

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

Minutes of the Regular Meeting held February 24, 2020

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

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

Board Members Not Present: Deborah Ford (excused)
 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
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Miriam Horwitz, Patrick McClain, City Attorney's Office; Eric Pearson, Molly King, Budget Office; John Barmore, Retired Fire & Police Association; Jim Zalewski, Milwaukee Retiree Association; Terry Siddiqui, DS Consulting, Inc.; Gust Petropoulos, Adecco.

Approval of Minutes.

Annual Meeting Held January 27, 2020. Mr. Patti presented the minutes of the Annual Meeting held January 27, 2020. It was moved by Mr. Konrad, seconded by Mr. Campbell, and unanimously carried, to approve the minutes, as amended.

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

Appointment of Committees for 2020. Mr. Patti appointed the following members to serve on the committees listed below:

Administration and Operations Committee. Mr. Bell, Chair; Mr. Patti, and Mr. Matson.

Investment Committee. Committee of the whole: Mr. Konrad, Chair.

Legislative Committee. Ms. Ford, Chair; Mr. Campbell and Mr. Kovac.

Litigation Committee. Ad hoc. To be appointed when necessary.

Chief Investment Officer Report. As a matter of information, Board members received the February 24, 2020 performance report. Mr. Lubarsky presented the performance report and said the Fund value as of January 31, 2020 was \$5.54 billion dollars. He noted the Fund return of -0.6%, gross of fees, underperformed the blended benchmark by 51 basis points in January. He noted the Fund return exceeded the benchmark in all other time periods shown, net of fees. The main drivers of January relative performance, Mr. Lubarsky stated, were Public Equity style bias at -27 basis points, and Brandes at -20 basis points. He said six of the 18 active managers were outperforming year to date. Mr. Lubarsky noted the Fund year to date did have an investment gain of \$43.9 million dollars but was wiped out as of the morning by the coronavirus fears. He noted the Fund paid benefits and expenses of \$38.2 million dollars and received contributions of \$87.5 million dollars. He commented as of February 21, 2020, the Fund return is up 1.4% month to date, the Fund return is up 0.8% year to date, net of fees, with the Fund value at approximately \$5.61 billion dollars. Mr. Lubarsky said the monthly withdrawals were \$15 million from Northern Trust S&P 500, \$9 million from MFS, \$5 million from BlackRock R1000 Value, \$5 million from Earnest, and \$5 million from Polen.

Investment Committee Report. Investment Chairman Mr. Konrad reported at its February 13 meeting, Staff presented the 4th quarter performance report. He noted a few highlights from the report including that the Fund's return was 18.4% in 2019, net of fees; the Fund outperformed its benchmark by 2% in 2019, net of fees; and all of the Fund's asset classes outperformed their respective benchmarks in 2019, net of fees. Mr. Konrad stated that Staff presented an update to the Fund's Statement of Investment Policy to make it consistent with the recent Board Rule change related to placement agents. He said specifically that the Committee approved incorporating into the Fund's Statement of Investment Policy the language that requires Investment Managers recommended to the Investment Committee by its Investment Consultant to disclose whether or not they utilize a placement agent. In closed session, Mr. Konrad noted the Committee considered the Evaluation Team's feedback with respect to Investment Consultant RFP Responses. He said based upon the feedback from the Evaluation Team, the Committee selected an Investment Consultant and authorized Staff to proceed with contract negotiations. Mr. Konrad concluded that the following items were recommended for approval by the Investment Committee: Approval of Statement of Investment Policy Update and Authorization of Further Action for Selected Consultant(s).

Mr. Silber commented that Allianz, who implemented the Portable Alpha Strategy as well as an Absolute Return Strategy, would attend the March Investment Committee Meeting. He said the Value Add Report will be presented and Staff will be working with Callan and the Board regarding 2020 initiatives. Mr. Silber also discussed the coronavirus fear as it relates to market volatility.

Mr. Klusman inquired about the balance in the Pension Reserve Fund which he recalled is currently \$33 million, having been \$30 million during 2019, with an \$8 million contribution to

the Pension Reserve Fund budgeted by the City for 2020. Mr. Matson explained that the current balance in the Reserve Fund is the result of a transaction to apply \$5 million from the Pension Reserve Fund toward the 2020 employer contribution by the City to the pension trust. Due to an oversight in 2019, the City neglected to apply \$5 million from the Pension Reserve Fund as budgeted for that year. The City corrected this oversight in the subsequent period by applying \$5 million from the Pension Reserve Fund to pay a portion of the 2020 employer contribution to the pension trust because it is prohibited by Chap. 36 and IRS qualified plan rules from receiving funds from the Pension Reserve Fund. Discussion ensued.

Approval of Statement of Investment Policy Update. It was moved by Mr. Bell, seconded by Mr. Campbell, and unanimously carried, to approve the Approval of Statement of Investment Policy Update.

Mr. Patti advised that the Investment Committee may vote to convene in closed session on this item (IV.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 Investment Committee may then vote to reconvene in open session following the closed session.

Mr. Patti noted the Board did not convene in closed session as noticed.

Consider Investment Consultant RFP Responses and Evaluation Team Feedback, and Authorize Further Action for Selected Consultant(s). It was moved by Mr. Campbell, seconded by Mr. Kovac, and unanimously carried, to approve the Authorization of Further Action for Selected Consultant(s).

New Business.

Retirements, Death Claims, and Refunds (January). Staff presented the following activity for the months of January 2020.

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|--|--------------|
| Active Death Benefits reported | \$0.00 |
| Duty Death Benefits reported | \$0.00 |
| Ordinary Death Benefits reported | \$0.00 |
| Deferred Death Benefits reported | \$0.00 |
| Retired Death Benefits reported | \$107,434.14 |
| Survivor Death – Termination Benefits reported | \$5,309.72 |
| Refund of Member Contributions paid | \$280,356.02 |

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

Conference Requests – February 2020 Board Meeting. Mr. Patti presented the February 2020 conference requests this month.

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| Carmelo Patti | Trustee Education |
| Sponsor: | Council of Institutional Investors (CII) in partnership with the CFA Institute |
| Location: | Washington, DC |
| Date: | March 8 – 11, 2020 |
| Estimated Cost: | \$2,000.00 |
| Erich Sauer, Tony Lubarsky and Carmelo Patti | Polen Due Diligence and Allianz Conference |
| Sponsor: | Polen and Allianz |
| Location: | Boca Raton and Miami, FL |
| Date: | April 27 – 29, 2020 |
| Estimated Cost: | \$1,850.00 per person |
| James Campbell | NCPERS (ACE) Conference and Program for Advanced Trustee Studies |
| Sponsor: | NCPERS |
| Location: | Las Vegas, NV |
| Date: | May 8 – 13, 2020 |
| Estimated Cost: | \$3,100.00 |
| Carmelo Patti | NCPERS (ACE) Conference and Program for Advanced Trustee Studies |
| Sponsor: | NCPERS |
| Location: | Las Vegas, NV |
| Date: | May 9 – 13, 2020 |
| Estimated Cost: | \$3,100.00 |

It was moved by Mr. Bell, seconded by Mr. Matson, and unanimously carried, to approve the Conference Requests – February 2020.

Approval of Close out of 2019 Budget. Staff discussed the final 2019 ERS payment to the City and 2019 Budget to Actual Expenditures reconciliation report. Mr. Klusman inquired why benefit expense is not broken out separately for the 45% Fringe Benefit rate and questioned whether the fringe benefit expense is correctly determined. Mr. Gopalan said he would work with the City and bring the information back to the Board on this point. Mr. Gopalan also said the fringe rate was set pursuant to the intergovernmental cooperation agreement with the City. Discussion ensued at length with much cross-talk. It was moved by Mr. Matson, seconded by Mr. Konrad, and unanimously carried, to approve the Close out of 2019 Budget.

Approval of Alternate Appointments to the Medical Council. Mr. Petropoulos noted there are three doctors on the Medical Council and they received new contracts last year. He said there is a need for alternate appointments in case the full-time doctors are unable to meet. Mr. Petropoulos asked the Medical Council for recommendations and received two whose curriculum vitae are included in the Board members' packets. He said the candidates were interviewed by the Medical Council and himself and the two doctors are amenable to fulfilling the duties and are recommended to the Board by the Medical Council and Mr. Petropoulos. It was moved by Mr. Klusman, seconded by Mr. Campbell, and unanimously carried, to approve the Alternate Appointments to the Medical Council.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations (January). Staff presented certifications (January 2020) of the Fire and Police Medical Panel Physicians and the Medical Council relative to Duty & Ordinary Disability Retirement benefits as follows:

| <u>Police – Re-examinations – Duty</u> | <u>Recommendation</u> |
|--|-----------------------|
| Natasha Padgett | Denial |
| <u>GC – Re-examinations – Ordinary</u> | <u>Recommendation</u> |
| Carol Hart | Approval |
| Paul Ropel | Approval |
| Kenneth Trudeau | Approval |

Staff noted there were no approvals or denials from the Medical Panel this month. It was moved by Mr. Campbell, seconded by Mr. Klusman, 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, Staff presented a list of pending requests for legal opinions and service requests made to the City Attorney. Staff noted there was a new opinion request for a 90% enhanced disability benefit with workers' compensation implications for the applicant and is pending with the City Attorney's office. Mr. McClain said it would be presented at the March Board meeting. Staff also noted there is a pending service request with outside legal counsel. Mr. Klusman requested that any opinions get e-mailed to Board members ahead of receiving the monthly packet.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Staff 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 2020 YTD.
- 4) Adjusted Quarterly Cost Basis of Equity.
- 5) Minutes of the Investment Committee Meeting Held January 15, 2020.
- 6) Minutes of the Administration & Operations Committee Meeting Held January 27, 2020.

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.
- 11) Draft Report from the Wisconsin Public Policy Forum.

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

It was moved by Mr. Campbell, seconded by Mr. Bell, and unanimously carried, to adjourn the meeting.

There being no further business, Mr. Patti adjourned the meeting at 9:49 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.)