

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

Minutes of the Regular Meeting held April 29, 2019

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

Board Members Present: Matthew Bell
 James Campbell
 Deborah Ford
 Rudolph Konrad
 Tom Klusman
 Carmelo Patti
 Aycha Sawa, Deputy Comptroller for Martin Matson

Board Members Not Present: Nik Kovac (arrived 9:05 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
 Anthony Lubarsky, 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; Jason Ellement (via phone), John Jackson, Callan Associates; John Barmore, Retired Fire & Police Association; Joseph Haasch, Vice President, MPFFA L215; Miriam Horwitz, Greg Kruse, City Attorney's Office; Dennis Yaccarino, Molly King, Eric Pearson, Budget Office; Terry Siddiqui, DS Consulting, Inc.; Gust Petropoulos, Adecco.

Approval of Minutes. Mr. Konrad presented the minutes of the Regular Meeting held March 25, 2019. Mr. Campbell noted one correction for the March 25, 2019 minutes. He noted Ruby Esqueda is an approval for Ordinary Disability rather than an approval for Duty Disability. It was moved by Mr. Campbell, seconded by Ms. Ford, and unanimously carried, to approve, as amended, the Minutes of the Regular Meeting held March 25, 2019.

(Mr. Kovac arrived at 9:05 a.m.)

Chief Investment Officer Report. As a matter of information, Board members received the April 29, 2019 performance report. Mr. Sauer presented the performance report and said the Fund value as of March 31, 2019 was \$5.29 billion dollars. He noted the Fund return of 0.9%,

net of fees, outperformed the blended benchmark by approximately 0.8% in February.* Mr. Sauer said the Fund's return exceeds the benchmark in all time periods shown, net of fees. The main driver of March performance, Mr. Sauer stated, was Private Equity. He said during the first quarter not all reports were in for Private Equity so a zero return was reported against a benchmark of the Russell 3000 lagged a quarter plus a premium. He said the Russell 3000 had a rough 4th quarter in 2018, and compared to a flat Private Equity return, added 106 basis points. Mr. Sauer said Brandes was a detractor with 15 basis points and the US Small Cap exposure subtracted 17 basis points. He noted as of April 26, the Fund return is up 1.3% in April and brings the return to 9.1% year to date, net of fees, with the Fund value at approximately \$5.37 billion. He said 11 out of the 18 active managers are outperforming year to date, net of fees. Mr. Sauer also noted the Public Equity, Fixed Income, and Absolute Return asset classes, along with the Total Fund, are exceeding their respective benchmarks year-to-date. Mr. Sauer noted the Fund had an investment gain of \$456.6 million, paid benefits and expenses of \$105.0 million, and received contributions of \$82.4 million for 2019. He said April withdrawals to pay benefits and expenses are \$10 million from Polen, \$7 million from DFA US Large Cap Value, \$6 million from the S&P 500 Index Fund, \$4 million from Earnest, and \$3 million from CastleArk.

Mr. Silber then introduced a new Senior Pension Investment Analyst, Anthony Lubarsky, who previously worked at US Bank and a local investment management company. He noted Mr. Lubarsky is a CFA Charter holder and has a Master's Degree in Finance. Mr. Silber added that the next Investment Committee meeting is Thursday, May 9 when AQR, the Emerging Markets manager will present and Callan will provide an update on the Real Estate program, which they do twice a year. Mr. Silber said Staff is also putting together the 1st Quarter Performance Report. He noted in early April, one of the Private Equity managers, Neuberger Berman notified the ERS that some of the investments they were going to make in the near future had a likelihood they would incur a UBTI (Unrelated Business Income Tax). He said other investment managers, such as Real Estate, Private Equity and Hedge Fund Managers, could also incur this tax. He stated the materiality amount of the tax is low and the IRS has not given clear guidance that local government DB plans are impacted by UBTI. Thus, Staff reported it elected to keep its entire commitment to Neuberger Berman in the vehicle the ERS is currently in that has been vetted by the attorneys, Callan, Staff and has been approved by the Board. Discussion ensued.

Administration & Operations Committee Report. Mr. Klusman reported that at the April 18, 2019 meeting, Baker Tilly representatives were present to discuss Baker Tilly's 2018 engagement with the ERS. He said Experis also presented their completed audits for Contributions, Benefit Payroll, Investments, and Vendor Management. He noted the Information Technology General Controls audit was done in closed session. Mr. Klusman said no significant issues were identified in any of the audits. In addition, he stated Experis reported on a follow-up review that was conducted that confirmed that management had completed the corrective actions for the Accounting and Financial internal audit performed in 2017. He said the Committee unanimously adopted the draft ERS 2020 City Budget Request presented by Mr. Gopalan and Ms. Johnson. Mr. Klusman said the budget request is for \$20,925,497.00, which is \$2,280,476.00 less than the 2019 Adopted Budget. He commented that Messrs. Raynal and Manchu presented the IT Projects Portfolio and updated the Committee on IT projects. Mr.

*See minutes dated May 28, 2019 for correction.

Klusman stated the Organizational/Personnel Update was received and Ms. Johnson updated the Committee, noting that the ERS is working with DER to fill the vacancies for the Accounting Assistant II and Network Administrator positions. He stated Mr. Anthony Lubarsky had accepted the Pension Investment Analyst – Sr. position. Finally, he said, Ms. Fowler discussed a pending contract with Spectrum for fiber optic cable at the Madison FemRite disaster recovery site.

Approval of Draft ERS 2020 City Budget Request. It was moved by Mr. Klusman, seconded by Mr. Patti, and unanimously carried, to approve the Draft ERS 2020 City Budget Request.

New Business.

Fiduciary Education – Miriam Horwitz, Deputy City Attorney. Ms. Horwitz presented her annual Fiduciary Education presentation to the Board and persons attending the meeting. She discussed basic principles and noted that the importance of fiduciary duty to a pension Board is the highest level of fiduciary duty that exists in the law. Ms. Horwitz discussed basic trust terms, ERS Board responsibility, who is a fiduciary and how one becomes a fiduciary, sources, standards of fiduciary conduct, primary fiduciary duties which are the duty of care and the duty of loyalty, the prudent investor rule and standard, duty to consult, exercising prudence and prudent delegation, practical advice, gift rules, communications, contributions, prohibited transactions, undue influence ban, conflicts of interest, fiduciary liability, delegated decisions, co-fiduciary liability, protection from liability, and avoidance of liability. Discussion ensued throughout the presentation.

(Mr. Konrad called for a break at 10:14 a.m. and resumed the meeting at 10:20 a.m.)

Consider Cavanaugh Macdonald Proposed Change to Expected Investment Return Assumption. As a matter of information, Board members received the Cavanaugh Macdonald City of Milwaukee Employee's Retirement System Board Presentation document dated March 25, 2019. Mr. Langer said last month they talked about a recommended change in the expected return assumption, reviewed the assumptions and methods employed for the valuation, and made a recommendation. He said Cavanaugh's recommendation is to reduce the assumed rate of investment return to 7.50%. He also said the stable contribution rate, set in 2018 for five-years, would be monitored by each annual actuarial valuation. He also advised consideration should be given by the Plan sponsors to begin setting aside funds now to provide for the higher employer contribution rates beginning in 2023 when the stable contribution rate is reset. Mr. Langer further recommended the increase in unfunded liability resulting from reducing the expected return assumption to 7.5% be amortize over 25 years. Discussion ensued throughout the presentation.

It was moved by Mr. Klusman, seconded by Mr. Patti, and unanimously carried, to approve to change the expected investment return assumption as recommended by the actuary and amortized any resulting unfunded liability over 25 years.

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

Active Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$0.00
Deferred Death Benefits reported	\$10,107.61
Retired Death Benefits reported	\$45,395.01
Survivor Death – Termination Benefits reported	\$6,031.15
Refund of Member Contributions paid	\$76,629.70

It was moved by Mr. Klusman, seconded by Mr. Kovac, and unanimously carried, to approve the Retirements, Death Claims, and Refunds.

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

Jerry Allen	AQR Forum
Sponsor:	AQR
Location:	University of Chicago (Gleacher Center), Chicago, IL
Date:	May 7, 2019
Estimated Cost:	\$75.00

Thomas Courtright	MFS Global Investment Institute
Sponsor:	MFS
Location:	Boston, MA
Date:	June 10-12, 2019
Estimated Cost:	\$1,300.00

Jerry Allen	NCPERS 2019 CEO Summit
Sponsor:	NCPERS
Location:	Chicago, IL
Date:	June 13-14, 2019
Estimated Cost:	\$150.00

Miriam Horwitz, Patrick McClain	2019 Legal Education Conference
Sponsor:	NAPPA
Location:	San Diego, CA
Date(s):	June 25-28, 2019
Estimated Cost:	\$2,700.00 per person

Mr. Allen noted Mr. Konrad also requested to attend the May 7, 2019 AQR Forum in Chicago, IL.

It was moved by Mr. Patti, seconded by Mr. Bell, and unanimously carried, to approve the Conference Requests – April 2019 Board Meeting.

Consider and potentially take action regarding ODR Benefits for Non-compliance with Re-exam Requirements of MCC-36. Mr. Petropoulos stated that after the item was put on the agenda, the member came into compliance so no consideration is needed by the Board today. Mr. Konrad reiterated no action was needed on this item. Discussion ensued.

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

Approval of Northern Trust Custodial Agreement Extension. Mr. Kruse stated they are looking to extend by 60 days the current custodial agreement with Northern Trust while working to finalize the new agreement for the securities lending and custody services currently bundled in the existing agreement. He said the only change to the new agreement would be removing the compliance analyst services, which are no longer necessary.

It was moved by Ms. Ford, seconded by Mr. Klusman, and unanimously carried, to approve the Northern Trust Custodial Agreement Extension.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations. Mr. Allen presented certifications (April 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>
Bryan Norberg Effective 11/21/18	Approval
<u>Police – Re-examinations – Duty</u>	<u>Recommendation</u>
Angel Alderman	Approval
Christopher Manney	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Kyle Dannies	Approval
Thomas Gillespie	Approval
Walter Price	Approval
Bruce Rightmyre	Approval
Thomas Scholz	Approval
Mark Tesch	Approval

<u>New Applications – Ordinary</u>	<u>Recommendation</u>
Jeffrey Bellamy Effective 01/09/18	Approval
<u>GC – Re-Examinations – Ordinary</u>	<u>Recommendation</u>
Harold Cross	Approval
Mark Detert	Approval
Delbert Orr	Approval
Aron Gilbert	Approval
Valerie Chapman	Approval
Mary Nelson-Taite	Approval
Damion Powell	Approval
Henry Gonzalez	Approval

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

Disability Findings – Tina Swanson. Mr. Konrad presented the findings submitted by Hearing Examiner Gerlach whose Decision states “I recommend that the decision of the Annuity & Pension Board denying Ms. Swanson’s request for duty disability benefits be reversed.” Correspondence was also received from the City Attorney’s Office dated April 1, 2019 indicating it did not intend to file a brief. The appellant Ms. Swanson also sent correspondence indicating she would not be filing a brief.

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

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 Mr. McClain is nearing completion of the two Legal Opinion requests. She noted the Service Requests are ongoing and most are up-to-date. Mr. Allen mentioned one service request forwarded to the City Attorney’s Office for the ERS to engage the services of the Ice Miller firm to initiate a routine IRS compliance review. He said the IRS no longer issues the determination letters and consequently a compliance review by tax counsel would be prudent.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation and said there were no new additional items to report.

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.
- 5) Minutes of the Administration and Operations Committee Meeting Held March 25, 2019.

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

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

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

There being no further business, Mr. Konrad 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.)