

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

Minutes of the Investment Committee Meeting
held July 25, 2019

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

Committee Members Present: Matthew Bell
 James Campbell
 Thomas Klusman
 Rudy Konrad
 Martin Matson
 Carmelo Patti, Chair

Committee Members Not Present: Deborah Ford (not present) (arrived at 9:07 a.m.)
 Nik Kovac (excused) (arrived at 11:42 a.m.)

ERS Staff Present: Bernard J. Allen, Executive Director
 Dan 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
 Lisa Ory, Administrative Assistant II
 Jan Wills, Board Stenographer

Others Present: Chris Mackay, Todd Milligan, Private Advisors; Marc Dietrich, Benjamin Perl, Brian Talbot, Neuberger Berman; Mike Joecken, Callan; Jason Ren, Adecco.

Ms. Ford arrived at 9:07 a.m.

CMERS Staff Private Equity Follow-Up. As a matter of information, Committee members received the “CMERS Staff Private Equity Follow Up.” Mr. Silber provided a follow-up to Callan’s Private Equity education to Committee members at the previous Investment Committee meeting. He talked about the risk and return characteristics of certain mixes in the event the Private Equity allocation is increased and provided follow-up education about what implementation would look like. Mr. Silber noted two of the Private Equity Fund of Funds managers, Private Advisors and Neuberger Berman, would be presenting and afterwards, the Committee could consider approval of Mix 2 which Callan and Staff indicated they would support for consideration. He noted all four of CMERS’ private equity managers will be fundraising in the next 12-18 months. Discussion ensued.

Mr. Patti advised that the Investment Committee may vote to convene in closed session on the following items (II. and III.) 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.

Private Advisors Presentation.

Neuberger Berman Presentation.

It was moved by Mr. Patti and seconded by Mr. Konrad to convene in closed session. The motion prevailed by the following roll call vote: AYES: Ms. Ford, Messrs. Bell, Campbell, Klusman, Konrad, Matson and Patti. NOES: None.

The Investment Committee convened in closed session at 9:38 a.m.

The Committee reconvened in open session at 11:14 a.m.

Approval of Asset Allocation Mix. It was moved by Mr. Campbell, seconded by Mr. Bell, and unanimously carried, to approve Mix 2 from Callan's June 2019 presentation.

BlackRock Due Diligence Report. As a matter of information, Committee members received Mr. Sauer's BlackRock Due Diligence Report and he discussed his January 2019 BlackRock due diligence trip. He noted BlackRock has an active Global Alpha Tilts mandate, a Russell 1000 Value Index, and US Aggregate Index. He said they also provide transition management services for CMERS. He stated for the Allianz 250 Portable Alpha, the preferred way to get the beta exposure to the US Aggregate Index, is to use the iShares ETF, which is a BlackRock product. He noted the Global Alpha Tilts is very well resourced and BlackRock is committed to that product. Mr. Sauer said they are on the cutting edge of research and looking at different sources of returns and things other investment managers may not be looking at. He said their index capabilities are best in class. He said their transition management services are also transparent in their fees. He said that since they are the largest asset manager in the world, it gives them a lot of stability.

Mr. Kovac arrived at 11:42 a.m.

Q2 Preliminary Performance Report. As a matter of information, Committee members received the "Preliminary 2nd Quarter Performance Report" dated July 25, 2019. The Presentation Agenda included Fund Overview, Public Equity, Fixed Income, Absolute Return, Private Equity, and Recent Performance Update.

Mr. Sauer discussed the Fund overview and looked at the quarter which had a 3.4% return versus the benchmark of 3.9% with the main driver of underperformance being Private Equity. Mr. Sauer noted the year-to-date return is 11.1% versus the benchmark's 10.0%. He noted the rolling returns which show volatility in the one- and five-year periods but become more stable in the 10- and 15-year time periods.

Mr. Lubarsky discussed the Public Equity performance and noted the 10-year rolling returns are in line with the benchmark, net of fees. He said for the Public Equity's three-month trailing returns,

the portfolio underperformed its benchmark by 20 basis points, net of fees. Mr. Lubarsky noted the three-, five-, seven- and 10-year periods, outperformed the benchmark, net of fees, while the 15-year period is in line with the benchmark, net of fees. He said the Public Equity second quarter return for 2019 is 3.3%, gross of fees. He said more than 50% of the portfolio is allocated to technology, financials, industrial, and healthcare while over 50% of the regional exposure is allocated to North America. Mr. Lubarsky said MFS and William Blair outperformed in the 2nd quarter by 250 and 220 basis points, respectively. Mr. Lubarsky said the largest underperforming manager was Brandes at 380 basis points. He said the passive equity managers of Northern Trust S&P 500 Index and BlackRock Russell 1000 Value Index performed inline over the 2nd quarter and over the longer period. He commented that the Principal Diversified Real Assets underperformed by 70 basis points for the quarter.

Mr. Courtright then discussed Fixed Income and Absolute Return. He said that after Private Equity, Fixed Income and Absolute Return are the second- and third-ranking highest returns for the quarter. He said the rolling returns show net-of-fee outperformance versus the benchmark over the time periods, except for the 2008-2009 financial crisis. Mr. Courtright said Loomis Sayles had outperformance in all time periods shown while Allianz Portable Alpha had underperformance of 1.5% in the one-year time period but it had a challenging benchmark with the Barclays Agg. + 2.5% premium. He noted Allianz did have the highest-returning investment of 8.9% in the one-year time period. Mr. Courtright discussed the absolute returns of the investment managers and said Newton deserves credit as it had 4.3% for the quarter, 9.2% year-to-date, and 10.2% for the one-year time period with robust outperformance relative to its benchmark. He also highlighted the Allianz 1000 Strategy with an 11.0% year-to-date performance. He noted the ERS Absolute Return had outperformance over all time periods shown. Mr. Courtright also remarked the ERS Absolute Return had the lowest standard deviation as a risk measure at 3.2% over the other two asset classes of ERS Public Equity at 11.9% and ERS Fixed Income at 3.3%.

Mr. Ren discussed Private Equity and commented that the ERS has a \$393 million NAV, as of December 31, 2018. He noted the sub-asset class breakdown has allocations of 45% in Buyouts, 36% in Venture Capital and Growth Equity, and 19% in Special Situations. Mr. Ren said Private Equity has 157 managers, 289 partnerships, and 3,365 portfolio companies.

Mr. Sauer concluded with a Performance Update and stated that as of July 24, the Fund value was \$5.42 billion dollars and has a 0.9% return in July and 12% year-to-date return compared to a benchmark up slightly less in July and 10.9% year-to-date.

There being no further business, Mr. Patti adjourned the meeting at 12:02 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.)