

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

Minutes of the Investment Committee Meeting  
held April 16, 2020 via teleconference during COVID-19

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

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

ERS Staff Present: Bernard J. Allen, Executive Director  
David Silber, Chief Investment Officer  
Erich Sauer, Deputy Chief Investment Officer  
Thomas Courtright, Pension Investment Analyst  
Anthony Lubarsky, Pension Investment Analyst  
Dan Gopalan, Chief Financial Officer  
Robin Earleywine, Pension Accounting Manager  
Jan Wills, Board Stenographer

Others Present: James Van Heuit, John Jackson, Mike Joecken, Callan Associates; Miriam Horwitz, Patrick McClain, Andrea Fowler, City Attorney Office; Molly King, Budget Office; Terry Siddiqui, DS Consulting, Inc.; eight members of the public called in to the meeting.

**CIO Memo.** As a matter of information, Committee members received a CIO Memo from Mr. Silber dated April 9, 2020. Mr. Silber mentioned the historical time from a negative standpoint people are living in. He noted jobless claims are at least 22 million during the past four weeks and trending in the wrong direction, the U.S. unemployment rate could be over 15% and rising, and mentioned the number of deaths related to COVID-19. He commented that healthcare workers and first responders should be in our thoughts. He noted from an investment standpoint, the S&P 500 hit an all-time high on February 19 and hit its recent low point 33 calendar days later on March 23, going down 33.9% during that time period. Mr. Silber noted this was the fifth worst decline in the last 70 years. He said Callan would be talking about asset allocation in their presentation and also what could be done with the expected Allianz withdrawal. Discussion ensued.

**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.**  
**Approval of Liquidity Management Framework.**

As a matter of information, Committee members received from Callan a presentation booklet on Asset Allocation Review, Fixed Income and Absolute Return Structure Update, and Liquidity

Management Framework Review. Mr. Joecken mentioned the purpose of the asset allocation review is to periodically look at the asset allocations given updated capital market assumptions and any updated events that occur. He noted that Callan typically recommends only changing the asset allocation as part of the asset liability study process. Mr. Joecken said the second part of their presentation is the Fixed Income and Absolute Return Structure Review and Liquidity Management Framework. He said the intent is to inform the Committee about how we are going to proceed over the next few months with the proceeds the Fund expects to receive from Allianz. Mr. Joecken introduced Mr. Van Heuit, a 30-year member of Callan's Capital Markets Research Group.

Mr. Van Heuit discussed Callan's philosophy and process and indicated the time frame for Capital Market expectations is 10 years. He also discussed stock market returns by calendar year and cycle, historical returns, difficulty of timing the market, equity expectations and valuations, Callan capital markets projections, alternative asset mixes, and ranges of projected rates of returns. Discussion ensued.

Mr. Joecken discussed the Fixed Income and Absolute Return Structure Update and the Liquidity Management Framework Review. He noted it is necessary to discuss thinking about how to re-allocate the cash withdrawn from the Allianz portfolios. He said Callan wants to utilize the existing guidelines in the Investment Policy Statement and to incorporate the liquidity analysis that Callan presented in June of 2019 as part of the Fund's Private Equity review, which contemplated sources of liquidity that the Fund would want to rely on in the event the stock market enters a bear market. Mr. Joecken said the number one priority will be to utilize the cash withdrawn from the Allianz strategies to pay benefits and expenses. The framework permits, as a secondary consideration, allocating the cash withdrawn from the Allianz strategies to underweighted asset classes to bring the asset classes more in line with their targets, and within the asset classes, to allocate to the underweighted investment managers. Mr. Joecken said in the absence of the Allianz portfolios, the Fixed Income and Absolute Return manager structures need to be re-oriented. Mr. Joecken stated normally a formal structure study would be done for Fixed Income and Absolute Return, but Callan is proposing a temporary manager structure for Fixed Income and Absolute Return. For Fixed Income, Callan is proposing falling back to the pre-2018 structure, which did not include the Allianz Agg 250. Mr. Joecken said Fixed Income is 26% of the total Fund and the targets would be split approximately equally among BlackRock, Loomis Sayles, and Reams. He said for Absolute Return, which includes 10% of the total Fund, Callan proposes reallocating the Allianz target allocation prorated so that the new structure targets two-thirds to UBS and one-third to Newton. Mr. Joecken said Callan also proposes a temporary increase in the maximum range to cash to 5% until September 30, 2020. Discussion ensued. As part of Callan's Fixed Income and Absolute Return Structure Update and the Liquidity Management Framework Review, Mr. Joecken and Mr. Jackson discussed topics including Asset Allocation Policy Targets and Ranges, Duties Delegated to Staff, Comparison of the current and proposed temporary Fixed Income and Absolute Return Structure, the June 2019 Liquidity Analysis – 3/31/2019 Liquidity Stress Testing, Sources of Liquidity, and June 2019 Liquidity Analysis. Discussion ensued.

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

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

**1st Quarter 2020 Preliminary Estimate of Fund Performance and Attribution.** As a matter of information, Committee members received the 1<sup>st</sup> Quarter 2020 Preliminary Estimate of Fund Performance and Attribution dated April 16, 2020. Mr. Silber recognized Mr. Lubarsky for his contributions towards putting together the presentation. Mr. Silber noted the Fund's preliminary estimate at that time was that the Fund was down about 17.6% during the quarter with the benchmark at -8.8%. He discussed the Rolling Returns, Rolling Excess Returns, and Annual Returns, Peaks and Troughs. Mr. Silber then discussed the ERS Fund Attribution Preliminary Estimate – 1<sup>st</sup> Quarter 2020 and discussed the asset classes of Public Equity, Fixed Income, Real Assets, Absolute Return, and Private Equity. Discussion ensued. Mr. Silber discussed the Fund's projected Asset Allocation as of March 31, 2020. He noted as of April 15, 2020, the Fund value is estimated at \$4.66 billion. Mr. Silber said for Q1 2020, the Fund has a better estimate for 1<sup>st</sup> Quarter 2020 return, at -17.5%, net of fees. He stated the April return as of April 15, 2020 is 2.8% compared to the benchmark return of 2.9%. He noted year-to-date through April 15, 2020, the fund return is estimated at -15.2% and the benchmark is at -6.1%. Discussion ensued.

**Analysis of Recent Market Losses.** Mr. Konrad advised that the Investment Committee may vote to convene in closed session on the following item (IV.) as provided in Section 19.85(1)(g), Wisconsin State Statutes, to confer with legal counsel concerning strategy to be adopted by the body with respect to litigation in which it is or is likely to become involved. The Investment Committee may then vote to reconvene in open session following the closed session.

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

The Committee convened in closed session at 10:52 a.m. and reconvened in open session at 11:36 a.m.

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

There being no further business, Mr. Konrad adjourned the meeting at 11:37 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.)