

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

Minutes of the Investment Committee Meeting
held September 3, 2020 via teleconference during COVID-19

The meeting was called to order at 9:03 a.m.

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

ERS Staff Present: Jerry Allen, Executive Director
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: Mike Joecken, Gary Robertson, Callan; Jim Harrod, Avi Josefson, Mike Blatchley, Bernstein Litowitz Berger & Grossman LLP (BLB&G); Miriam Horwitz, Patrick McClain, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc.; three members of the public called in.

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

BLB&G Update Memo regarding Allianz. It was moved by Mr. Bell and seconded by Mr. Campbell that the Committee 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 Committee convened in closed session at 9:05 a.m.

It was moved by Mr. Patti and seconded by Ms. Sawa that the Committee reconvene in open session.

The Committee reconvened in open session at 9:27 a.m.

Approval of Loomis Sayles Guideline Waiver. Mr. Sauer noted that a bond Loomis Sayles is holding as part of their ability to hold downgraded securities is eligible to be exchanged as part of a tender offer. Loomis' concern with the guidelines is that if they complete the exchange, it makes it a new buy. He further mentioned if the new bond is rated the same as the current bond, it would put them out of compliance as they are not allowed to buy new bonds that have the current rating. Mr. Sauer said Loomis Sayles has requested approval to complete this tender offer. Staff asked Loomis what would happen if they do not do the tender and they would continue to hold the old security and the tender would be lower down in the capital structure and less liquid because there would be less bonds outstanding as a result of most investors participating in this tender offer. Mr. Sauer said Staff said the best course of action is to approve the waiver, after also checking with Callan. Discussion ensued.

It was moved by Mr. Campbell, seconded by Ms. Ford, and unanimously carried, to approve the Loomis Sayles Guideline Waiver.

Approval of 2021 Private Equity Commitment Recommendation. As a matter of information, Committee members received from Callan the Private Equity Pacing and Reinvestments 2021 document. Mr. Joecken and Mr. Robertson spoke to the Committee about the Private Equity Pacing and Reinvestments. Mr. Robertson said CMERS began investing in Private Equity in 2010 with a 5% target allocation, increased it to 8% seven years later, and to 10% two years later. He noted in 2013 that a secondary manager was added, and in 2014, a small buyout manager who invests primarily in funds smaller than \$500 million was added. Mr. Robertson noted the \$35 million in commitments would be paid in over the next five to seven calendar years in the two vehicles of Abbott Annual Program 2021 (\$20 million) and PA Capital Small Company Private Equity Fund X (\$15 million).

It was moved by Mr. Bell, seconded by Mr. Patti, and unanimously carried, to approve the 2021 Private Equity Commitment Recommendation.

CIO Report. As a matter of information, Committee members received the July 2020 Performance update. Mr. Sauer noted July saw a continued recovery in risk assets as the ACWI IMI was up 5.2% and the Bloomberg Aggregate Index was up 1.5%. He noted this led to the Fund return being up 3.2%, gross of fees, which outperformed the blended benchmark by 47 basis points. Mr. Sauer stated the Fund's returns underperformed in all other time periods, except for the 20-year period, net of fees. He said the July relative performance drivers' included manager selection, with 11 of the 16 active managers outperforming, led by William Blair which added 20 basis points to the relative return, Loomis Sayles added 19 basis points, Newton added 10 basis points, and UBS added 8 basis points. He said the overall allocation added 16 basis points made possible by the liquidity plan approved in April 2020. He said Style Bias subtracted 35 basis points. Mr. Sauer said the August 27, 2020 Fund return is 2.7% in August and the Fund return is -3.5% year-to-date, net of fees, as of that date. He noted the Fund's approximate value is \$5.17 billion. Mr. Sauer said year to date, the Fund has incurred investment losses of \$206.7 million, paid benefits and expenses of \$256.6 million, and received contributions of 107.1 million. He noted for monthly withdrawals, the Fund executed a rebalance in August from Public Equity to Fixed Income and Absolute Return, while retaining liquidity to fund the August and September benefit payments.

Mr. Silber spoke about the rebalancing plan that was implemented in August. He noted that as of July 31, 2020 the Fund's allocation to stocks was at 47.5% and rose above 48% in early August as a result of the continued rise in the stock market. He said the target for stocks in the investment policy is 43% with a range between 38% and 48%. He noted the rebalance plan strived to reduce the stock allocation down to 45.5%, all else equal, and involved selling \$148 million in stocks and investing a total of \$173 million into the underweight asset classes of Fixed Income and Absolute Return.

Callan Long-Term Planning for a Sustainable Retirement System Presentation. As a matter of information, Committee members received the "Long-Term Planning for a Sustainable Retirement System" booklet. Mr. Joecken discussed Saving Public Defined Benefit Plans, Successful Board and Committee Decision Making, Nurturing a Strong Culture, and Lessons Learned. Discussion ensued.

Informational.

As a matter of information, Committee members received the following Informational items.

July Performance Report/Asset and Manager Allocation Pie Charts.

Q1 2020 Private Equity Summary.

Class Action Income 2020 YTD.

Adjusted Quarterly Cost Basis of Equity.

Callan 2nd Quarter 2020 Performance Report.

CMERS 2nd Quarter 2020 Performance Update – Appendix.

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

There being no further business, Mr. Konrad adjourned the meeting at 10:37 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.)