

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

Minutes of the Regular Meeting held June 24, 2019

The meeting was called to order at 9:03 a.m.

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

Board Members Not Present: Nik Kovac (arr. 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

Others Present: Larry Langer, Pat Beckham, Cavanaugh Macdonald, LLC; Miriam Horwitz, Patrick McClain, Greg Kruse, Jim Carroll, Ben Roovers, City Attorney's Office; Dennis Yaccarino, Molly King, Eric Pearson, Budget Office; Jim Zalewski, Milwaukee Retiree Association; John Barmore, Retired Fire & Police Association; Terry Siddiqui, DS Consulting, Inc.; Gust Petropoulos, Jason Ren, Adecco.

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

Approval of Minutes. Mr. Matson presented the minutes of the Regular Meeting held May 28, 2019. It was moved by Mr. Konrad, seconded by Mr. Campbell, and unanimously carried, to approve the Minutes of the Regular Meeting held May 28, 2019.

Chief Investment Officer Report. As a matter of information, Board members received the June 24, 2019 performance report. Mr. Lubarsky presented the performance report and said the Fund value as of May 31, 2019 was \$5.19 billion dollars. He noted the Fund return of -2.5%, gross of fees, underperformed the blended benchmark by 14 basis points in May. Mr. Lubarsky said the Fund's return exceeds the benchmark in all other time periods shown, net of fees. The

main drivers of May performance, Mr. Lubarsky stated, were Brandes at negative 14 basis points, Loomis Sayles at negative 10 basis points, DFA U.S. Small Cap Value at negative 9 basis points, and DFA International at negative 8 basis points. He noted as of June 21, the Fund return is positive 3.2% in June and the Fund return is positive 10.1% year to date, net of fees, with the Fund value at approximately \$5.36 billion dollars. He said 13 out of the 18 active managers are outperforming year to date, net of fees. Mr. Lubarsky also noted the Fixed Income and Absolute Return asset classes, along with the Total Fund, are exceeding their respective benchmarks year-to-date, net of fees. Mr. Lubarsky noted the Fund had an investment gain of \$508.1 million dollars, paid benefits and expenses of \$176.8 million dollars, and received contributions of \$87.4 million dollars year to date. He said June withdrawals to pay benefit payments are \$20 million from Allianz Agg 250, \$12 million from MFS, \$8 million from Polen, \$6 million from Northern Trust S&P 500, \$3 million from William Blair, and \$2 million from DFA U.S. Large Cap Value.

Investment Committee Report. At its June 6th meeting, Mr. Patti reported the Investment Committee heard a presentation from Callan Associates. Callan provided education on the Private Equity asset class and demonstrated how the Fund's expected risk and return characteristics would change if the Board decided to increase the portfolio's Private Equity allocation, which the Fund has been an investor in since 2010. He said within the presentation, Callan provided a detailed scenario analysis of the portfolio's liquidity position to evaluate the Fund's ability to generate sufficient liquidity in the event the stock market declined significantly. He noted Callan and Staff both indicated that an increase in the Fund's Private Equity target allocation from 8% to 10% could be implemented via Mix 2 within Callan's presentation, in a way that improves the Fund's expected risk and return characteristics, and doesn't compromise the Fund's ability to generate sufficient liquidity in the event of a major drop in the stock market. A discussion took place throughout the presentation. Mr. Patti said Staff also provided a performance update for the Fund as of June 5. He said finally, in closed session, the Committee discussed, and ultimately approved, the CMERS Low Beta LLC Agreement Amendment. Since this Amendment contained language that immediately improved certain legal rights for CMERS, Mr. Patti noted Staff utilized its authority under Board Rule VII.G.2.b. to execute an investment-related contract that was approved by the Investment Committee.

Administration & Operations Committee Report. Mr. Klusman reported that at the June 24, 2019 meeting, the A&O Committee met at 8:15 a.m. before the Board meeting and heard three items they are recommending approval of to the Board. He said one was a Second Amendment to the contract between the ERS and the Managed Medical Review Organization. He noted another item was a Second Amendment with CenturyLink Communications. Finally, he mentioned, the last approval item was the approval of the A&O Committee Audit Charter and the Internal Audit Charter. Mr. Klusman also stated the Committee received updates on IT projects portfolio updates as well as the Organizational and Personnel Updates.

Approval of Second Amendment To The Contract Between The Employees' Retirement System Of The City Of Milwaukee And Managed Medical Review Organization, Inc. It was moved by Mr. Campbell, seconded by Mr. Bell, and unanimously carried, to approve the Second Amendment To The Contract Between The Employees' Retirement System Of The City Of Milwaukee And Managed Medical Review Organization, Inc.

Discussion of Second Amendment with CenturyLink Communications, LLC. Mr. Allen noted Ms. Turk had prepared an extension agreement and CenturyLink sent a new form of contract to the City Attorney's office last week. He asked whether the amendment could be approved subject to the City Attorney's review. Mr. Matson asked for the Board's preference. Messrs. Kovac and Patti preferred to wait until the contract is final. Mr. Matson then noted the item would be held and brought back to a subsequent Board meeting.

Approval of A&O Committee Audit Charter and Internal Audit Charter. Mr. Matson noted the two documents were created many years ago. He noted the Internal Audit Charter details what it accomplishes for the ERS and the A&O Committee Audit Charter details the responsibilities that reside at the A&O Committee level. It was moved by Mr. Bell, seconded by Ms. Ford, and unanimously carried, to approve the A&O Committee Audit Charter and Internal Audit Charter.

New Business.

Presentation By Pat Beckham and Larry Langer of Cavanaugh Macdonald and Acceptance of 2019 Actuarial Valuation Report. Mr. Langer and Ms. Beckham presented the results of the January 1, 2019 Actuarial Valuation of the Fund. Mr. Langer noted the purpose of the actuarial valuation is to estimate the liabilities for future benefits expected to be paid by the System; determine the employer contribution rate required to fund the System on an actuarial basis and compare that rate to the Stable Contribution Policy; disclose certain asset and liability measures, including the funded ratio; monitor any deviation between actual plan experience and experience projected by the actuarial assumptions; and analyze and report on any significant trends in contributions, assets and liabilities over the past several years. Mr. Langer noted all the known inputs as of January 1, 2019 which consist of Membership Data, Asset Data, Benefit Provisions, Assumptions, and Funding Methodology. He stated the inputs then provide the results which are the actuarial value of assets, actuarial accrued liability, UAAL/funded ratio, net actuarial gain or loss, employer contributions, and projections. He stated the Plan is 82% funded on an actuarial basis. Discussion ensued. It was moved by Mr. Patti, seconded by Mr. Konrad, and unanimously carried, to accept the 2019 Actuarial Valuation Report.

Mr. Matson called for a break at 10:38 a.m. He resumed the meeting at 10:45 a.m.

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

Active Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$29,350.57
Deferred Death Benefits reported	\$67,006.90
Retired Death Benefits reported	\$115,189.47

Survivor Death – Termination Benefits reported	\$7,825.28
Refund of Member Contributions paid	\$295,172.85

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

Mr. Matson took the meeting out of order and moved the closed session items V. C. and D. to the end of the meeting in order to adjourn from closed session.

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

Erich Sauer	Private Advisors Due Diligence
Sponsor:	Private Advisors
Location:	Richmond, VA
Date:	August 15-16, 2019
Estimated Cost:	\$1,100.00

Anthony Lubarsky	Baird Institutional Investors Conference
Sponsor:	Robert W. Baird
Location:	Kohler, WI
Date:	September 9, 2019
Estimated Cost:	\$64.00

Erich Sauer	Prologis Conference
Sponsor:	Prologis
Location:	Nashville, TN
Date:	September 24-25, 2019
Estimated Cost:	\$900.00

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

Medical Reports.

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

Fire – New Applications – Duty

Dennis Kowalski

Recommendation

Denial

<u>Police – Re-examinations – Duty</u>	<u>Recommendation</u>
Joel Kujawa	Approval
Graham Kunisch	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Kenneth Berget	Approval
Bradley Davis	Approval
John Kielpinski	Approval
Andrew Korducki	Approval
Paul Singer	Approval
James Youngblood	Approval
<u>Fire – New Applications – Ordinary</u>	<u>Recommendation</u>
Dennis Kowalski	Approval
Effective 01/09/2019	
<u>Police – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Todd Rendon	Approval
<u>Fire – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Craig Weiss	Approval
<u>GC – New Application– Duty</u>	<u>Recommendation</u>
Derrie Jefferson	Denial
<u>GC – New Application– Ordinary</u>	<u>Recommendation</u>
Glenn Podlewski	Approval
Effective 10/05/18	
<u>GC – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Angela Morales	Approval
Craig Winstead	Approval

It was moved by Mr. Konrad, 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. 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 the opinion regarding Calculation of Retirement Benefit Allowance Pursuant to §36-05-3-c-1, MCC is before you today and the opinion regarding Retirement Eligibility Date is completed and Mr. McClain noted it was signed. Ms. Horwitz said the later opinion would be circulated prior to the next Board meeting. She said the service requests are in progress and Mr. McClain stated the Administrative Appeal Rule Amendment is waiting for a committee hearing. It was moved by Mr. Kovac, seconded by Mr. Campbell, and unanimously carried, to approve the Legal Opinions and Service Requests Pending and Legal Opinions.

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 Administration and Operations Committee Meeting Held May 28, 2019.
- 5) Minutes of the Investment Committee Meeting Held June 6, 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. Matson accepted and placed the aforementioned items on file.

Mr. McClain noted on the Litigation Report, they received an unfavorable result from the Circuit Court Judge on the MPSO case. He said the court held that, based on the language in the collective bargaining agreement, that the 5.8% pension offset payment that goes to protective service employees should be included in the calculation of duty disability retirement benefits. He

said an appellate committee would meet July 1st to discuss the viability of an appeal moving forward. Mr. McClain said it only applies to protective service employees hired prior to October 3, 2011.

Mr. Matson advised that the Annuity and Pension Board may vote to convene in closed session on the following items (C. and D.), 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 Board may then vote to reconvene in open session following the closed session. It was moved by Mr. Patti, and seconded by Mr. Konrad, that the Board convene in closed session of these items. The motion prevailed by the following roll call vote: AYES: Ms. Ford, Messrs. Bell, Campbell, Klusman, Konrad, Kovac, Patti, and Matson. NOES: None.

- C. Approval of Northern Trust Custodial Agreement Extension.
- D. Approval of Northern Trust Custodial Agreement Amendment related to the Securities Lending Stay Protocol.

The Board convened in closed session at 11:03 a.m. The Board reconvened in open session at 11:40 a.m.

It was moved by Mr. Campbell, seconded by Mr. Bell, and unanimously carried, to approve the Northern Trust Custodial Agreement Extension.

It was moved by Mr. Campbell and seconded by Mr. Konrad to approve the Northern Trust Custodial Agreement Amendment related to the Securities Lending Stay Protocol. The motion prevailed by the following roll call vote: AYES: Messrs. Bell, Campbell, Klusman, Konrad, and Kovac. NOES: Ms. Ford, Messrs. Patti and Matson.

There being no further business, Mr. Matson adjourned the meeting at 11:43 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.)