

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

Minutes of the Regular Meeting held October 28, 2019

The meeting was called to order at 9:02 a.m.

Board Members Present:            Deborah Ford  
   Tom Klusman  
   Rudolph Konrad  
   Martin Matson  
   Carmelo Patti

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

Retirement System Staff Present:    Bernard J. Allen, Executive Director  
   Daniel Gopalan, Chief Financial Officer  
   David Silber, Chief Investment Officer  
   Erich Sauer, Deputy Chief Investment Officer  
   Anthony Lubarsky, Pension Investment Analyst  
   Jason Ren, Pension Investment Intern  
   Mary Turk, Business Operations Analyst  
   Jan Wills, Board Stenographer

Others Present: Debbie Sweeney, Eric Rismeyer, Hays Companies; Patrick McClain, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc.; Gust Petropoulos, Adecco.

**Approval of Minutes.** Mr. Matson presented the minutes of the Regular Meeting held September 23, 2019. It was moved by Mr. Konrad, seconded by Ms. Ford, and unanimously carried, to approve the Minutes of the Regular Meeting held September 23, 2019.

**Chief Investment Officer Report.** As a matter of information, Board members received the October 28, 2019 performance report. Mr. Lubarsky presented the performance report and said the Fund value as of September 30, 2019 was \$5.34 billion dollars. He noted the Fund return of 1.6%, net of fees, outperformed the blended benchmark by 26 basis points. Mr. Lubarsky said the Fund's return exceeded the benchmark in all other time periods shown except for one year, net of fees. The main drivers of September relative performance, Mr. Lubarsky stated, were Private Equity with a positive 11 basis points, and US Large Cap Value style bias with a positive 10 basis points. He noted as of October 25, the Fund return is positive 1.0% in October and the Fund return is positive 13.5% year to date, net of fees, with the Fund value at approximately \$5.39 billion dollars. He said nine out of the 18 active managers are outperforming year to date, net of fees. Mr. Lubarsky also noted the Fixed Income, Absolute Return, and Private Equity 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 \$670.2 million dollars, paid benefits and expenses of \$318.9 million dollars, and received contributions of \$99.7 million dollars year to date. He said October withdrawals to pay benefit payments are \$14 million from BlackRock Global Alpha Tilts, \$11 million from MFS, and \$5 million from William Blair.

Mr. Silber then reminded the Board members of the next Investment Committee meeting on November 14. He noted the 3<sup>rd</sup> Quarter Report will be presented and Callan will present more education on securities lending. Mr. Silber added that at the last Board meeting he got a request to mention any Board actions related to the delegation of authority. He noted since the last Board meeting they did respond to a LaSalle MFN where there was a time constraint between meetings. Mr. Sauer worked with Assistant City Attorney Ms. Fowler to enhance a term in a current side letter with LaSalle, one of the four core real estate managers, and the ERS went forward to make that election. Mr. Silber said he appreciated the Board’s providing the authority to take care of that.

**Administration & Operations Committee Report.**

**Approval of First Amendment to the Contract with Cavanaugh Macdonald Consulting, LLC.** Mr. Klusman stated the Administration & Operations Committee met at 8:30 a.m. before the Board meeting and approved the First Amendment to the Contract with Cavanaugh Macdonald Consulting, LLC. He said the Committee recommended the Amendment for approval. Mr. Allen added that it is an amendment to provide terms and conditions for using one of Cavanaugh Macdonald’s modeling spreadsheets to measure liabilities and contributions internally within the ERS. He said there is no additional charge for it. Mr. Allen noted it is billed as a trade secret and Cavanaugh wanted to license the ERS to use it.

It was moved by Mr. Klusman, seconded by Mr. Patti, and unanimously carried, to approve the First Amendment to the Contract with Cavanaugh Macdonald Consulting, LLC.

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

**Legislative Committee Report.**

**Approval of Proposed Amendment to Board Rule XXI. Appeal.** Mr. Konrad said this is the Amendment to the Rule that clarifies the briefing schedule where the first party has 21 days to file a brief and the opposing party has 21 days to respond. He noted it avoids the problem when briefs are filed late and there is lack of clarity as to when they are due. Mr. Konrad suggested the Board change 21 days to 21 working days. Mr. McClain added that the intent is to expedite the process. Discussion ensued and it was agreed that the standard would be 21 calendar days.

It was moved by Mr. Konrad, seconded by Ms. Ford, and unanimously carried, to approve the Proposed Amendment to Board Rule XXI. Appeal.

**New Business.**

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

Active Death Benefits reported	\$0.00
Duty Death Benefits reported	\$0.00
Ordinary Death Benefits reported	\$70,655.24

Deferred Death Benefits reported	\$0.00
Retired Death Benefits reported	\$10,051.88
Survivor Death – Termination Benefits reported	\$8,278.71
Refund of Member Contributions paid	\$222,921.72

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

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

Tony Lubarsky	2019 Abbott Capital Private Equity Client Conference
Sponsor:	Abbott Capital Management
Location:	New York, NY
Dates:	November 4-5, 2019
Estimated Cost:	\$1,000.00

Erich Sauer, Thomas Courtright, Anthony Lubarsky	Due Diligence
Sponsor:	CastleArk
Location:	Chicago, IL
Dates:	December 17, 2019
Estimated Cost:	\$90.00 per person

Erich Sauer	Visions, Insights & Perspectives Real Estate Conference
Sponsor:	Institutional Real Estate, Inc.
Location:	Dana Point, CA
Dates:	January 27-30, 2020
Estimated Cost:	\$2,000.00

David Silber	73 <sup>rd</sup> CFA Institute Annual Conference
Sponsor:	CFA Institute
Location:	Atlanta, GA
Dates:	May 17-20, 2020
Estimated Cost:	\$2,800.00

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

**Approval of Renewal of Fiduciary Liability Insurance.** As a matter of information, Board members received the Fiduciary Liability Insurance Board Summary from Ms. Sweeney and Mr. Rismeyer of Hays Companies. Ms. Sweeney noted the current coverage limit is \$50 million. She said there continues to be a reduced number of insurers who are interested in writing fiduciary liability insurance for large governmental plans. She noted for the 2017 renewal, the primary insurer was replaced with Hudson Insurance Company who signed on for broader coverage at a reduced price. Ms. Sweeney also noted that RLI Insurance Company moved to the

second tier and they write the highest excess level for the ERS. She commented that Hays has been working with the ERS for 10 years to retain the broadest coverage at the lowest price. Ms. Sweeney said they were able to obtain a 2.83% increase on the overall program for \$7,204.00. Discussion ensued.

It was moved by Mr. Klusman, seconded by Mr. Patti, and unanimously carried, to approve the Renewal of Fiduciary Liability Insurance.

**Approval of Cyber Insurance.** As a matter of information, Board members received the Cyber Insurance Proposal Board Summary. Ms. Sweeney noted the ERS is looking at this for the first time this year. She noted the insurers put together additional supporting services in connection with this risk. Ms. Sweeney said they were able to obtain more favorable coverage through Chubb and that is the proposal Hays is recommending. Discussion ensued. Mr. Matson recommended having a discussion on ERS' exposure at the Administration & Operations Committee. Mr. Rismeyer discussed coverages that have become common within cyber policies. He also discussed costs associated with various types of breaches. Mr. Matson asked if anyone had any objection to the \$5 million coverage and a subsequent discussion in the Administration & Operations Committee before bringing this item back to the full Board. He noted the Hays Companies representatives would be attending a future meeting.

It was moved by Mr. Konrad, seconded by Ms. Ford, and unanimously carried, to approve the Cyber Insurance amount at \$5 million dollars.

**Approval to Suspend Disability Benefits for Non-Compliance with Outside Earnings Request.** Mr. Allen noted that this agenda item is moot as Mr. Gopalan had informed him that morning that the four remaining non-complying persons had complied and did submit their outside earnings paperwork.

**Consider Compensation for Disability Reviewers and Hearing Examiners.** As a matter of information, Board members received a memo from Mr. Petropoulos regarding the "Reviewer and Hearing Examiner Fees." Mr. Petropoulos spoke to the Board about a discussion he had with each of the hearing examiners and reviewers and then an inquiry was made regarding the hearing examiners' compensation. He noted the last change to their compensation was 14 years ago when the fee went from \$90.00 per hour to the current rate of \$110.00 per hour. Mr. Petropoulos commented that the Milwaukee County Employees' Retirement System pays its hearing examiners and reviewers \$200 per hour for similar services. Discussion ensued. Mr. Petropoulos noted there are seven or eight hearing examiners. Mr. McClain mentioned the hearing examiners generate the report that becomes the basis for the Board's decision. He noted if a case goes to Circuit Court, it is the conclusion in the hearing examiner's report that is under review. Mr. Allen stated the substantial cost of disability pensions is not the administration of the benefit but the benefit itself at 75% to 90% of pay. He said approximately \$20 million per year is paid in disability benefits. Mr. Petropoulos said the Board is well-served to have retired circuit court judges as hearing examiners and reviewers.

It was moved by Mr. Klusman to approve the rate of \$200 per hour, seconded by Ms. Ford, and unanimously carried, with the exception of Mr. Konrad who abstained, to approve the Compensation for Disability Reviewers and Hearing Examiners. Mr. Konrad abstained as he is a hearing examiner for the Fire and Police Commission.

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

Mr. Matson advised that the Annuity and Pension Board may vote to convene in closed session on the following item (V.G.), 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 advised that the Annuity and Pension Board may vote to convene into closed session on the following item (V.G.) on October 28, 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 advise 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. Matson, seconded by Mr. Konrad, and unanimously carried, to convene in closed session. The motion carried by the following vote: AYES: Ms. Ford, Messrs. Klusman, Konrad, Kovac, Patti, and Matson. NOES: None.

The Board convened in closed session at 9:50 a.m.

The Board reconvened in open session at 11:07 a.m.

**Medical Reports.**

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

<u>Police – New Applications – Duty</u>	<u>Recommendation</u>
Alexis Acosta	Denial
James McNichol	Denial
<u>Police – Re-examinations – Duty</u>	<u>Recommendation</u>
Nicole Belmore	Approval
Robert Henry	Approval
Jasmine Lewis	Approval
Michael Pendergast	Approval
Jill Riley	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Jerry Allen	Approval
Gilbert Baltutis	Approval
Scott Krahn	Approval

John Schmaelzle	Approval
Scott Van Roo	Approval
<u>GC – New Applications – Duty</u>	<u>Recommendation</u>
Albert Marsh	Denial
Tammie Wesley	Denial
<u>GC – New Applications – Ordinary</u>	<u>Recommendation</u>
Alexis Acosta	Denial
James McNichol	Approval
Effective 07/13/2019	
<u>GC – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Ywanda Bryant	Approval
Kevin Cole	Approval
Michael Jasso	Approval
Mark Laska	Approval

It was moved by Mr. Klusman, seconded by Mr. Patti, 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. Mr. McClain stated the legal opinion regarding the “Restoring of Former Member Account” would be completed by the next Board meeting. He noted the Service Request of the “Administrative Appeal Rule Amendment” was just completed. Mr. McClain stated Ms. Fowler is completing the remaining service requests.

**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 “Investment Placement Agents” item was discussed at the Legislative Committee meeting and the City Attorney’s office will be drafting the proposed rule.

**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 Investment Committee Meeting Held September 5, 2019.
- 5) Minutes of the Administration and Operations Committee Meeting Held September 23, 2019.
- 6) Minutes of the Legislative Committee Meeting Held September 23, 2019.

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

- 7) Report on Bills.
- 8) Deployment of Assets.
- 9) Securities Lending Revenue and Budget Report.
- 10) 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 11:18 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.)