

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

Minutes of the Regular Meeting
held December 17, 2020 via teleconference during COVID-19

The meeting was called to order at 9:32 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: 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
 Jeff Shober, Chief Technology Officer
 Gust Petropoulos, Deputy Director Disability
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Patrick McClain, Jim Carroll, City Attorney's Office; Molly King, Eric Pearson, Budget Office; John Barmore, Retired Fire & Police Association; Jim Zalewski, Milwaukee Retiree Association; Terry Siddiqui, DS Consulting, Inc.; four members of the public called in to the meeting.

Regular Meeting.

Approval of Minutes.

The Regular Meeting Minutes for November 23, 2020 will be on the January 25, 2021 Annual Meeting Agenda due to the December 11, 2020 Runoff Election. Mr. Allen stated the meeting minutes would be in the January 2021 Board Packet due to another election with the Runoff Election.

Chief Investment Officer Report. As a matter of information, Board members received the December 17, 2020 Performance Update. Mr. Sauer noted as of November 30, 2020, the Fund had a value of \$5.32 billion. He noted November was a strong month for returns owing to the certainty around the Presidential election and the news on the efficacy of the two vaccine candidates for COVID-19, which led to a rally in risk assets and a shift in leadership from large growth stocks to small value stocks leading the market. He said the Fund return of 7.0%, gross of fees, outperformed

the blended benchmark by 105 basis points. He said the drivers for November, Brandes and DFA, did well with Brandes adding 29 basis points to the Fund's performance, Loomis Sayles, with high-yield credit, adding 25 basis points, and Newton adding 14 basis points. Mr. Sauer said the Fund's style bias added 37 basis points to returns, primarily from the US Small Cap and Value, both domestic and international. He said as of December 15, the Fund return is up approximately 1.7% month-to-date, bringing the Fund return to 3.9% year to date, net of fees and bringing the Fund's approximate value to \$5.42 billion dollars. He said nine 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 exceeding its benchmark, year to date, net of fees. He said year to date, the Fund has generated investment gains of \$188.2 million, paid benefits and expenses of \$407.3 million and received contributions of \$114.7 million. Mr. Sauer said that due to the gains in the last month and a half, staff executed a rebalance which involved moving \$96 million out of stocks, contributing \$21 million to Real Assets which is the Principal strategy, and eventually contributing \$49 million into Absolute Return, with \$38 million contributed this month and the balance of \$11 million expected in January. Mr. Sauer noted they would hold sufficient cash to make the December benefit payments. Discussion ensued.

Mr. Silber stated he was in touch with Mr. Fuss to schedule a virtual meeting for January 7 or 14 and would conduct a survey with Board members to choose one of those two dates. Mr. Silber talked about the December rebalance and the asset mix approved at December's Investment Committee meeting, as well as next steps that will have to be taken before Staff can fully implement the 13% allocation to Real Assets.

Investment Committee Report. At its December 10th meeting, Mr. Konrad stated Callan presented Phase II of the Fund's Asset Liability Study, which included additional information based on questions from November's meeting. After discussion, he said the Committee approved Mix 3A from Callan's recommended options. Mr. Konrad noted that compared to the Fund's current asset allocation, Mix 3A increases Real Assets from 11% to 13%, increases Global Equity from 43% to 44%, and decreases Fixed Income from 25% to 22%. He said Staff discussed how implementing the Real Assets increase in Mix 3A might take some time, since illiquid Private Real Estate currently comprises the majority of the Fund's Real Assets exposure. Mr. Konrad stated Staff also updated the Committee on a Public Equity rebalance that was initiated on December 7, as strong equity returns pushed the Fund's allocation to stocks above the asset allocation range set forth in the Investment Policy. He said after that, Callan provided an update on the Fund's Real Estate allocation, Staff provided the Committee with a tentative 2021 Due Diligence schedule, and Staff provided a performance estimate for the Fund as of December 9. Mr. Konrad said the Investment Committee recommends approval of the Approval of Asset Allocation Mix.

Approval of Asset Allocation Mix. Mr. Klusman stated that the City of Milwaukee, the Plan Sponsor, is currently seeking legislation in Madison to provide that the annual employer pension contribution be lower than the actuarial determined amount. He said the information was from council file 200668 and was made public on the 7th, as item 98 in the file. He noted Callan's assumptions in their Asset Liability Study assumed contributions being made going forward. Discussion ensued. Mr. Konrad commented that they should approve the asset allocation that the Committee approved and if legislation proposed passes that affects the Fund or the level of contribution, the asset allocation could be revisited. Mr. Patti asked Mr. Silber if the asset allocation mix is not approved, would it then stay with the current mix and Mr. Silber said that is correct. It was moved by Mr. Konrad and seconded by Mr. Campbell to approve the Asset Allocation Mix approved by the Investment Committee. The motion prevailed by the following

roll call vote: AYES: Mses. Ford and Sawa; Messrs. Bell, Campbell, Konrad, and Kovac. NOES: Messrs. Klusman and Patti.

Administration & Operations Committee Report. Mr. Bell reported at its December 17, 2020 meeting prior to the Board meeting, they had a discussion in closed session regarding the CLA Contract and the Committee decided to continue the negotiation. He also said another discussion in closed session was for the Approval of the DS Consulting Contract Extension, and with minor changes, the changes were approved through motion.

Mr. Patti advised that the Administration and Operations Committee may vote to convene in closed session on the following items (A. and B.), 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 Committee may then vote to reconvene in open session following the closed session.

It was moved by Mr. Bell and seconded by Mr. Konrad that the Board convene in closed session on these items.

The motion prevailed by the following roll call vote: AYES: Mses. Ford and Sawa; Messrs. Bell, Campbell, Klusman, Konrad, Kovac, and Patti. NOES: None.

The Board convened in closed session at 10:00 a.m.

The Board reconvened in open session at 10:06 a.m.

Approval of CLA Contract. Mr. Patti said the Board recommended the approval be held until January to resolve some contract language issues.

Approval of DS Consulting Contract Extension. It was moved by Mr. Bell, seconded by Ms. Sawa, and unanimously carried, to approve the DS Consulting Contract Extension with the modifications that have been explained.

New Business.

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

| | |
|----------------------------------|--------------|
| Active Death Benefits reported | \$0.00 |
| Deferred Death | \$0.00 |
| Duty Death Benefits reported | \$0.00 |
| Ordinary Death Benefits reported | \$261,810.73 |
| Retired Death Benefits reported | \$18,235.85 |

| | |
|--|--------------|
| Survivor Death – Termination Benefits reported | \$3,646.70 |
| Refund of Member Contributions paid | \$132,676.46 |

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

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

Pension Board Election Results – At Large Member Election Runoff Election (verbal as Runoff Election held day of packet mailing.) Mr. Allen noted the Runoff Election results were tallied on December 11, 2020, the same day the Board meeting packet went out. He stated the ERS received a letter, which was also e-mailed to the Trustees, from the Election Committee certifying the results of the Runoff Election. He stated Mr. Patti received 1198 votes and Ms. King received 1348 votes. Mr. Allen said the election was for the term expiring this month, Ms. King was sworn in by Mr. Owczarski, and Ms. King’s four-year term begins in January 2021.

Mr. Bell noted he had a technical difficulty on the conference agenda item and stated he would like to attend the NCPERS Modules 1 and 2 regarding the Fiduciary virtual class in early March. He said the cost was \$400.00 and this would complete his accreditation. Mr. Patti said there was a credit with NCPERS.

Lease of 789 Building. Mr. Patti requested to talk about the building. He said there was discussion when the lease was renewed for a five-year lease that other options could be considered because it was done in haste and brought to the Board’s attention with only five days to make a decision to renew the lease and it was renewed for five years. He then said it was followed up with the 4th Floor Conference Room use and issue, which had a second level of controversy to it. Mr. Patti said that set the context for what he had discovered a month ago to bring to the Board’s attention. He said when the lease renewal was discussed, there was discussion on supplying fiber optic lines and back-up generators to the building at ERS’ expenses and other tenants are able to utilize it. He then stated that he found out in October 2020 that the building sold in September 2020 for \$6.25 million. Mr. Patti asked Mr. Allen and Staff if they were aware that the building sold and has a new owner. Mr. Allen stated yes and he had forwarded a newspaper article to all the Trustees in one of his Friday mailings (October 16, 2020). Mr. Allen said they had met with the new owner and had multiple discussions with them and the ERS lease continues with the same terms and conditions. Mr. Allen also said the lease expires in March 2023. He further stated there was an amendment to lease some of the 4th floor premises. Ms. Turk noted the contract has been in effect since 2007 (no 5 year renewal of the lease occurred as mentioned above). Mr. Allen noted the data center is on the 4th floor and is part of the lease. He said if the ERS left this building, they would have to consider whether to leave the data center or try to move it at a seven-figure cost. Mr. Allen has talked with DPW and there is no space available in City Hall until the renovation is completed. He said the City Attorney’s office will be moved from the Zeidler Building to City Hall, but not before 2024, and then the Zeidler Building space could be looked at. Mr. Allen has had other discussions with other City departments. He said in the new year, the discussion would be brought to the A&O Committee. Mr. Patti said it was discussed and more information was asked for and to do it in a timely manner and to give the Board more lead-time for any issues that came up. He said one of the things talked about was to purchase a building and the building sold

for below market value and he said the ERS is paying market value rent space for square footage. Mr. Patti asked why the Board was not part of the discussion in buying the building as we are a long-term investor and a long-term entity. He said ERS could have owned the building and since the ERS makes investments in real estate, he said what better investments than purchasing the building for ourselves. Mr. Allen said the ERS is an unconstrained global investor and past forays into purchasing Milwaukee real estate have been historically unsuccessful. He noted a previous investment had been Northridge Mall, which was not a good investment for the ERS. He said the Board then brought in Townsend to handle real estate investments. Mr. Allen said the ERS is constrained by law to purchase investment securities through outside active managers. Mr. Silber said before the ERS could consider purchasing the building, legal issues would have to be ironed out. He referred to Chapter 36 and said he does not believe the ERS is allowed to make internal investment decisions on specific investments. Mr. Silber said the ERS has to hire an investment consultant and investment managers to make those decisions on behalf of the ERS. He said if it were an operational budget item, that would likely have to be explored through the normal ERS budget process and go through hurdles and approvals too. Mr. Patti said paying rent to somebody else is not a wise and prudent expense if we could have owned the building and saved the beneficiaries an “x” amount of dollars. He said with other tenants, the \$6 million could have been made up. He said if it were came to the Board’s attention, it could have been a consideration, especially since the issue was discussed a few months before. Mr. Konrad asked if the building was filled and if the former BMO Banks was occupied. Mr. Allen said most of the 789 Building offices are vacant and inquiries could be made at BMO. Mr. Konrad noted the high cost of moving to take advantage of lower rents. He added the current owner could be putting the building up for sale in the next few years. Mr. Konrad questioned not if it is an investment issue, but a proper capital expenditure. Mr. Patti asked Mr. Gopalan what the current monthly lease is and he stated \$25,000.00 a month, including the 4th floor at \$750.00 per month and maintenance. Mr. Kovac noted that he has been pushing this on the capital investment side, but not on the buying of the building. He said he prefers paying rent to the Plan Sponsor, but not more to a private third party. Mr. Kovac said once the City Attorneys move to the 8th floor, but not as quickly as he thought, he said a floor and a half would open up in the Zeidler Building. Mr. Patti concluded by saying he preferred paying rent to the Plan itself, rather than the Sponsor.

Medical Reports.

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

| <u>Police – Re-examinations – Duty</u> | <u>Recommendation</u> |
|--|-----------------------|
| Robert Henry | Approval |
| <u>Fire – Re-examinations – Duty</u> | <u>Recommendation</u> |
| Jerry Allen | Approval |
| Teresa Macguire | Approval |
| Robert Smith | Approval |
| Scott Van Roo | Approval |

GC – Re-examinations – OrdinaryRecommendation

Ywanda Bryant

Approval

Mr. Klusman noted a motion and second had not been made for Mr. Bell's conference request.

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

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. Mr. McClain stated the Firemen's and Policemen's Survivorship Fund Dissolution Bonus Legal Opinion would be presented at the next meeting due to the election-related lawsuits involving Wisconsin and Milwaukee taking three weeks of time. Mr. Allen said the Service Requests for the Contract for Internal Audit Services was completed and approved today and the DS Consulting Group amendment was considered and approved. Mr. Patti asked for clarification on the Internal Audit Services request and Mr. Allen said it has been held over pending further negotiation on indemnification provisions.

Legislation Requests Pending and Proposed Legislation. Mr. Allen stated the Common Council Action authorizing the expenditures from the 2021 budget is a routine budget item to put the budget into effect for 2021.

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.

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

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

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

Mr. Konrad thanked Mr. Patti for his service to the Board and his service as Chairman and appreciated Mr. Patti's time and efforts very much. Ms. Ford echoed Mr. Konrad's comments and appreciated all the work Mr. Patti did and all he had been bringing to the meetings. Ms. Sawa also echoed Mr. Konrad's and Ms. Ford's comments and thanked Mr. Patti for his service. Mr. Campbell thanked Mr. Patti for stepping up and having a leadership position on the Board for the many times he had been on the Board. Mr. Bell thanked Mr. Patti again as he had also thanked him at the Administration & Operations Committee meeting where he had served as Committee member and Chair.

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

There being no further business, Mr. Patti adjourned the meeting at 10:52 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.)