

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

Minutes of the Regular Meeting held April 27, 2015

The meeting was called to order at 9:05 a.m.

Board Members Present: John Barmore, Chair
 Karen Ellenbecker
 Larry Holland
 Tom Klusman
 Martin Matson
 Michael J. Murphy
 Mark Nicolini
 Carmelo Patti

Board Members Not Present: Rudolph Konrad (Excused)
 Gerald Pace (Excused)
 Gust Petropoulos (Arrived at 9:42 a.m.)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Beth Cleary, Deputy Director
 David Silber, Chief Investment Officer
 Erich Sauer, Pension Investment Analyst
 Tom Courtright, Pension Investment Analyst
 Melody Johnson, ERS Financial Officer
 Kelly Reid, Chief Technology Officer
 Mary Turk, Business Operations Analyst
 Karen McElwee Lloyd, Mgmt. Services
 Analyst/Disability Benefits Coordinator
 Mary Jane Stoffel, Retirement Plan Manager
 Suzanne Fortier, Board Stenographer

Others Present: Miriam Horwitz and Margaret Daun, City Attorney's Office; Molly King, Budget Office; Jean Burnside, Milwaukee Retirees Association; and Tom Fink, Reams Asset Management.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held March 23, 2015. It was moved by Mr. Holland, seconded by Mr. Klusman, and unanimously carried, to approve the Minutes of the Regular Meeting held March 23, 2015.

Chief Investment Officer Report. As a matter of information Board members received a copy of the CIO Report. Mr. Silber handed out a copy of the Performance Update Charts. Mr. Courtright reported that, as of March 31, 2015, the Fund's value was \$5.01 billion. He reported that the Fund had a return of -0.7 percent, gross of fees, and underperformed the blended benchmark return in March. Mr. Courtright stated that as of April 24, 2015 the Fund was up approximately 2.4 percent in April, with an approximate value of \$5.13 billion and the year-to-

date return is up approximately 4.5 percent. He noted that eight of the Fund's 16 active managers are outperforming year-to-date, net of fees. Mr. Courtright reported that as of April 24, 2015, the Fund has year-to-date: capital market gains of \$220.9 million; paid out \$101.9 million in benefits and expenses; and received contributions of \$80.7 million. He indicated that the ERS Fund withdrew in April: \$6 million from BlackRock Alpha Tilts, \$6 million from Polen, \$5 million from DFA US Small Cap Value, \$4 million from Earnest, and \$3 million from CastleArk to pay monthly benefits and expenses.

Mr. Silber reminded the Board members that there is an Investment Committee Meeting scheduled for Thursday, May 14, 2015 and briefly spoke about the agenda items.

Investment Committee Report. Mr. Murphy reported that at the April 2 meeting, ERS Staff provided a brief performance update on the Fund and provided an update on The Townsend Group due diligence discussion from the March meeting, indicating that ERS Staff anticipated bringing a recommendation to firm up the real estate guidelines at the May meeting. ERS Staff also mentioned that they were in the process of planning due diligence visits to Reams and CastleArk. He stated that Callan provided a Real Assets search profile, and the Committee approved a \$150 million search for a listed diversified real assets manager. Callan anticipates bringing a finalist list for the Committee's consideration at the May meeting. Mr. Murphy indicated that Northern Trust provided an update regarding the services they provide the ERS, including custody, securities lending, class action, and investment management.

Lastly, he said the ERS Staff presented a request from Reams to modify its guidelines to allow the selling of exchange-cleared indexed credit default swaps (CDS) within CMERS' portfolio. After a thorough discussion between Committee members, Callan, and ERS Staff, the Committee approved the guideline change with the additional request that 1.) Going forward, Reams include in its performance reports data on what return impact CDS have on performance, and 2.) ERS Staff provide a brief statement that Board members can refer to that explains the benefit of allowing Reams to utilize CDS. There were also a few questions that Reams has subsequently provided a formal response to that were included in today's Board package. Mr. Murphy noted that Tom Fink, a Sr. Portfolio Manager at Reams, is present at today's meeting and is prepared to make some brief comments and answer any outstanding questions that Board members may have.

Approval of Real Assets Manager Search. As a matter of information, Board members received a copy of the Callan Investment Manager Candidate Search Profile.

Approval of Reams Asset Management Guideline change. As a matter of information, Board members received copies of memorandum from Mr. Sauer, dated April 27, 2015, along with correspondence from Reams Asset Management, dated April 16, 2015, and copies of a memorandum from Mr. Sauer, dated April 2, 2015, along with a letter from Reams Asset Management, dated February 17, 2015, and a copy of Reams Asset Management objectives and guidelines. Mr. Fink of Reams Asset Management appeared before the Board to answer questions.

It was moved by Mr. Murphy, seconded by Mr. Patti, and unanimously carried, to approve the Real Asset Manager Search and the Reams Asset Management guideline change.

Administration and Operations Committee Report. As a matter of information, Board members received a copy of the 2016 Draft City Budget Request. Mr. Patti reported that the A & O Committee received updates on the IT Portfolio, the organizational/personnel re-classes and the ERS 2016 Draft City Budget, which included a decrease in Investment Manager fees, IT software maintenance, hardware improvements and professional services. He reported that the Committee approved the budget request. Discussion ensued.

Approval of UMS Contract Amendment. As a matter of information, Board members received a copy of the First Amendment to Agreement. Mr. Patti reported that staff discussed the contract amendment for UMS (United Mailing Services) related to mail house and printing services. The amendment provides for a two-year extension of time and funds and is before the Board today for approval, per the committee’s recommendation. After discussion, it was moved by Mr. Patti, seconded by Mr. Klusman, and unanimously carried, to approve the UMS contract amendment.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity, as well as Service Credits for the month of March 2015.

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|-------------------------------------|--------------|
| Active Death Benefits reported | \$109,940.05 |
| Retired Death Benefits reported | \$24,113.43 |
| Refund of Member Contributions paid | \$151,375.71 |

It was moved by Mr. Holland, seconded by Mr. Patti, and unanimously carried, that the above-indicated retirements, death claims, and refunds be approved.

Conference Requests. Mr. Allen reported that requests to attend the following conferences had been submitted:

Mark Nicolini,
 Jerry Allen,
 David Silber 2015 Madison Investment Conference
 Sponsor: SWIB, CFA Society, Wisconsin School of Business
 Location: Madison, WI
 Date(s): May 28, 2015
 Estimated Cost: \$350.00 per person

Miriam Horwitz 2015 Legal Education Conference
 Sponsor: NAPPA
 Location: Austin, TX
 Date(s): June 23 – 26, 2015
 Estimated Cost: \$2,529.50

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|-----------------|---|
| David Silber | Great Plains Institutional Investor Forum |
| Sponsor: | Markets Group |
| Location: | Minneapolis, MN |
| Date(s): | September 8-9, 2015 |
| Estimated Cost: | \$650.00 |

Discussion ensued with respect to approving the conference requests in relation to the upcoming opinion. It was moved by Mr. Murphy, and seconded by Mr. Nicolini, to approve the conference requests submitted by Mr. Nicolini, Mr. Allen, Mr. Silber, and Ms. Horwitz. Mr. Patti stated he had requested to attend the NCPERS Conference, May 2 – 6, 2015 for an estimated cost of \$3,000. Ms. Horwitz spoke about the conference request to NAPPA.

*Mr. Klusman made the following comments about the NAPPA conference request “I was going to bring up similar concerns, and I know I have in the past, regarding the Pension Attorney’s conference, mainly because I know I have said this in the past, I have had some concerns about the Fund paying for non-employee or non-trustee education and travel. I was told I think the first time I asked last year about something we generally do or have done, and at that point at least, I deferred to that, but now reading this opinion, it appears that conferences or some things, at least here, have been awry for 35 years. It references a 1980 decision and things so I don’t want to defer off to that anymore, that we need to look at things because possibly things have not been going the way they should.

That being said I think it is not our responsibility, the Fund’s responsibility, and being the stewards of the Fund’s funds, um, we don’t pay Callan to be educated to give us advice, and the City Attorney gives us advice, and I think possibly that’s part of the responsibility of the plan sponsor when this was written, that they are responsible to give us an attorney to advise us and educate them. We expect that attorney to be educated; it is not our responsibility as a Fund to keep them up. I glanced at the, very quickly at the agenda as I did with all three I tried to find, and I see Assistant City Attorney Daun is also attending and presenting so there is some office, we are gleaning some, you’re going to be there already. It’s heavily presented by Ice Miller, one of our clients, so we are already paying them for advice, so why pay for an attorney to go listen to their advice.”

Mr. Allen spoke about this conference and the history of this being paid for by the Fund. He noted, the other thing that is more important is the Trust does reimburse the City for the expenses for the City Attorney’s Office in connection in supporting our Fund, particularly it pays for the salaries and if the City Attorney’s Office pays for it they will most likely just charge it back to the ERS as an expense through the City’s cross-charge process. Lengthy discussion ensued with respect to how many attorneys support the Board, the costs associated with that support, and Ms. Horwitz’s request and approximate costs. Mr. Barmore called for the question. Ms. Horwitz stated the motion should be amended to include Mr. Patti’s request. The motion was passed unanimously.

(*See minutes of May 26, 2015.)

(Mr. Petropoulos arrived during the discussion on conferences at 9:42 a.m.)

Approval of Resolution for Retirement Plan Manager Mary Jane Stoffel. Ms. Stoffel spoke to the Board about her years with the City and in the ERS and her plans for retirement. Mr. Allen presented the following Resolution:

WHEREAS, Mary Jane Stoffel, Retirement Plan Manager of the Employees' Retirement System of the City of Milwaukee, is retiring on May 1, 2015, and

WHEREAS, Ms. Stoffel was enrolled in the Employees' Retirement System since March 1985, and was employed by the City of Milwaukee since January 1988, and

WHEREAS, Ms. Stoffel accepted the position of Retirement Plan Manager (formerly known as Member Services Manager) of the Employees' Retirement System on March 24, 2004, and

WHEREAS, Ms. Stoffel was a most able and dedicated public servant as well as a fair-minded division head who earned the respect of her employees, and

WHEREAS, Ms. Stoffel oversaw and helped direct the timely implementation of the Global Pension Settlement provisions, oversaw and helped direct numerous projects for the Employees' Retirement System in affiliation with Member Services, including the implementation of a new pension management information system: MERITS (Milwaukee Employees' Retirement Information Technology System), and helped thousands of ERS members successfully transition to their retirement years, and

WHEREAS, Ms. Stoffel, conducted herself professionally, with decorum and dignity and treated others with respect; therefore be it

RESOLVED, By the Annuity and Pension Board that it expresses its sincere appreciation for the valuable and conscientious service of Ms. Stoffel; and be it

FURTHER RESOLVED, that this resolution be spread upon the permanent records of this Board and a suitably engrossed copy be presented to Ms. Stoffel,

The Board thanked Ms. Stoffel for her service. It was moved by Mr. Petropoulos, seconded by Mr. Matson, and unanimously carried, to approve the Resolution for Ms. Stoffel.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations. Mr. Allen presented certifications 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> |
|---|-----------------------|
| Rodolfo Gomez | Denial |
| Steven Moon | Denial |
| <u>Police – Re-examinations</u> | <u>Recommendation</u> |
| David Fass | Approval |
| Dwight Copeland | Approval |
| Stacy Lopez | Approval |
| David Grycowski | Denial |

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|---------------------------------------|-----------------------|
| <u>Fire – Re-examinations</u> | <u>Recommendation</u> |
| Jacob Ballering | Approval |
| <u>GC New Applications – Ordinary</u> | <u>Recommendation</u> |
| Steven Moon (MPD) | Denial |
| <u>GC Re-examinations – Ordinary</u> | <u>Recommendation</u> |
| Tracy King | Approval |
| Lynn Ellis | Approval |
| <u>GC Re-examinations – Duty</u> | <u>Recommendation</u> |
| Rodney Lemberger | Approval |

It was moved by Mr. Klusman, seconded by Mr. Patti, and unanimously carried, to accept the aforementioned recommendations of the Fire and Police Medical Panel Physicians and the Medical Council.

Unfinished Business.

Legal Opinion and Service Requests Pending. As a matter of information, Mr. Allen presented a list of pending requests for legal opinions and service requests made to the City Attorney.

Legal Opinions Obtained. Mr. Allen presented a legal opinion obtained from the City Attorney as follows:

ERS Medical Council and the Open Meetings Law. As a matter of information, Board members received a copy of the legal opinion. Mr. Allen noted that this opinion was held over from the last Board meeting. Ms. Horwitz talked about the opinion and discussion ensued.

Compensation for City Employee Pension Board Service. As a matter of information, Board members received a copy of the legal opinion. Ms. Horwitz and Ms. Daun talked about the opinion. Mr. Barmore stated that he felt the verbiage of due diligence is incorrect. He stated that he has never gone on a due diligence trip to do the due diligence, which is delegated to the staff, but that he has gone for the educational component, the oversight, to offer a slightly difference perspective, and to support the staff. Mr. Barmore stated that he would absolutely characterize it as educational, especially for an existing manager, to go out and see what that relationship is, and how it works. He felt that staff would say that they have benefited from having that additional perspective. Discussion ensued. Mr. Barmore asked if a diligence trip can be re-characterized as diligence and education simply by titling it, because if we go on a trip and I do not have a driver's license

and you are driving, that does not mean that I cannot look at a map or watch for cross traffic or engage in conversation. Ms. Daun responded that when you attend with investment staff, you now, as a Trustee, have essentially inserted yourself into that expert investment staff function. She stated that the Board may make a judgment that is prudent to you, but the Trustees should be alerted that there is a higher standard.

Mr. Barmore asked why the City Attorney's Office has not been telling the Board this for the last 35 years. He asked Ms. Daun if she understood the frustration of her answer regardless of whether it was 35 years or six months to write the opinion; he received this on Saturday and had two days as a non-lawyer to try and digest this and come up with an intelligent thought. Ms. Horwitz stated that this is a continuing discussion, learning and applying fiduciary duties is a continuing process, and that best practices evolve over time. She said what now is being discussed in legal circles and in pension circles as being a better practice, the City Attorney's Office then looks at it from a lens of what is occurring right now, not what was occurring five years ago, and that the legislative history puts it in some context.

Ms. Horwitz spoke about the Board amending the Rules and Regulations to permit trustees participation in due diligence visits with specific requirements. Mr. Barmore said this gets to be a whole grey area, for example, if we go to Chicago for an educational purpose, but it is in the morning and the train does not leave until 3:00 p.m. and we have a couple of hours, we could go see an existing manager, like William Blair, unscheduled, not regular due diligence, but they will get together with us with a client service person and give us a lap around the floor, so it is basically a tour and conversation. He asked if that is permissible and what that is considered due diligence, or education or just relationship. Discussion ensued.

Mr. Barmore referred to the attachment to the opinion showing trustee 2014 excused times and he said his shows 263 hours. He noted that he did not attend the Townsend trip, but had five 24-hour releases. The Townsend trip was one, and another one was due diligence that he did attend, along with three conferences. Mr. Barmore said five 24-hour days is 120 hours. Ms. Daun spoke about footnote 7 found on page 11. She suggested the request to the F & P Committee for more than 32 hours should include much more detail for the times of release. Mr. Barmore stated that we certainly do have short meetings for the A & O Committee, but more often he has to call the firehouse to say that he will not be back by 12 p.m. as there is a stack of contracts to sign, or that he is talking with staff about this or that or the meetings are running long with the conversation like this one. Further discussion ensued. Ms. Daun stated that, as we are talking about all these very practical detailed fact issues, rules then are sometimes not amenable to bending; where there is ad hoc, meetings run over. So if the Board endeavors to create new rules that are quite specific, then you want to attempt to strike a balance because there is a lot of detailed fact issues here. Ms. Daun stated that her office certainly would be happy to provide, for example, some of the guidance that SWIB uses, (the State of Wisconsin Investment Board) or from other nationwide, large pension plans as well. She stated that NAPPA is a great resource to see what our colleagues are doing in other places.

Mr. Matson talked about how much time is involved for preparing for and attending these meetings. Ms. Daun responded that the City Attorney's Office would have nothing but

agreement with Mr. Matson, and that the terminology included in the opinion was that this Board is uniquely time-intensive. Her office did not mean to show that it was not aware of the incredible time outside the meetings that is required by many trustees. They wanted to constrain the opinion to what was specifically asked, and their office would provide answers to any follow up questions. Further discussion ensued. Mr. Barmore said with \$5 billion and 27,000 members, the management fees are plus or minus \$15 million a year depending on how the markets perform, so just 1 percent of that is \$50 million, although 1 percent is probably too much for education purposes; but if we had 1/10 of that it is \$5 million, .01 percent is \$500,000, .001 percent is \$50,000. He said we do not approach that amount on what is spent on education.

He stated, while this is a very good discussion, if we watch every dollar, the money we invest in educating our trustees is a great investment at a good value. Mr. Barmore said Mr. Matson is the Comptroller, which is an ex-officio position, so being a trustee on this Board is part of his job duties by ordinance. He asked Ms. Daun how many alderman are required by ordinance to be on the Pension Board. Ms. Daun answered none. Mr. Barmore said they may serve on the Pension Board or any other board, and then it becomes part of their job duties so they do not have to track or have any limit on their release hours. Ms. Daun stated that was correct. He asked by ordinance how many fire department, police department and eventually general city employees are required to be on the Board. Ms. Daun stated one each. Mr. Barmore stated that, once elected, those duties would become part of the job duties. Ms. Daun stated the City Attorney's Office has not opined upon that issue. He stated that it seems as if there was a half sentence in the opinion that was dismissive that said it is not relevant. Ms. Daun asked what he was specifically referring to in the opinion. Mr. Barmore stated it was on page 4. Ms. Daun stated the opinions conclusion is that, although elected to this Board, the ordinance applies to you as currently written. Mr. Barmore said a firefighter is required to be on the Board.

Using Mr. Matson as an example, Mr. Barmore stated that once he became the Comptroller he is required to be on this Board. He stated when the next firefighter is elected he is required to be on this Board. Ms. Daun responded that he has selected himself to run. She stated the key distinction from the City Attorney's perspective was reading the plain language of the ordinance, which distinguishes based upon part of someone's regular job duties. Ms. Daun stated that the opinion is that, although elected to the Board, whether under the old system where there were three elected city employees, or under the new rule, that although elected, by reading the plain language in that statute her office does not believe that those elected city employees are exempt from Ordinance 350, which is the opinion's conclusion. Mr. Barmore said he disagreed with that opinion. Ms. Daun said the appropriate distinction to be made is within the scope of your regular job duties, and firefighting duties, police duties, and a garbage collector duties do not include Pension Board service. However, for any elected official - all of the council members, City Treasurer, City Comptroller, the Mayor and City Attorney - it is fair to say that, within their regular job duties includes any service on any city board or commission. She said that was the most logical interpretation of the ordinance.

After further discussion, Mr. Holland said he believed the opinion was written to help aid and protect the Board from the view of the public in seeing the Board take advantage of an opportunity that we have in front of us as a fiduciary, and he thinks it provides the Board with an opportunity that, if we so choose, to change the rules. He stated that he did not believe the opinion has been written to hinder the Board, so we should take the opinion as an opinion and decide how the Board wants to move forward with the rules and ordinances involved to allow us to do the job we need to do, via elected official or via an appointed official. Mr. Barmore asked if this opinion can be forwarded to the Board's Legislative Committee to work with the City Attorney and staff on updating and amending Board Rules, and or recommendations to the City. Ms. Horwitz stated that would be appropriate, and that is a path to move forward, and would put us in the position where the appropriate record is made so that those who look at the decisions as to how their money is getting spent for conferences or due diligence, and how the Finance and Personnel Committee is going to be in a position to really review and properly authorize additional release time, or to consider whether there would be an amendment to the ordinance itself. After discussion, Mr. Barmore stated that the opinion would be referred to the Legislative Committee to discuss best practices, updating Board Rules and possible legislative changes to refer to the City. It was moved by Mr. Holland, seconded by Mr. Matson, and unanimously carried, to refer the opinion to the Legislative Committee.

~~*(Please note that Mr. Barmore's written comments are attached to the minutes for the record.)~~

*See minutes of May 26, 2015 for correction.

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. Mr. Allen briefly updated the Board on ERS activities. After discussion, it was moved by Mr. Petropoulos, seconded by Mr. Holland, and unanimously carried, to accept the report.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated April 27, 2015, which gives the status of litigation involving the ERS, as prepared by staff of the ERS and City Attorney's office.
- 2) List of Client Conferences and Trustee Education for 2015.
- 3) Class Action Lawsuit Report.
- 4) Revised Minutes of the Regular Meeting held February 23, 2015.
- 5) Minutes of the Investment Committee Meeting held March 5, 2015.

- 6) Minutes of the Administration and Operations Committee Meeting held March 17, 2015.

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 Reports.
- 10) Preliminary Performance Report/Asset and Manager Allocation Pie Charts.
- 11) ERS Holdings Report.

It was moved by Mr. Holland, seconded by Mr. Matson, and unanimously carried, to accept and place on file the aforementioned informational items.

There being no further business, Mr. Barmore adjourned the meeting at 11:22 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.)