5.29 billion. He said 12 out of the 18 active managers are outperforming year to date. Mr. Sauer also noted the fixed income, and absolute return asset classes, along with the Total Fund, are outperforming their benchmarks year-to-date. Mr. Sauer noted the Fund had a capital market gain of \$336.1 million, paid benefits and expenses of \$69.6

million, and received contributions of \$79.6 million for 2019. He said March withdrawals were \$10 million from Polen, \$9 million from Northern Trust, \$6 million from Loomis, and \$3 million each from CastleArk, Earnest, and Reams. Mr. Allen added that there was an inverted yield curve the previous Friday for the first time since 2007. He said the interest rates on 10-year Treasury notes are less than the three-year Treasury notes and when that happens, it signals a Recession could be possible in the next year or two.

Investment Committee Report. Mr. Patti reported that at its March 14 meeting the Investment Committee heard presentations from Brandes Investment Partners and Dimensional Fund Advisors, two of the Fund’s longest serving active equity managers who have added significant value to the Fund. He noted Staff presented the annual Value Add Analysis, which showed the Fund’s stock and bond allocations adding \$385 million to the Fund’s value over the past 10 years, and \$742 million to the Fund’s value over the past 24 years, net of fees. He said Staff also presented two routine due diligence reports on MFS Investment Management and Polen Capital Management. Mr. Patti added that Staff informed the Committee that it was replacing some of its existing investment-related systems with FactSet, and that they were able to do this in a budget-neutral manner. He concluded that Staff provided a Fund performance update through March 13, 2019.

Administration & Operations Committee Report. Mr. Klusman reported that at the March 25, 2019 meeting preceding the March 25, 2019 Board meeting, the Committee elected Mr. Campbell as Vice-Chair. Mr. Klusman noted the three items approved were the Close out of the 2018 Budget, the Perspecta Contract Extension, and the Reinhart Professional Services Contract. He added that the two items accepted and placed on file were the IT Projects Portfolio and the Organizational/Personnel Update.

Approval of Perspecta Contract Extension. It was moved by Ms. Ford, seconded by Mr. Patti, and unanimously carried, to approve the Perspecta Contract Extension.

(Mr. Kovac arrived at 9:07 a.m.)

Approval of Reinhart Professional Services Contract. It was moved by Mr. Patti, seconded by Mr. Klusman, and unanimously carried, to approve the Reinhart Professional Services Contract.

New Business.

Presentation by Cavanaugh Macdonald Independent Actuaries – Pat Beckham and Larry Langer – Regarding Conversion of Actuarial Services. As a matter of information, Board members received the Cavanaugh Macdonald City of Milwaukee Employee’s Retirement System Board Presentation document. Mr. Langer said they replicated the results of the previous actuary Conduent based on Conduent’s valuation done in 2018. He said Cavanaugh Macdonald did a review of the actuarial assumptions and methods outlined in the 5-year experience study. Mr. Langer said the discussion today centers on a set of economic assumptions for the January 2019 valuation which will be presented at the June Board meeting. He noted the Board can change the assumptions at any time and a comprehensive Experience Study is mandated every five years. Mr. Langer gave a presentation on two topics to the Board members – actuarial “Transition services” and “Discussion of current investment return assumption and recommendation for 2019 valuation.” For the transition services, he provided an update on the

replication of the January 1, 2018 actuarial valuation. Mr. Langer also gave a presentation on Economic Assumptions, Setting Assumptions, Actuarial Standards of Practice (ASOP), Actuarial Standard of Practice Number 27, Inflation Assumption, Investment Return Assumption, CMERS Historical Fiscal Year Returns, Peer Group Comparison and Real Rate Return, Investment Return Assumption, Considerations for Expected Return, Recommended Investment Return Assumption, Considerations for Expected Return, Impact of Lower Returns, Cost Impact of Changes, and Cost Impact Based on January 1, 2018 Valuation. Discussion ensued. A copy of Mr. Langer's presentation is on file with the Board Secretary and by reference incorporated herein.

(Mr. Matson called for a break at 10:37 a.m. and resumed the meeting at 10:50 a.m.)

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	\$67,013.41
Retired Death Benefits reported	\$14,420.51
Survivor Death – Termination Benefits reported	\$2,344.07
Refund of Member Contributions paid	\$81,091.11

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

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

Carmelo Patti	NCPERS Program for Advanced Trustee Studies (PATS) and Annual Conference & Exhibition (ACE)
Sponsor:	NCPERS
Location:	Austin, TX
Date(s):	May 18-19, 2019 (PATS), May 19-22, 2019 (ACE)
Estimated Cost:	\$4,000.00
Jerry Allen, Thomas Courtright	2019 Madison Investment Conference
Sponsor:	CFA Society
Location:	Madison, WI
Date:	May 29, 2019
Estimated Cost:	\$300.00 per person

It was moved by Mr. Kovac, seconded by Ms. Ford, and unanimously carried, to approve the Conference Requests – March 2019 Board Meeting.

Review circumstances of ODR Non-compliance with Re-exam Requirements of MCC-36. Mr. Petropoulos stated the member is on a three-year cycle for re-exams and is not complying with the re-exam process this time. He noted the address was confirmed with the member and the member had received the medical forms in December 2018 but the ERS has not received the forms as of March 13, 2019. Mr. Matson mentioned that when the member complies after suspension, the benefit would resume retroactively to the date of suspension.

It was moved by Mr. Campbell, seconded by Mr. Patti, and unanimously carried, to suspend the member's benefit for ODR Non-compliance with Re-exam Requirements of MCC-36.

(Please note the Board did not convene in closed session on the following item as noticed.)

Approval of Proposed Settlement of "In re Motors Liquidation Company, et al.; Chapter 11 Case No. 09-50026 (MG)." Ms. Horwitz said there was not anything controversial for the Board to go into closed session regarding the proposed settlement. Ms. Horwitz provided background on the case and the process that led to the proposed settlement. Ms. Horwitz said the ERS has no attorney fees, no payments need to be made and is a defendant being released. Ms. Horwitz said the attorneys representing the ERS through the Reams group asked for the Board's sign-off on the agreement as soon as it is finalized. It was moved by Ms. Ford, seconded by Mr. Patti, and unanimously carried, to approve the Proposed Settlement of "In re Motors Liquidation Company, et al.; Chapter 11 Case No. 09-50026 (MG)."

Proposed Initial Salary for Senior Investment Analyst Finalist Candidate. Mr. Matson advised that the Annuity and Pension Board may vote to convene in closed session on the following item, as provided in Section 19.85 (1)(c), for considering employment, promotion, compensation or performance evaluation data of any public employe over which the governmental body has jurisdiction or exercises responsibility. The Board may then vote to reconvene in open session following the closed session.

It was moved by Mr. Patti, and seconded by Mr. Campbell to convene in closed session. The motion prevailed by the following roll call vote: AYES: Ms. Ford, Messrs. Campbell, Klusman, Konrad, Kovac, Patti, and Matson. NOES: None.

The Board convened in closed session at 11:01 a.m. The Board reconvened in open session at 11:10 a.m.

Mr. Matson said the Board approved the salary recommendation made by the Executive Director Mr. Allen.

Medical Reports.

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

<u>Police – Re-examinations – Duty</u>	<u>Recommendation</u>
Alejandro Arce	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Jeffery Beamon	Approval
Denise Bekeris	Approval
Robert Bresette	Approval
Patrick Norton	Approval
Thomas Repaci	Approval
<u>New Applications – Duty*</u>	<u>Recommendation</u>
Ruby Esqueda (MPD) Effective 01/30/19	Approval
<u>New Applications – Ordinary</u>	<u>Recommendation</u>
Christina Brandt Effective 11/09/18	Approval
Laurie Ory Effective 12/28/18	Approval
<u>GC – Re-Examinations – Duty</u>	<u>Recommendation</u>
Joseph Alferi	Approval
<u>GC – Re-Examinations – Ordinary</u>	<u>Recommendation</u>
Thomas Alderson	Approval
Gregory Eckert	Approval
Scott Geiger	Approval
Freddie Lewis	Approval
Stuart Smith	Approval

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

*See minutes dated April 29, 2019 for correction.

Unfinished Business.

Legal Opinions and Service Requests Pending and Legal Opinions. As a matter of information, Mr. Allen presented a list of pending requests for legal opinions and service requests made to the City Attorney. Ms. Horwitz stated there is an opinion on Eligibility of “Deemed Converted” Lifetime DDR Beneficiary to Apply for Enhanced 90% Duty Disability Benefit. Discussion ensued. Mr. McClain noted there is a case review provision where a disability recipient can request a review from the Board. The City Attorney legal opinion advised that the disability retiree be barred from applying for the enhanced 90% duty disability retirement benefit. Mr. McClain added that pursuant to Chapter 36, only members can apply for duty disability benefits and DDR recipients are no longer members, but beneficiaries. Mr. Matson accepted and placed the opinion on file. Mr. McClain also stated they did get a draft of the Administrative Appeal Rule Amendment to Mr. Allen and that will go to the next Legislative Committee. Mr. Allen stated this is the procedural rule Mr. Konrad requested so the appellants do not reply on the last day before the deadline but return their appeal in the required timeframe for the City Attorney’s office to review and respond with a reply brief.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. Mr. Allen stated the Common Council passed a charter ordinance in February 2019 to reflect the July 2018 Wisconsin Supreme Court decision to restore composition of the Annuity & Pension Board to an eight-member Board from an 11-member Board. He also noted there is an Outside Earnings Test draft with the City Attorney’s office. Mr. Allen said more data would be gathered before bringing it back to the Board.

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.
- 4) Minutes of the Investment Committee Meeting Held March 14, 2019.

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.

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

There being no further business, Mr. Matson adjourned the meeting at 11:24 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.)