

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

Minutes of the Investment Committee Meeting
Held December 6, 2018

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

Committee Members Present: Martin Matson, Chair
 Deborah Ford
 Thomas Klusman
 Rudy Konrad
 Nik Kovac

Retirement Staff Present: Bernard J. Allen, Executive Director
 David Silber, Chief Investment Officer
 Erich Sauer, Deputy Chief Investment Officer
 Thomas Courtright, Pension Investment Analyst
 Dan Gopalan, Chief Financial Officer
 Mary Turk, Business Operations Analyst
 Lisa Ory, Administrative Assistant II
 Jan Wills, Board Stenographer

Others Present: Christopher Bae, Nicole Jenkins, Seth Toney, UBS; Bo Abesamis, John Jackson, Mike Joecken, Callan; Miriam Horwitz, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc.

Callan Custody Review Presentation. Mr. Matson advised that the Investment Committee may vote to convene in closed session on the following item (I.), 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 Committee may then vote to reconvene in open session following the closed session.

It was moved by Mr. Konrad, seconded by Mr. Kovac, and unanimously carried, to go into closed session. The motion was carried by the following roll call vote: AYES: Ms. Ford, Messrs. Klusman, Konrad, Kovac, and Matson. NOES: None.

The Committee convened in closed session at 9:07 a.m.

Mr. Matson called for a break at 10:34 a.m.

It was moved by Ms. Ford, and seconded by Mr. Klusman to reconvene in open session. The Committee reconvened in open session at 10:41 a.m.

UBS Hedge Fund Solutions Presentation. As a matter of information, Board members received the UBS Hedge Fund Solutions Portfolio Review. Ms. Jenkins, Mr. Toney, and Mr. Bae gave a presentation to the Board on the CMERS low-beta portfolio. Mr. Toney said the CMERS portfolio has been in place since January 2015.

Approval of Statement of Investment Policy Update. As a matter of information, Board members received the Statement of Investment Policy updated December 2018. Mr. Silber noted the policy update incorporates long-term strategic policy allocations that the Board approved last year and which were slightly modified during the structure review for fixed income and absolute return. He noted the goal was to eliminate the interim allocations on January 1, 2019 so the allocations reflect the long-term policy going forward.

It was moved by Mr. Klusman, seconded by Ms. Ford, and unanimously carried, to approve the Statement of Investment Policy Update.

Approval of Global Trading Analytics Contract Amendment. Mr. Silber said Global Trading Analytics has been a vendor for 11 or 12 years. He said Global Trading Analytics monitors the costs that 9 or 10 managers incur to trade stocks, bonds, and foreign currency.

It was moved by Mr. Kovac, seconded by Mr. Klusman, and unanimously carried, to approve the Global Trading Analytics Contract Amendment.

Due Diligence Reports. As a matter of information, Committee members received the Rolling Returns chart for Absolute Return. Mr. Sauer first spoke about the Absolute Return portfolio and said the benchmark is 90-day T-bills + 3%. He said it is difficult to benchmark Absolute Return since it is not like stocks where choices are to invest in an active manager or index fund that replicates the S&P 500. He said there is nothing that replicates 90-day T-bills + 3%. He said the ERS has been successful in beating the 90-day T-bills + 3% on a rolling basis over time.

Newton Investment Management. Mr. Sauer went over the performance numbers for Newton, a London-based investment manager that offers equity, fixed income, and multi-asset strategies, and said they posted a positive return during the last year, while both stocks and bonds were negative. He noted Newton is one of the ERS' three Absolute Return managers that collectively make up 9% of Fund assets. He said Ms. Suzanne Hutchins, the ERS' primary portfolio manager, heads the Real Return team and took over this role from Iain Stewart in January 2018. The ERS hired Newton Investment Management in August 2014 and as of October 31, 2018 managed \$117.8 million, or 2.3% of Fund assets.

Allianz Global Investors. Mr. Courtright reported on the Allianz visit and said the capacity for the strategy continues to be a strong focus by their investment team. He said the Structured Alpha 1000 Plus strategy is currently hard-closed. He said Allianz is monitoring the levels in the marketplace for futures and options. He noted the Structured Alpha investment team has 13 members, led by Lead Portfolio Manager Greg Tournant. Mr. Courtright said the strategies do have a drawdown when the S&P is down 10% in one month. He said as of October 31, 2018, Allianz manages \$592.5 million, or 11.5% of CMERS' assets, \$117.4 million in SA 1000 Plus and \$475.2 million in AGG 250.

UBS Hedge Fund Solutions. Mr. Courtright stated UBS put a large investment into investment risk monitoring. He noted the portfolio managers populate a template to look closely at the granular details of the portfolio. He noted Chief Investment Officer Bruce Amlicke is the key person at UBS. He noted the ERS has increased the target allocation twice in recent years, moving from 2.5% to 4.5% of Fund assets with the current allocation at approximately 4.75%, or \$244 million.

Mr. Klusman requested that the headquarters of the investment managers be listed on the due diligence reports since the managers can have numerous offices in various locations.

Mr. Matson received and placed on file the due diligence reports.

2019 Tentative Due Diligence Schedule. As a matter of information, Committee members received the 2019 Tentative Due Diligence Schedule. Mr. Sauer encouraged members to attend the investment due diligence trips for educational purposes.

Mr. Matson received and placed on file the 2019 Tentative Due Diligence Schedule.

CIO Report. Mr. Silber noted the Fund was at \$5.09 billion after paying out approximately \$30 million in benefits during the last week. He discussed factors in the world causing the S&P 500 to be at a negative 10-12% from its high in September. He said the ERS year-to-date return was approximately -0.5%, net of fees, as of December 6. Discussion ensued.

It was moved by Mr. Konrad, seconded by Mr. Kovac, and unanimously carried, to adjourn the meeting. There being no further business, Mr. Matson adjourned the meeting at 12:00 p.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.)