

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

Minutes of the Regular Meeting
held November 23, 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
 Carmelo Patti, Chair

Board Members Not Present: Aycha Sawa (Excused)

Retirement System Staff Present: Jerry 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
 Gust Petropoulos, Deputy Director Disability
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Joe Schimizzi, Erich Kelly, Jeff Deitch, MMRO; Nicholas W. Zuiker, Reinhart; Scott Brown, Patrick McClain, Jim Carroll, City Attorney's Office; John Barmore, Retired Fire & Police Association; Jim Zalewski, Milwaukee Retiree Association; Terry Siddiqui, DS Consulting, Inc.; one member of the public called in to the meeting.

Regular Meeting.

Approval of Minutes.

Regular Meeting Held October 26, 2020. It was moved by Mr. Bell, seconded by Mr. Campbell, and unanimously carried, to approve the Regular Meeting minutes held October 26, 2020.

Chief Investment Officer Report. As a matter of information, Board members received the November 23, 2020 Performance Update. Mr. Sauer noted as of October 31, 2020, the Fund had a value of \$5.01 billion. He said the Fund return of -0.8%, gross of fees, outperformed the blended benchmark by 31 basis points. He said in the relative performance drivers for October, the rotation started to be seen from large growth into small and value leadership leading to style bias being the main relative driver for the month, which was primarily US Small Cap and US Value styles. Mr. Sauer noted a nice contribution was seen from manager selection. Mr. Sauer said this does not

happen often where small and value are leading the way and growth managers outperform, but it is what happened this month as the Public Equity Growth Managers added 11 basis points to manager selection, Real Estate added five basis points, and Principal added three basis points. He said returns were very strong so far in November with getting some certainty in the Presidential election result and the positive vaccine news coming out. Mr. Sauer said the Fund return is up 6.3% so far in November bringing the year-to-date return to 1.4% net of fees with the Fund value at \$5.32 billion. He said 10 out of the 16 active managers are outperforming year to date on a net of fee basis. Mr. Sauer commented that the Private Equity asset class is outperforming year to date, net of fees. He said the Fund has generated investment gains of \$53.8 million, paid benefits and expenses of \$369.0 million and received contributions of \$112.2 million. He noted that this month the amounts withdrawn would be \$12 million from William Blair, \$4 million each from AQR, CastleArk, and Earnest.

Approval of BlackRock Institutional Trust Company, N.A. Contract Amendment.

Mr. Sauer noted this amendment is for the passive US Fixed Income Fund BlackRock manages for the ERS. He said BlackRock is lowering the fee from two basis points to 1.75 basis points annually, a difference of \$10,000 over the course of a year. He said if signatures were obtained in December, the fee would become effective for the fourth quarter of October through December this year. Mr. Sauer stated Staff and the City Attorneys' Office are recommending that this be approved. It was moved by Mr. Campbell, seconded by Mr. Konrad, and unanimously carried, to approve the BlackRock Institutional Trust Company, N.A. Contract Amendment.

Approval of Abbott Capital Private Equity Investors 2021, L.P. Side Letter. Mr. Patti advised that the Annuity and Pension Board may vote to convene in closed session on this item 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 Board may then vote to reconvene in open session following the closed session.

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

The Board convened in closed session at 9:09 a.m.

The Board reconvened in open session at 9:15 a.m.

It was moved by Mr. Konrad, seconded by Mr. Campbell, and unanimously carried, to approve the Abbott Capital Private Equity Investors 2021, L.P. Side Letter.

Investment Committee Report. At its November 12th meeting, Mr. Konrad reported that Callan presented Phase II of the Fund's Asset Liability Study. He noted Callan explained risk and return objectives and constraint considerations. Callan also explained how their analysis utilizes their firm's most up-to-date 10-year capital market assumptions, and how these assumptions have been materially reduced because of lower interest rates and higher stock P/E valuations compared to the beginning of 2020. Mr. Konrad mentioned Callan's presentation laid out five different mixes and their respective return, standard deviation, illiquid exposure, and 10-year projected ranges of outcomes that included data such as funding status, liquidity needs, and total contributions. He said while all of the mixes that Callan presented are considered to be optimal asset allocations, the

Committee's discussion, with Callan's support, focused on the Current Target, Mix 3, and Mix 4. Mr. Konrad stated the Committee asked Callan to run a liability scenario with a different headcount assumption, in addition to providing some other feedback. Callan is taking the feedback it received at the meeting and preparing to continue the Asset Liability Study review with the Committee at its December 10th meeting. He said that next, Staff presented a routine due diligence report on MFS, one of the Fund's global public equity investment managers. Finally, Mr. Konrad commented that Staff presented the 3rd quarter performance report. He said the Fund's 5.6% net of fee return during the 3rd quarter underperformed its benchmark by 0.4%. He also noted that strong returns generated by the Fund's Private and Public Equity allocations, which were 10.7% and 8.1% net of fees, respectively, were responsible for the Fund's solid returns during the quarter. Mr. Konrad commented that the Fund's underperformance during the quarter was the result of the Private Equity benchmark used in these reports. He said the Fund compares its Private Equity portfolio to a public equity benchmark, which the Fund strives to exceed over the long-term but can result in misleading comparisons during shorter-term time periods when the stock market is very volatile like we've seen this year. Mr. Konrad said there were no Approval Items at this meeting.

Administration & Operations Committee Report. Chairman Mr. Bell said the Committee met prior to the Board meeting and reached a recommendation and approval of the Ice Miller law firm for consultation.

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Approval of Ice Miller Contract. Board Chair Mr. Patti said it was not necessary to go into closed session for this item.

It was moved by Mr. Bell, seconded by Ms. Ford, and unanimously carried to approve the Ice Miller Contract.

New Business.

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

Active Death Benefits reported	\$0.00
Deferred Death	\$11,656.44
Duty Death Benefits reported	\$84,562.71
Ordinary Death Benefits reported	\$24,493.57
Retired Death Benefits reported	\$51,866.06
Survivor Death – Termination Benefits reported	\$4,449.15

Refund of Member Contributions paid	\$214,776.83
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It was moved by Mr. Campbell, seconded by Mr. Konrad, and unanimously carried, to approve the Retirements, Death Claims, and Refunds (October).

Conference Requests – November 2020 Board Meeting. Mr. Allen noted there were no conference requests this month.

Pension Board Election Results – At Large Member Election. Mr. Allen noted the results for the Friday, November 6, 2020 At Large Member Election. He stated that Chuck Schumacher received 274 votes, Carmelo Patti received 789 votes, Manny Raynal received 118 votes, and Molly King received 954 votes. He said pursuant to the Board Rules, since none of the candidates received half of the votes, plus one, there will have to be a Runoff Election five weeks from now by Board Rule. He said the Runoff Election would occur on Friday, December 11, 2020 when the votes would be counted for the runoff election between Mr. Patti and Ms. King.

Presentation by Joseph Schimizzi and Erich Kelly of MMRO Regarding Vocational Assessment for Disability Retirees Pursuant to Chapter 36-07-2-a. Staff noted the ERS vendor Managed Medical Review Organization (MMRO) from Novi, Michigan has a significant business presence in this area for public plans as they coordinate the disability provisions for pension disability. He noted MMRO currently assists the ERS with re-exams and applications for disability. Mr. Schimizzi, President and CEO and Mr. Kelly, National Sales and Marketing Director gave a slide presentation on functional capacity examination (FCE) and vocational assessment (VA) for determining earnings capacity. Mr. Schimizzi and Mr. Kelly discussed MMRO and their corporate background, definitions and background as to FCE and VA, review of FCE and mental capacity evaluation content, vocational case analysis, transferable skills analysis and the transferable skills analysis to age-earning capacity, and sample vocational assessment reports. Mr. Kelly noted since 2016 they have provided disability retirement claims management services for the ERS, which entails the claims management, medical summary services for the periodic and appeal reviews, as well as providing medical assessments, which include independent medical and psychiatric evaluation. Discussion ensued.

As a matter of information, Board members received an ERS Staff Analysis titled “Inclusion of Functional Capacity Examination (FCE) and Vocational Assessment (VA) When Determining Earnings Capacity.” Staff noted that this analysis is intended to put MMRO’s presentation into context as it relates to the ERS plan provision under Chapter 36 and the ERS specific factual situation with the number of disability retirees the ERS has at present and the number subject to the re-exam. Staff noted the Charter ordinance provision about excess earnings offset and earnings capacity is part of the re-examination process. Mr. McClain stated it allows the Board to adjust disability pension benefits based on excess earnings or earning capacity. He said it is not a dollar-for-dollar offset and the excess earnings must exceed the difference between the amount of the benefit and the base salary for the position the retiree had at the time they left active service. Mr. McClain said the gap is usually 25% because the majority of duty disability benefits are for 75% beneficiaries. He said an earnings gap has to be filled before the earnings capacity kicks into effect and then it becomes a dollar-for-dollar offset for whatever the excess earnings were. Mr. Petropoulos stated there are 235 people on duty disability at an average pension of \$3,000 per month. He said decisions would have to be made regarding selectivity for who would receive an FCE and a vocational assessment, the parameters, and cost of the program from MMRO.

Approval of Retirement Resolution for Disability Specialist Senior Marcia Cunningham. Mr. Campbell thanked Ms. Cunningham for her service to the city and for her service to the country. It was moved by Mr. Campbell, seconded by Ms. Ford, and unanimously carried, to approve the Retirement Resolution for Disability Specialist Senior Marcia Cunningham.

Proposed 2021 Board and Committee Meeting Dates. Proposed Board and Committee meeting dates for 2021 were discussed.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations (October).

<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Gilbert Baltutis	Approval
Scott Hoth	Approval
Christine Jacobs	Approval
James Youngblood	Approval
<u>Police – Re-examinations – Ordinary</u>	<u>Recommendation</u>
James McNichol	Approval
<u>GC – Re-examinations – Duty</u>	<u>Recommendation</u>
Dewreal Ford	Approval
<u>GC – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Kevin Cole	Approval
Mark Detert	Approval
Karen Moe	Approval
Kathy Wilder	Approval

Discussion ensued regarding the duty disability provision.

It was moved by Mr. Bell, seconded by Mr. Kovac, and unanimously carried, to approve the Duty & Ordinary Disability Applications & Re-examinations (October).

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. Mr. McClain said that due to the election the dissolution bonus legal opinion would be presented at the next meeting. He noted that a couple service requests have been taken care of with the remaining being diligently pursued. Staff said there was nothing new on 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.

The following is a list of informational items:

- 1) Report on Claims and Litigation.
- 2) Conferences.
- 3) Class Action Income 2020 YTD.
- 4) Adjusted Quarterly Cost Basis of Equity.
- 5) Minutes of the Administration and Operations Committee Meeting October 26, 2020.

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

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

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

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

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