

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

Minutes of the Investment Committee Meeting  
held July 30, 2020 via teleconference during COVID-19

The meeting was called to order at 9:04 a.m.

Committee Members Present:       Matthew Bell  
  Deborah Ford  
  Thomas Klusman  
  Rudy Konrad, Chair  
  Nik Kovac  
  Carmelo Patti  
  Aycha Sawa

Committee Members Not Present:   James Campbell (excused)

ERS Staff Present:                   Melody Johnson, Deputy 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  
  Mary Turk, Business Operations Analyst  
  Jan Wills, Board Stenographer

Others Present: Jason Ellement, Jim Van Heuit, John Jackson, Mike Joecken, Callan; Miriam Horwitz, Jim Carroll, Patrick McClain, City Attorney Office; Molly King, Eric Pearson, Budget Office; Terry Siddiqui, DS Consulting, Inc.; one member of the public called in.

Mr. Konrad advised that the Investment Committee may vote to convene in closed session on the following item (I.), 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 Investment Committee may then vote to reconvene in open session following the closed session.

**Approval of Investment Consultant Contract.** It was moved by Mr. Patti and seconded by Mr. Bell that the Committee convene in closed session. The motion prevailed by the following roll call vote: AYES: Mses. Ford, Sawa, Messrs., Bell, Klusman, Konrad, Kovac, and Patti. NOES: None.

The Committee convened in closed session at 9:06 a.m.

It was moved by Ms. Ford and seconded by Mr. Kovac that the Committee convene in open session.

The Committee reconvened in open session at 9:20 a.m.

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

**Approval of Dimensional Fund Advisors Contract Amendment.** Mr. Courtright noted DFA announced in June that they were lowering fees across their entire investment platform. He said the fee reduction applied to the Large Cap Value and International Small Cap Value strategies the Fund invests in. He said for the Large Cap Value amendment, DFA is offering a 2 basis point reduction per year resulting in a savings of approximately \$25,000 per year. Mr. Courtright stated the cost reduction began March 1, 2020. Discussion ensued.

It was moved by Ms. Sawa, seconded by Ms. Ford, and unanimously carried, to approve the Dimensional Fund Advisors Contract Amendment.

Mr. Bell commented that he received a message from Mr. Campbell that he was not able to attend today's Investment Committee meeting due to a Democratic National Convention (DNC) meeting.

**Approval of Bank of New York Mellon (Newton) Contract Amendment.** Mr. Courtright noted Newton manages the Global Real Return Strategy in the Absolute Return asset class. He said Newton approached Callan with an offer to reduce fees for Callan clients. Mr. Courtright said the fee structure is changing from 60 basis points to 55 basis points per year for assets under management exceeding \$100 million. He said it equates to a \$70,000 per year savings on the \$140.9 million the ERS currently has invested with them and is effective October 1, 2020. Mr. Courtright said the second piece of the amendment to the Investment Management Agreement concerned the list of key personnel. He said Suzanne Hutchins is the Portfolio Manager for the EB NCML Global Real Return Fund, and she will be listed as a key person.

It was moved by Mr. Klusman, seconded by Mr. Bell, and unanimously carried, to approve the Bank of New York Mellon (Newton) Contract Amendment.

**Callan 2020 Asset-Liability Study Phase 1 Presentation.** As a matter of information, Committee Members received the Callan 2020 Asset-Liability Study Phase 1 Presentation. Mr. Joecken noted Phase I would be presented by Mr. Van Heuit and Mr. Ellement of the Capital Markets Research Group. Mr. Joecken noted by doing the asset-liability study, Callan wanted to develop the capital market assumptions and look at the capital market projections over the next 10 to 30 years. He said Callan also wants to confirm asset mixes and constraints. Mr. Van Heuit said the purpose of the study is to determine the long-term strategic asset allocations for the Fund. He said they are looking at broad asset classes such as the amount of equity, the amount of fixed income, the amount of real assets, and private equity. Mr. Van Heuit discussed strategic policies, analysis of broad asset classes, current target and actual asset allocation, employment of actuarial liability model, Callan capital markets projections, alternative asset mixes, ranges of expected rates of return, Callan asset-liability process, and scenario analysis. Discussion ensued. Mr. Ellement discussed a variety of scenarios based upon the re-opening of the global economy and as it relates to returns on the target mix and five other mixes. Discussion ensued. Mr. Joecken stated they will do another presentation at the November meeting.

**Due Diligence Reports.**

**Brandes Investment Partners.** As a matter of information, Committee members received the Brandes Investment Partners Due Diligence Report. Mr. Lubarsky discussed the strategy and Brandes' role in the ERS portfolio. He said Brandes is an international manager with a focus on large-cap value names. Mr. Lubarsky said Brandes manages 6.1% of the ERS Fund as of June 30, 2020 and was the largest allocation to a single public equity strategy. He said they typically hold 50-85 names in their portfolio and focus on developed international markets with a smaller portion invested in emerging equities. He noted their chair Charles Brandes retired in 2018 but Brandes had a succession plan years in advance. Discussion ensued.

**Dimensional Fund Advisors.** As a matter of information, Committee members received the Dimensional Fund Advisors Due Diligence Report. Mr. Sauer mentioned Dimensional Fund Advisors' philosophy where academic research shows small cap and value stocks tend to outperform over long time periods. He noted Dimensional Fund Advisors manages three strategies for the Fund. Mr. Sauer said Dimensional has a disciplined investment process that has not changed and the ERS hired them for small cap and value exposures which Dimensional is providing. Discussion ensued.

**2<sup>nd</sup> Quarter 2020 Performance Report.** As a matter of information, Committee members received the 2<sup>nd</sup> Quarter Performance Report. The Fund's 10.3% net of fee return during the 2<sup>nd</sup> quarter exceeded its benchmark by 2.9%. 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%. The Fund's value on June 30 was \$4.9 billion. Mr. Silber said as of July 29, 2020, the Fund return is down -5.8% year-to-date, net of fees, and the Fund value is \$5.09 billion. Discussion ensued.

Mr. Konrad announced that a Special Board Meeting would follow this Investment Committee Meeting.

It was moved by Mr. Patti, seconded by Mr. Klusman, and unanimously carried, to adjourn the meeting.

There being no further business, Mr. Konrad adjourned the meeting at 11:32 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.)