

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

Minutes of the Regular Meeting
held September 28, 2020 via teleconference during COVID-19

The meeting was called to order at 9:02 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: Melody Johnson, Deputy Director
 Daniel Gopalan, Chief Financial Officer
 Erich Sauer, Deputy Chief Investment Officer
 Thomas Courtright, Pension Investment Analyst
 Anthony Lubarsky, Pension Investment Analyst
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Debbie Sweeney, Daniel Kwiecinski, Eric Rismeyer, Hays Companies; Patrick McClain, Jim Carroll, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc.; three members of the public called in to the meeting.

New Business.

Approval of Minutes.

Regular Meeting Held July 27, 2020. It was moved by Mr. Campbell, seconded by Mr. Bell, and unanimously carried, to approve the Regular Meeting minutes held July 27, 2020.

Special Meeting Held July 30, 2020. It was moved by Ms. Ford, seconded by Ms. Sawa, and unanimously carried, to approve the Special Meeting minutes held July 30, 2020.

Chief Investment Officer Report. As a matter of information, Board members received the September 28, 2020 Performance Update. Mr. Sauer noted August was another strong month for risk assets as the Fund returned 3.0%, gross of fees and outperformed the benchmark by 45 basis points, bringing the Fund value up to \$5.14 billion. He said it was a strong month for active managers with 12 out of the 16 active managers outperforming. Mr. Sauer commented that Private Equity added 9 basis points, UBS and Polen each added 9 basis points, and Loomis and Reams combined at 13 basis points for manager allocation. He noted the overall allocation, with Public Equity being overweight and Fixed Income and Absolute Return being underweight, added 17 basis points. He also said in August that Style Bias detracted -23 basis points, primarily value and

small cap public equity. Mr. Sauer noted as of September 24, 2020, the Fund return was -2.4% month-to-date, which brought the Fund's year-to-date return to -5.6%, net of fees, with the Fund's approximate value at \$5.02 billion. He said nine of the 16 active managers are outperforming year-to-date, net of fees. Mr. Sauer said year-to-date, the Fund has generated investment losses of \$313.5 million, paid benefits and expenses of \$294.2 million and received contributions of \$110.1 million. He added that the Fund's August rebalance resulted in sufficient liquidity to fund the August and September benefit payments, so no withdrawals were needed this month. Discussion ensued.

Approval of BlackRock Institutional Trust Company, N.A. Contract Amendment. Mr. Sauer said BlackRock offered to lower the ERS' fees without any negotiation so the fees moved from 1.5 basis points to 1 basis point, which is a \$6,000 per year fee reduction.

It was moved by Mr. Kovac, seconded by Ms. Sawa, and unanimously carried, to approve the BlackRock Institutional Trust Company, N.A. Contract Amendment.

Investment Committee Report – July 30, 2020. The Board did not convene in closed session as noticed.

Chairman Konrad said at its July 30th meeting, Callan presented phase 1 of an Asset-Liability study. He noted Callan discussed the goals of the study, the asset classes they plan to evaluate for the Fund, some of the assumptions and constraints used in their model, and provided examples of other asset allocation mixes and how they compare to the Fund's current portfolio. He commented that Callan also discussed some scenario analyses they have run related to COVID-19. Mr. Konrad said Callan plans to present the next phase of the Asset-Liability study at the November Investment Committee meeting. He said the Committee approved contract amendments with Bank of New York Mellon and Dimensional Fund Advisors that incorporated lower fee schedules. He noted the Bank of New York Mellon amendment also updated the key person exhibit. He commented that since there was time sensitivity concerning the implementation of the more favorable fee schedules, Staff utilized its authority to execute investment-related contracts that were approved by the Investment Committee and met all of the conditions provided under Board Rule VII.G.2.b. Mr. Konrad said Staff presented due diligence reports on Brandes Investment Partners and Dimensional Fund Advisors, two of the Fund's public equity managers. He noted that Staff also presented the Fund's 2nd quarter performance report. Mr. Konrad commented that the Fund's 10.3% net of fee return during the 2nd quarter exceeded its benchmark by 2.9%. He also said the Fund's return during the first 6 months of the year is -9.0%, net of fees, and trailed its benchmark by 7.0%. Mr. Konrad said the Fund's value on June 30 was \$4.9 billion. He said the Committee went into closed session to discuss the Approval of Investment Consultant Contract and reconvened in open session to approve the Investment Consultant Contract. Mr. Konrad stated the Investment Committee recommends approval of the Investment Consultant Contract.

Approval of Investment Consultant Contract. It was moved by Mr. Konrad, seconded by Mr. Bell, and unanimously carried, to approve the Investment Consultant Contract.

Investment Committee Report – September 3, 2020. At its September 3rd meeting, Chairman Konrad said the Committee went into closed session to discuss the Update Memo that BLB&G prepared regarding Allianz. In open session, he said Staff discussed a request made by Loomis Sayles to the Committee to permit a one-time guideline waiver to allow Loomis to participate in a

tender exchange of a Transocean bond that they owned on behalf of the Fund. Mr. Konrad said the Committee approved the Loomis Sayles Guideline waiver and, given the timing of the tender exchange, Staff utilized its authority under Board Rule VII.G.2.b. to communicate to Loomis that they could participate in the tender. Next, he stated, Callan went over their 2021 Private Equity Commitment recommendation, and the Committee approved the recommendation to commit \$20 million to Abbott Capital Management’s AP 2021 Fund and \$15 million to PA Capital’s Small Company Private Equity Fund X. Mr. Konrad also noted that Callan also provided an education presentation to the Committee called “Long-Term Planning for a Sustainable Retirement System.” He concluded that Staff provided a performance update and discussed a portfolio rebalance that took place in August that was triggered by the strong performance in equity markets since the March downturn. Mr. Konrad said that the Investment Committee recommends approval of the 2021 Private Equity Commitment Recommendation.

Approval of 2021 Private Equity Commitment Recommendation. It was moved by Mr. Konrad, seconded by Ms. Ford, and unanimously carried, to approve the Private Equity Commitment Recommendation.

Administration & Operations Committee Report. Chairman Bell reported on three items from the September 23, 2020 meeting. He said two internal audit firms, Jefferson Wells and CLA, gave presentations and answered questions of the A&O Committee. He said questions came up regarding staffing of the firms, additional questions were asked of the two firms, and Mr. Bell said another A&O Committee meeting would be held before the October 26, 2020 Board meeting. He said the ongoing IT projects were also discussed as well as the open position for the Network Administrator. Mr. Bell stated two potential candidates turned the Network Administrator position down and a search would continue to fill the position.

Selection of Internal Audit Firm.

The Board did not convene in closed session as noticed.

New Business.

Retirements, Death Claims, and Refunds (July and August). Mr. Allen presented the following activity for the months of July 2020 and August 2020.

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| Active Death Benefits reported | \$0.00 |
| Duty Death Benefits reported | \$0.00 |
| Ordinary Death Benefits reported | \$180,215.54 |
| Deferred Death Benefits reported | \$2,818.55 |
| Retired Death Benefits reported | \$37,595.41 |
| Survivor Death – Termination Benefits reported | \$11,220.68 |
| Refund of Member Contributions paid | \$231,763.94 |

It was moved by Mr. Campbell, seconded by Mr. Klusman, and unanimously carried, to approve the Retirements, Death Claims, and Refunds (July and August).

Conference Requests – September 2020 Board Meeting. Mr. Allen presented the conference requests this month.

| | |
|-----------------|------------------------|
| Jerry Allen | NCPERS Fall Conference |
| Sponsor: | NCPERS |
| Location: | A Virtual Event |
| Date: | September 29-30, 2020 |
| Estimated Cost: | \$300.00 |

Mr. Patti added his request to also attend the NCPERS Fall Conference at \$300.00.

It was moved by Mr. Klusman, seconded by Ms. Ford, and unanimously carried, to approve the Conference Requests – September 2020 Board Meeting.

Approval to Suspend Disability Benefits for Non-Compliance with Outside Earnings Limitation. Staff noted eight persons have not complied with turning in their outside earnings. Discussion ensued.

It was moved by Mr. Klusman, seconded by Mr. Konrad, and unanimously carried, to approve to Suspend Disability Benefits for Non-Compliance with Outside Earnings Limitation.

Renewal of Fiduciary Liability And Cyber Insurance. As a matter of information, Board members received the Hays Companies Fiduciary Liability & Cyber Liability Insurance Proposal. Ms. Sweeney, Messrs. Kwiecinski and Rismeyer provided a presentation on the two insurance proposals. Ms. Sweeney stated the fiduciary liability policy is a \$50 million annual aggregate limit of liability, which includes \$10 million of non-indemnifiable coverage with a \$261,768 premium. Ms. Sweeney said the Cyber Insurance Policy was purchased last year for the first time. She noted for both policies they achieved an increase of not more than 4.6% or \$12,014.

It was moved by Mr. Konrad, seconded by Mr. Bell, and unanimously carried, to approve the Renewal of Fiduciary Liability And Cyber Insurance.

Mr. Patti advised that the Annuity and Pension Board may vote to convene in closed session on the following item as provided in Section 19.85 (1)(c), for considering employment, promotion, compensation or performance evaluation data of any public employe over which the governmental body has jurisdiction or exercises responsibility. The Board may then vote to reconvene in open session following the closed session.

Executive Director Performance Review. It was moved by Mr. Klusman and seconded by Mr. Patti, that the Board convene in closed session. The motion prevailed by the following roll call vote: AYES: Mses. Ford, Sawa, Messrs., Bell, Campbell, Klusman, Konrad, Kovac, and Patti. NOES: None.

The Board convened in closed session at 9:50 a.m.

The Board reconvened in open session at 10:39 a.m.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations (August and September).

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|--|-----------------------|
| <u>Police – Re-examinations – Duty</u> | <u>Recommendation</u> |
| Brandon Baranowski | Approval |
| Dwight Copeland | Approval |
| Joel Kujawa | Approval |
| Bryan Norberg | Approval |
| <u>Fire – Re-examinations – Duty</u> | <u>Recommendation</u> |
| Nicholas Adamski | Approval |
| Jeffery Beamon | Approval |
| Kenneth Berget | Approval |
| Kyle Dannies | Approval |
| Peter Gallagher | Approval |
| Derek Geppert | Approval |
| Thomas Gillespie | Approval |
| Christian Hlavinka | Approval |
| John Kielpinski | Approval |
| Martin Kozlowski | Approval |
| Thomas Locke | Approval |
| Tracy Martinez | Approval |
| Phillip Quigley | Approval |
| <u>Police – Re-examinations – Ordinary</u> | <u>Recommendation</u> |
| Todd Rendon | Approval |
| <u>GC – New Applications – Duty</u> | <u>Recommendation</u> |
| Mary Lavender Effective 05/16/2020 | Approval |
| Trinidad Lopez Effective 02/27/2020 | Approval |
| Johnnie Madlock Effective 05/19/2020 | Approval |

GC – New Applications – OrdinaryRecommendation

Corliss Shaw
Effective 09/14/2019

Approval

GC – Re-examinations – DutyRecommendation

James Ruplinger
Tina Swanson
Terren Webster-Austin

Approval
Approval
Approval

GC – Re-examinations – OrdinaryRecommendation

Harold Cross
Renee Gibbs
Linda Gifford
Silvia Glenn
Bonnie Heikkinen
Robert Jacoby

Approval
Approval
Approval
Approval
Approval
Approval

It was moved by Ms. Sawa, seconded by Mr. Konrad, and unanimously carried, to approve the Duty & Ordinary Disability Applications & Re-examinations (August and September).

Disability Findings – Natasha Padgett. Mr. Patti presented the findings submitted by Hearing Examiner Gerlach who wrote the following decision, “I recommend that the decision of the Annuity & Pension Board terminating the 75% duty disability benefits of Natasha Padgett be reversed.” Mr. Patti stated neither party has filed a brief in response to the Hearing Examiner’s decision. Mr. McClain stated there was a factual determination by Hearing Examiner Gerlach and there was no legal error present in the hearing examiner’s decision so the City Attorney’s office did not file a brief. Discussion ensued.

It was moved by Mr. Konrad, seconded by Ms. Ford, objected to by Mr. Klusman, but otherwise carried, to approve the Disability Findings – Natasha Padgett.

Unfinished Business.

Legal Opinions and Service Requests Pending and Legal Opinions. Mr. McClain stated the legal opinion regarding eligibility for Duty Death Pension Benefits would be presented at the October Board meeting as it is currently before the City Attorney. Mr. Allen said a Conflict of Interest legal opinion is before the city attorney and ethics board regarding whether an ERS management employee can run for a seat on the Annuity and Pension Board for the 2020 At Large Active Member Election. Staff stated the Service Request for the Abbott Capital Private Equity Investors’ Limited Partnership Agreement was referred to outside legal counsel at Reinhart Boerner Van Deuren.

Legislation Requests Pending and Proposed Legislation. Staff said there were no new items to report from the Legislation 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. Mr. Sauer noted there was a late development on a real estate item. On this month's Legal Opinions report where a service request was referred to outside counsel. Mr. Sauer said this was a legacy non-core real estate investment where overpayment occurred from a past distribution since some capital gains taxes were not paid. He said the investment was in a shopping mall in Poland where the mall was sold and the general partner did not understand all the tax implications. Mr. Sauer commented they asked for €130,000 but the ERS actually owes approximately €96,000 in actual taxes. He said there was also a request for payment of late interest charges and other fees resulting from the manager's failure to file a timely return.. Mr. Sauer and Mr. Carroll said the ERS owes the taxes but take exception to the extra charges and fees.

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 July 30, 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 Ms. Ford, and unanimously carried, to adjourn the meeting.

There being no further business, Mr. Patti adjourned the meeting at 11:21 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.)