

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

Minutes of the Investment Committee Meeting
held March 14, 2019

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

Committee Members Present: Matthew Bell
James Campbell
Deborah Ford
Thomas Klusman
Martin Matson
Carmelo Patti

Committee Members Not Present: Rudy Konrad (excused)
Nik Kovac (arrived at 9:08 a.m.)

ERS 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
Robin Earleywine, Pension Accounting Manager
Lisa Ory, Administrative Assistant II
Jan Wills, Board Stenographer

Others Present: Lawrence Taylor, Brandes; Robert Deere, Lawrence Spieth, Dimensional Fund Advisors; John Jackson, Callan; John Barmore, Retired Fire & Police Association; Miriam Horwitz, City Attorney's Office; Molly King, Eric Pearson, Budget Office.

(Mr. Kovac arrived at 9:08 a.m.)

Value Add Analysis. As a matter of information, Committee members received the "CMERS Total Fund – Historical Value Add" presentation booklet. Mr. Silber presented the annual Value Add Analysis presentation to the Committee and said the cumulative value added to the Fund from its stock and bond allocations over the last 24 years is approximately \$742 million, net of investment fees. He said this amount is over and above what would have been added had the money been invested in index funds for stocks and bonds. He said the \$742 million value add is comprised of \$119 million from Domestic Equity, \$358.8 million from International Equity, \$2.6 million from Global Equity and \$261.8 million from Fixed Income. Discussion ensued.

Due Diligence Reports.

MFS Investment Management. As a matter of information, Committee members received Mr. Courtright's due diligence report from his and Mr. Silber's meeting with MFS

Investment Management in August 2018. Mr. Courtright stated they had a good meeting with MFS and the longtime Portfolio Managers are still with the strategy. He also said one Portfolio Manager has been added to the team as part of their objectives and for succession planning. Mr. Courtright noted MFS' research team is well regarded and this helps mitigate key person risk at the portfolio manager level. He also said performance for the strategy has been very good and MFS' net of fee returns have outperformed its benchmark over all time periods shown.

Polen Capital Management. As a matter of information, Committee members received Mr. Sauer's due diligence report from his meeting with Polen Capital Management in December 2018. He noted Polen's performance has been strong and there has been significant asset growth because of that. Mr. Sauer said their response was to close the strategy to some of their high-net-worth clients and they will take the right institutional mandates if they come along, but Polen is planning to slow the growth of the strategy. He noted when a strategy gets too many assets, it loses its ability to outperform. Mr. Sauer said Polen is also changing out a portfolio manager resulting in two promotions. He said it was not a major concern, as their key portfolio manager of the large-cap growth team is still involved in the strategy. Discussion ensued.

Brandes Investment Partners Presentation. As a matter of information, Committee members received the Brandes International Equity presentation booklet. Mr. Taylor gave an overview of Brandes to the Committee members and noted Brandes manages \$26 billion in assets. Mr. Taylor reviewed slides related to global stock markets and the opportunities for value managers. Discussion ensued. Mr. Taylor also discussed the ERS Portfolio. Discussion ensued.

Mr. Patti called for a break at 10:07 a.m. and resumed the meeting at 10:13 a.m.

Dimensional Fund Advisors Presentation. As a matter of information, Committee members received the Dimensional Fund Advisors (DFA) presentation booklet. Mr. Spieth noted the ERS is a long-time client with over 20 years with DFA. Mr. Deere discussed the three portfolios DFA has built for the ERS – two small-cap value portfolios and one large-cap value portfolio. He discussed slides related to the respective portfolios. Mr. Deere also pointed out that the International Small Cap Value Portfolio is different from the U.S. Small Cap Portfolio in that DFA needs to determine which countries to invest in and why. He noted the MSCI World ex USA Small Cap Value Index determines the list of countries, which is comprised of 22 countries.

Chief Investment Officer Report. As a matter of information, Mr. Silber provided a handout to the Committee regarding the Fund's manager line-up and noted private equity and public equity managers who have not presented in recent meetings would be invited to present during the remainder of 2019. Mr. Silber also noted that the investment team would be replacing some of its existing investment-related systems with FactSet in a budget-neutral manner. Mr. Silber commented the Fund is up 6.7% and outperforming the benchmark. He added the Fund value is \$5.28 billion as of March 13, 2019 with about \$334 million in gains representing a nice bounce from the Q4 downturn.

Informational.

Callan 4th Quarter 2018 Performance Report. As a matter of information, Board members received the Callan 4th Quarter 2018 Performance Report.

There being no further business, Mr. Patti adjourned the meeting at 11:19 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.)