

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

Minutes of the Regular Meeting held September 23, 2019

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

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

Board Members Not Present: Deborah Ford (arrived at 9:02 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
 Jan Wills, Board Stenographer

Others Present: Tiffany Reeves, Reinhart Boerner Van Deuren; Miriam Horwitz, Patrick McClain, Jim Carroll, Greg Kruse, Jenny Yuan, City Attorney's Office; Molly King, Eric Pearson, Budget Office; James Zalewski, Milwaukee Retiree Association; John Barmore, Retired Fire & Police Association; Joseph Haasch, Vice President, Local 215, Milwaukee Professional Fire Fighters; Terry Siddiqui, DS Consulting, Inc.; Gust Petropoulos, Adecco.

Approval of Minutes. Mr. Matson presented the minutes of the Regular Meeting held July 22, 2019. It was moved by Mr. Kovac, seconded by Mr. Klusman, and unanimously carried, to approve the Minutes of the Regular Meeting held July 22, 2019.

(Ms. Ford arrived at 9:02 a.m.)

Chief Investment Officer Report. As a matter of information, Board members received the September 23, 2019 performance report. Mr. Courtright presented the performance report and said the Fund value as of August 31, 2019 was \$5.28 billion dollars. He noted the Fund return of -0.7%, gross of fees, underperformed the blended benchmark by 14 basis points. Mr. Courtright said the Fund's return exceeds the benchmark in all other time periods shown except for one year, net of fees. The main drivers of August relative performance, Mr. Courtright stated, was style bias with U.S. Small Cap at negative 13 basis points, and manager selection with Loomis Sayles at negative 8 basis points, DFA U.S. Small Cap at negative 7 basis points, and William Blair with a positive 8 basis points. He noted as of September 20, the Fund return is positive 1.4% in September and the Fund return is positive 12.2% year to date, net of fees, with the Fund

value at approximately \$5.36 billion dollars. He said 10 out of the 18 active managers are outperforming year to date, net of fees. Mr. Courtright 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. Courtright noted the Fund had an investment gain of \$608.5 million dollars, paid benefits and expenses of \$282.4 million dollars, and received contributions of \$97.0 million dollars year to date. He said September withdrawals to pay benefit payments are \$9 million from BlackRock Global Alpha Tilts, \$6 million from BlackRock Russell 1000 Value, and \$6 million from Earnest.

Mr. Matson advised that the Annuity and Pension Board may vote to convene in closed session on the following items (II.A. and II.B.), 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.

Approval of Northern Trust Master Custody Agreement Contract.

Approval of Northern Trust Securities Lending Authorization Agreement Contract.

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

The Board convened in closed session at 9:05 a.m. and reconvened in open session at 9:40 a.m.

It was moved by Mr. Konrad, seconded by Mr. Patti, and unanimously carried, to approve the Northern Trust Master Custody Agreement Contract.

It was moved by Mr. Bell, seconded by Mr. Konrad, and unanimously carried, to approve the Northern Trust Securities Lending Authorization Agreement Contract.

Approval of Delegation of Authority to Execute Certain Contract Amendments under Specific Conditions. Mr. Silber updated his memo from January 2017 allowing delegate approval and execution of Real Estate contract amendments to CMERS Staff, with the advice of the City Attorney's office, under certain specific conditions, to include a request to include Private Equity. Discussion ensued. Mr. McClain stated the memorandum in the Board packet describes the delegation of authority and the up or down vote on the delegation is recorded in the Board meeting minutes. Ms. Horwitz advised and the Board directed Staff to incorporate this delegation into the Investment Policy for transparency sake.

It was moved by Mr. Campbell, seconded by Ms. Ford, and unanimously carried, to approve the Delegation of Authority to Execute Certain Contract Amendments under Specific Conditions.

Investment Committee Reports.

Mr. Patti reported at the July 25, 2019 Investment Committee meeting, the Investment Committee heard a Private Equity presentation from Staff and noted the presentation included follow up from Callan's June presentation, additional information about how increasing the Fund's allocation to Private Equity can be done in a way that improves CMERS' risk and return characteristics, and what the implementation would look like in the event the Board approved increasing the Fund's Private Equity allocation from 8% to 10%. He said a healthy discussion

took place throughout the presentation. Mr. Patti stated the Committee, in closed session, heard presentations from Private Advisors and Neuberger Berman, two of the Fund's existing Private Equity managers. He added the Committee approved a new Asset Allocation Mix, identified as Mix 2 in Callan's June Investment Committee presentation that increases the Fund's Private Equity target allocation to 10%. Mr. Patti commented that Staff provided a routine due diligence report on BlackRock. He said Staff concluded the meeting with the Fund's preliminary 2nd Quarter performance report. He said the Committee recommended approving the Asset Allocation Mix (Mix 2 from Callan's June presentation) at the July Investment Committee meeting.

Approval of Asset Allocation Mix. It was moved by Mr. Patti, seconded by Mr. Campbell, and unanimously carried, to approve the Asset Allocation Mix.

Mr. Patti reported at its September 5th meeting, the Investment Committee heard, in closed session, a presentation from Mesirow Financial, one of the Fund's existing Private Equity managers. He said Callan presented the Private Equity Pacing and Reinvestments 2020 presentation, which it prepares and updates annually for CMERS. He said after discussion and upon the conclusion of Callan's presentation, the Committee approved the recommendation to commit \$295 million to CMERS' existing Private Equity managers, contingent on successful legal review, as follows: \$120 million to Mesirow Partnerships Fund VIII, \$100 million to Neuberger Berman Secondary Opportunities Fund V, \$40 million to Abbott's Annual Program 2020, and \$35 million to Private Advisors' Small Company Fund IX. Mr. Patti stated Staff then presented the Q1 2019 snapshot of the Fund's Private Equity portfolio and presented a due diligence report from a recent visit to Private Advisors, one of the Fund's existing Private Equity managers. Mr. Patti commented that during the CIO Report, Staff noted the following: they initiated a TCA RFI on August 12 and was preparing to review responses, with a close-of-business deadline on September 6, 2019. He said the current provider is Global Trading Analytics. He said Staff negotiations with Northern Trust with respect to Securities Lending were ongoing and it was hoped then that the Custody and Securities Lending contracts would soon be ready for Board consideration. Mr. Patti noted that examples of Staff's process for raising cash from investment managers to pay monthly benefits has worked well over the past three years, even as stock market volatility feels like it has increased during the past 18 months. He said that Staff estimates of performance through September 4th showed the Fund's net of fee return was almost 11%, generating outperformance against its benchmark, with a market value of approximately \$5.3 billion. Mr. Patti concluded by noting the Committee recommended approving the 2020 Private Equity Commitment Recommendation at the September Investment Committee meeting.

Approval of 2020 Private Equity Commitment Recommendation. It was moved by Mr. Patti, seconded by Mr. Bell, and unanimously carried, to approve the 2020 Private Equity Commitment Recommendation.

Administration & Operations Committee Report.

Approval of First Amendment to the Contract for Co-location Computer Facility with the State of Wisconsin. Mr. Klusman reported that at the September 23, 2019 meeting, the A&O Committee met at 8:30 a.m. before the Board meeting and the Committee heard details of the First Amendment to the Contract for Co-location Computer Facility with the State of Wisconsin. Mr. Klusman stated the Committee passed a unanimous recommendation to the

Board to approve the item. He said they also accepted and placed on file items for the IT Projects Portfolio and Organizational/Personnel Update.

It was moved by Mr. Klusman, seconded by Ms. Ford, and unanimously carried, to approve the First Amendment to the Contract for Co-location Computer Facility with the State of Wisconsin.

New Business.

Retirement of Board Chair – Martin Matson. Mr. Matson stated he would be retiring on April 20, 2020 from his position as Comptroller for the City of Milwaukee. He said he would be happy to continue as Chair of the Annuity & Pension Board in January 2020 but the only way he could continue after April 2020 is if he is appointed trustee by the President of the Common Council to fill a vacancy. Mr. Matson said there are at least five aldermen seeking the office of Common Council President and he has already had conversations with the current Common Council President, Mr. Hamilton. He asked Board members to consider whether they would be willing to serve as Board Chair in January or have Mr. Matson continue until a new Board Chair selection is made in April. Mr. Matson also stated he wrote to the Common Council stating he is not seeking another term as Comptroller. Mr. Matson noted he will have had 27 years of service with the City of Milwaukee next year. He began his City service with the Department of Public Works.

Retirements, Death Claims, and Refunds (July and August). Mr. Allen presented the following activity for the months of July 2019 and August 2019.

Active Death Benefits reported	\$0.00
Duty Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$126,020.69
Deferred Death Benefits reported	\$35,779.46
Retired Death Benefits reported	\$33,199.16
Survivor Death – Termination Benefits reported	\$5,418.67
Refund of Member Contributions paid	\$556,064.24

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

Conference Requests – September 2019 Board Meeting. Mr. Matson presented the conference requests this month.

Carmelo Patti	NCPERS Public Pension Funding Forum
Sponsor:	NCPERS
Location:	New York, NY
Date:	September 11-14, 2019
Estimated Cost:	\$2,500.00

Erich Sauer, Tony Lubarsky	Principal Due Diligence
Sponsor:	Principal
Location:	Des Moines, IA
Date:	October 14-15, 2019
Estimated Cost:	\$750.00 per person
Miriam Horwitz	Introduction to Investments
Sponsor:	Callan Associates
Location:	Chicago, IL
Date:	October 15-16, 2019
Estimated Cost:	\$930.00
David Silber	Roundtable for Consultants & Institutional Investors
Sponsor:	Institutional Investor
Location:	Chicago, IL
Date:	October 15-17, 2019
Estimated Cost:	\$300.00
Jim Campbell, Matthew Bell	NCPERS Accredited Fiduciary Program (Modules 3&4) and Public Safety Conference
Sponsor:	NCPERS
Location:	New Orleans, LA
Date:	October 25 – 29, 2019
Estimated Cost:	\$2,500.00 per person

It was moved by Mr. Kovac, seconded by Mr. Klusman, and unanimously carried, to approve the Conference Requests — September 2019 Board Meeting.

Approval of City’s Request To Have Access To The Actuary For Collective Bargaining Purposes. As a matter of information, Board members received a letter from the Budget and Management Director Mr. Yaccarino to engage the Employees’ Retirement System actuary to analyze several plan design changes. Mr. Allen stated there is a Board Rule under which both the collective bargaining units and the City can have access to the system’s actuary for pricing out bargaining proposals. Discussion ensued. It was moved by Mr. Patti, seconded by Mr. Bell, and unanimously carried, to approve the City’s Request To Have Access To The Actuary For Collective Bargaining Purposes.

Referral To Legislative Committee Regarding Proposed Board Rule On Placement Agents. Mr. Allen noted each Board member, whether or not on the Legislative Committee, received a copy of the Legislative packet. He said upon referral, the Legislative Committee meeting would take up the matter regarding the use of placement agents by investment managers who want to do business with the ERS. He stated the proposal is to further reinforce the integrity of the ERS investment process. Mr. Allen noted the ERS is a separate corporation under state law, a qualified plan fiduciary and must act independently of the political branches of City government. He said placement agents are hired to lobby officials to place their clients with public pension funds and certain agents have been found to employ unethical facts to improperly influence elected officials and trustees. It was moved by Mr. Konrad, seconded by Ms. Ford, and

unanimously carried, to approve the Referral To Legislative Committee Regarding Proposed Board Rule On Placement Agents.

Mr. Matson advised that the Annuity and Pension Board may vote to convene in closed session on the following item (V.F.), as provided in Section 19.85(1)(f), Wisconsin State Statutes, for considering financial, medical, social or personal histories or disciplinary data of specific persons, preliminary consideration of specific personnel problems or the investigation of charges against specific persons except where par. (b) applies which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories or data, or involved in such problems or investigations.

Mr. Matson struck the above language since no medical records would be discussed.

Mr. Matson advised the Annuity and Pension Board may vote to convene into closed session on the following item (V.F.) on September 23, 2019 in the ERS Board Room, pursuant to s. 19.85(1)(g), Wis. Stats., for the purpose of conferring with the City Attorney who will render oral or written advice with respect to litigation in which the Board is or is likely to become involved and then will go back into open session for the remainder of the agenda, and to potentially vote on matters discussed in closed session.

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

The Board convened in closed session at 10:23 a.m.

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

The Board convened in closed session again at 11:10 a.m.

Consider and potentially take action on DDR member's request to waive yearly medical re-exam and regarding litigation.

Mr. Matson advised the Annuity and Pension Board may convene into closed session on September 23, 2019 in the ERS Board Room, pursuant to s. 19.85(1)(g), Wis. Stats., for the purpose of conferring with the City Attorney who will render oral or written advice with respect to litigation in which the Board is or is likely to become involved and then will go back into open session for the remainder of the agenda, and to potentially vote on matters discussed in closed session.

Closed session regarding litigation.

The Board reconvened in open session at 11:26 a.m.

It was moved by Mr. Kovac, seconded by Mr. Bell, and unanimously carried, to settle ERD Claim No. CR201900617 for \$5,000.00 without any admission of fault.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations (August and September). Mr. Allen presented certifications (August 2019 and September 2019) of the Fire

and Police Medical Panel Physicians and the Medical Council relative to Duty & Ordinary Disability Retirement benefits as follows:

<u>Fire – New Applications – Ordinary</u>	<u>Recommendation</u>
Brian Jameson	Denial
<u>Police – Re-examinations – Duty</u>	<u>Recommendation</u>
Willie Huerta	Approval
Robert Kendziorski	Approval
Ayman, Khatib	Approval
Tracy Martinez	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Nicholas Adamski	Approval
Mark Ashworth	Approval
Scott Hoth	Approval
Thomas Kaminski	Approval
Thomas Locke	Approval
Thomas Ptak	Approval
<u>Police – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Angela Algee-Cotton	Approval
Audra Finnegan	Approval
Melissa Jones	Approval
Sherry Rowsey-Brown	Approval
Cassandris Smith	Approval
<u>GC – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Quedell Braylock	Approval
Linda Gifford	Approval
Edward Hamilton	Approval
Eugenia Tate Hutchins	Approval
Robert Jacoby	Approval
Karen Moe	Approval
Tia Smith	Approval
Sharon Turner-Young	Approval
Leann Wolfe	Approval

It was moved by Mr. Campbell, seconded by Ms. Ford, 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 noted a new legal opinion for armed security guard for ERS offices. Mr. Allen said the opinion states the ERS can contract with a service, or an employee could be armed, but the opinion expressed caveats and cautions. He said the ERS' insurance broker advises no insurer would write a policy covering an armed employee. Mr. Allen stated other alternatives for hardening ERS offices from active shooters would be considered.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation.

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.

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 July 22, 2019.
- 5) Minutes of the Investment Committee Meeting Held July 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. Matson accepted and placed the aforementioned items on file.

There being no further business, Mr. Matson adjourned the meeting at 11:50 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.)