

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

Minutes of the Regular Meeting
held April 27, 2020 via teleconference during COVID-19

The meeting was called to order at 9:00 a.m.

Board Members Present: Matthew Bell
 James Campbell
 Deborah Ford
 Tom Klusman
 Rudolph Konrad
 Nik Kovac
 Aycha Sawa
 Carmelo Patti, Chair

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
 Robin Earleywine, Pension Accounting Manager
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Miriam Horwitz, Patrick McClain, Andrea Fowler, City Attorney's Office; Jim Zalewski, Milwaukee Retiree Association; Terry Siddiqui, DS Consulting, Inc.; four public call-ins.

Mr. Patti advised meeting participants to observe the conference call etiquette listed on the Board packet.

Approval of Minutes.

Regular Meeting Held February 24, 2020. Mr. Patti presented the minutes of the Regular Meeting held February 24, 2020. It was moved by Mr. Klusman, seconded by Mr. Bell, and unanimously carried, with the exception of Mr. Klusman requesting to listen to the February 24, 2020 audio regarding the paragraph on the pension reserve fund, to approve the minutes.

Mr. Klusman requested the Chair add an agenda item for the May 26, 2020 meeting regarding the Employers' Reserve Fund issue but also in conjunction with the funding going forward and what is going to be done about contributions with the 2023 issue coming and recent

developments in the markets and the Allianz issue. Mr. Patti stated he would consider that for an agenda item.

Chief Investment Officer Report. Mr. Sauer noted March was an extremely difficult month and March 2020 will be recorded in financial history along with October 2008 and October 1987. He noted the Fund ended the month at \$4.53 billion with a return of -12.9%, and underperformed the blended benchmark by -7.2%. He noted there is underperformance in all time periods except the 20-year time period. He said the main relative performance driver for March was the underperformance of Allianz, which performed far worse than anyone had ever represented to the ERS was possible. Other drivers were Private Equity, which is attributable to the way the benchmark is done, using the prior quarters' public market returns, plus a premium. Mr. Sauer said Loomis Sayles was another detractor as credit spreads widened with some of their high yield energy holdings being especially impacted. Mr. Sauer noted as of April 23, 2020, the Fund is estimated to be up 3.2% month-to-date, which brought the Fund's year-to-date return to approximately -14.9%, net of fees, with the Fund's approximate value at \$4.68 billion. He said five of the 18 active managers are outperforming year-to-date, net of fees. Mr. Sauer noted none of the asset classes are exceeding their benchmark year-to-date, net of fees. He said year-to-date, the Fund has generated investment losses of \$823.7 million, paid benefits and expenses of \$110.8 million and received contributions of \$92.6 million. He added that because of the expected proceeds from the Allianz redemption, the ERS would not need to make manager withdrawals to meet cash flow needs this month. Mr. Klusman asked what the Allianz numbers look like, and asked about the 20-year return of 5.4% and inquired if it was more than 2% less than the current actuarial assumption. Mr. Sauer noted that Staff hopes that this is the worst the 20-year return looks but it is not known what the market will be going forward. He said that, as of March 31, 2020, the amount for the Allianz 1000 Plus Strategy is about \$12.9 million dollars and the amount for the Allianz AGG 250 Strategy is about \$374 million dollars. Discussion ensued.

Investment Committee Report – March 31, 2020. Mr. Konrad reported at its March 31 meeting, the Investment Committee went into closed session to discuss Callan's recommendation regarding Allianz Global Investors and then reconvened in open session to approve Callan's recommendation. He noted the Investment Committee recommended approval of the Callan recommendation to terminate exposure to the Allianz Structured Alpha Strategies. In addition, Mr. Konrad said the Committee directed Staff to determine and implement the most prudent method of liquidating the Fund's position.

Approval of Callan Recommendation Regarding Allianz Global Investors. It was moved by Mr. Kovac, seconded by Ms. Ford, and unanimously carried to approve the Callan Recommendation Regarding Allianz Global Investors.

Investment Committee Report – April 16, 2020. Mr. Konrad reported at its April 16 meeting, Staff provided some historical context to the market moves experienced in the first quarter. He said the organization also expressed its thoughts and prayers to everyone who has fallen ill, has lost friends and family, or has become financially strained because of COVID-19. Mr. Konrad commented that the organization also expressed its gratitude to the health care workers and first responders, who are selflessly trying to save others during these trying times. Mr. Konrad noted

that Callan went over a presentation that covered the following topics: the Fund's expected return and standard deviation based on Callan's January 2020 capital market assumptions, an update on the Fund's Fixed Income and Absolute Return Structures given the recent decision to terminate its exposure to the Allianz Structured Alpha Strategies, and a Liquidity Management Framework review, based on Callan's June 2019 presentation to the Committee, that contemplated sources of liquidity that the Fund would want to rely on in the event the stock market enters a bear market. Mr. Konrad commented that after a thorough discussion, the Committee approved an Interim Fixed Income and Absolute Return Structure that closely mirrors the Fund's pre-2018 Structures, and a Liquidity Management Framework that allows Staff to consider the suggestions made in Callan's June 2019 Portfolio Liquidity Analysis' "Worse Case Scenario" when determining where to raise cash to pay monthly benefits during this volatile market. He also said that Staff provided a preliminary estimate of Fund Performance and Attribution for the 1st Quarter. Mr. Konrad said that Staff noted that the final numbers would not be locked by the custodian until the end of April. He remarked that based on the preliminary estimates, the Fund had a decline of approximately -17.5% and also had underperformance versus its benchmark. He said the majority of the underperformance was attributed to the Allianz Structured Alpha strategies, which performed far worse than anyone had ever represented to the ERS was possible. Mr. Konrad also noted that the Fund's year-to-date return as of April 15 was estimated to be -15.2%, and the Fund's value was estimated to be \$4.66 billion. Mr. Konrad noted that the Committee went into closed session regarding the Analysis of Recent Market Losses and the Investment Committee recommended approval of the following items: approval of Interim Fixed Income and Absolute Return Structure Targets, and approval of Liquidity Management Framework.

Callan 2020 Asset Allocation Review, Fixed Income and Absolute Return Structure Update, and Liquidity Management Framework Review Presentation.

Approval of Interim Fixed Income and Absolute Return Structure Targets. It was moved by Ms. Ford, seconded by Mr. Campbell, and unanimously carried, to approve the Interim Fixed Income and Absolute Return Structure Targets.

Approval of Liquidity Management Framework. It was moved by Mr. Bell, seconded by Mr. Klusman, and unanimously carried, to approve the Liquidity Management Framework.

Administration & Operations Committee Report. At its April 22, 2020 meeting, Mr. Bell reported that Ms. Sawa was elected Vice-Chair. He said the Baker Tilly Financial Audit, with closed session, enabled the Committee to have a discussion with Baker Tilly regarding any type of fraud or make them aware of any issues the Committee might have. Mr. Bell said there was a discussion with Experis on internal audits. He noted that Experis did a phishing e-mail audit with personnel and they did well regarding an e-mail that was set up to a fake website involving a parking solution for Downtown employees but ERS employees quickly recognized it as a potential hack into the system. Mr. Bell said the Committee also had a closed session regarding the Approval of Contract Extension Amendment with DS Consulting Group, LLC. He also noted there was a discussion on the ERS 2021 Draft City Budget Request. Mr. Bell commented that the IT Projects Portfolio was discussed. He concluded by saying there were two new hires.

Approval of ERS 2021 Draft City Budget Request. It was moved by Mr. Konrad, seconded by Ms. Ford, with the exception of Mr. Klusman, to approve the ERS 2021 Draft City Budget Request. Mr. Klusman stated the fringe benefits line was incorrect and continues to be applied incorrectly and he objected to that. Mr. Patti stated the motion carried.

Approval of Contract Extension Amendment with DS Consulting Group, LLC. It was moved by Mr. Bell, seconded by Ms. Sawa, and unanimously carried, to approve the Contract Extension Amendment with DS Consulting Group, LLC.

New Business.

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

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| Active Death Benefits reported | \$0.00 |
| Duty Death Benefits reported | \$0.00 |
| Ordinary Death Benefits reported | \$64,077.57 |
| Deferred Death Benefits reported | \$27,143.49 |
| Retired Death Benefits reported | \$15,613.00 |
| Survivor Death – Termination Benefits reported | \$9,642.25 |
| Refund of Member Contributions paid | \$168,602.46 |

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

Conference Requests – April 2020 Board Meeting. Mr. Patti noted the items are currently on hold.

Approval of Retirement Resolution for Comptroller and Trustee Martin Matson. Mr. Patti read Mr. Matson’s resolution:

A RESOLUTION

WHEREAS, Comptroller Martin T. Matson has served the City of Milwaukee faithfully since March 29, 1993, initially employed in the Department of Public Works, and subsequently with the Employees' Retirement System of the City of Milwaukee, rising to Deputy Director, then elected City Comptroller in 2012 and served for two terms in that office until April 21, 2020; and

WHEREAS, Comptroller Matson has served with great distinction as a Trustee of the Employees' Retirement System continuously from April 2012 until his retirement in April 2020, serving as Chairman of the Administration and Operations Committee for several years and as Chairman of the Annuity and Pension Board from January 2018 until January 2020 and faithfully and conscientiously discharged his duty to solely represent the interests of all the Members and Beneficiaries of this System during his tenure of office; and

WHEREAS, Comptroller Matson's unparalleled knowledge of the Employees' Retirement System and pension benefits enabled him to make many valuable contributions to the Annuity and Pension Board and the successful operation of the Employees' Retirement System and its many thousands of participants, including and especially, his diligent stewardship in establishing the Milwaukee Employees' Retirement Information Technology System (MERITS); and

WHEREAS, Comptroller Matson served on the Investment Committee of the Annuity and Pension Board throughout his tenure as a Trustee assisting in the development of the Employees' Retirement System's Strategic Asset Allocation Policy which has generated hundreds of millions of dollars of long-term excess returns for the exclusive benefit of the System's Members and Beneficiaries, and exhibited the courage, discipline and composure necessary to preserve the Board's Investment Policy in the aftermath of the Global Financial Crisis and helped guide the System safely through perilous times with a steady and able hand; and

WHEREAS, Comptroller Matson steadfastly remained at his post despite the onset of the lethal COVID-19 Pandemic emergency, observing the required public health social distancing protocols; and

WHEREAS, Comptroller Matson's departure is a great loss to the City of Milwaukee and especially to the Annuity and Pension Board and all the Members and Beneficiaries of the Employees' Retirement System; therefore, be it

RESOLVED, By the Annuity and Pension Board that it hereby expresses its deep and sincere appreciation and gratitude to Comptroller Martin T. Matson for his invaluable, selfless and loyal service; and be it

FURTHER RESOLVED, That this resolution be recorded in the permanent records of this Board and that a suitably engrossed copy be forwarded to Comptroller Martin T. Matson.

ADOPTED April 27, 2020
ANNUITY AND PENSION BOARD

CHAIRMAN

SECRETARY

CHIEF INVESTMENT OFFICER

Mr. Patti thanked Mr. Matson for his service.

It was moved by Ms. Sawa, seconded by Mr. Konrad, and unanimously carried, to approve the Retirement Resolution for Comptroller and Trustee Martin Matson.

Pension Reserve Fund. Mr. Allen commented that this was a placeholder at the request from Mr. Klusman and the same exhibits are in the packet as included in the April 20 packet. Mr. Klusman requested it be on next month’s Board agenda and said it is actually the Employers’ Reserve Fund as property of the City. Mr. Klusman requested that the Board talk with the actuary about re-opening the five-year smoothing contribution because of the events that have happened. He commented that before this year, there were two significant situations with the 2018 return missing our mark by 11% with a negative 3% return and the resetting of the assumed rate of return to 7.5%. He said the actuary’s report in 2019 had more than one bolded recommendation that the employers act prudently and begin to prepare for that and electively make more contributions. Mr. Klusman noted that the document in today’s packet shows they put aside \$3 million dollars this year and were three years away at that time from a \$100 million dollar increase. Ms. Horwitz recommended making a specific agenda item for the next Board meeting. Mr. Konrad requested any references to earlier reports be included in the packet.

Medical Reports.

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

Police – New Applications – Ordinary

Recommendation

Mark Lentz

Approval

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| <u>Police – Re-examinations – Duty</u> | <u>Recommendation</u> |
| Alejandro Arce | Approval |
| <u>Fire – Re-examinations – Duty</u> | <u>Recommendation</u> |
| Denise Bekeris | Approval |
| Christopher Gauthier | Approval |
| <u>GC – Re-examinations – Duty</u> | <u>Recommendation</u> |
| Kevin Zaremba | Approval |
| <u>GC – Re-examinations – Ordinary</u> | <u>Recommendation</u> |
| Gregory Dziadosz | Approval |
| Steven Gipp | Approval |
| Mary Nelson-Taite | Approval |
| Gloria Green Williams | Approval |

It was moved by Mr. Kovac, 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.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Staff presented a list of pending requests for legislation. Staff noted there was nothing new to report.

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) Minutes of the Investment Committee Meeting Held March 31, 2020.

The following is a list of activities since the last Board meeting, copies sent with meeting notice and attached to minutes:

- 5) Report on Bills.
- 6) Deployment of Assets.
- 7) Securities Lending Revenue and Budget Report.
- 8) Preliminary Performance Report/Asset and Manager Allocation Pie Charts.

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

It was moved by Ms. Sawa, seconded by Mr. Konrad, and unanimously carried, to adjourn the meeting.

There being no further business, Mr. Patti adjourned the meeting at 9:59 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.)