

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

Minutes of the Investment Committee Meeting
held November 12, 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
Carmelo Patti
Aycha Sawa

ERS Staff Present: Jerry 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
Mary Turk, Business Operations Analyst
Jan Wills, Board Stenographer

Others Present: John Jackson, Mike Joecken, Jim Van Heuit, Jason Ellement, Callan; Larry Langer, Pat Beckham, Cavanaugh Macdonald; Patrick McClain, Scott Brown, City Attorney's Office; Dennis Yaccarino, Molly King, Budget Office; Terry Siddiqui, DS Consulting, Inc.; three members of the public called in.

Mr. Konrad noted the meeting was being conducted via teleconference.

Callan 2020 Asset-Liability Study – Phase II. Mr. Joecken noted the last Asset Liability Study was done in 2017 and a study is done every three to five years. He noted at July's meeting that a series of alternative asset allocations was presented. He noted they would be taking the allocations and projecting into the future to have a conversation about the appetite for risk for the Plan and what the implications are for taking more risk or less risk. Mr. Joecken noted they would be using their 2021 10-year forward projections for this study. Mr. Van Heuit gave a summary of the asset-liability results. He stated the Return Objective is to hit the actuarial discount rate over long periods of time and the discount rate is 7.5%. He said the time horizon is indefinite so there is a long period of time to reach the 7.5% discount rate. Mr. Van Heuit spoke about Liquidity Needs and said liquidity needs are expected to rise as benefit payments outpace employer and employee contributions. He noted illiquid assets are currently 18% of the portfolio with 8% in core real estate and 10% in private equity. He stated that the Actuarial Methodology uses five-year asset smoothing and stabilized employer contribution rates. Mr. Van Heuit said with the Contribution Risk, the rates are stabilized over five-year periods but may experience a large increase at the end of a cycle if actuarial (investment) losses build up. He also discussed Risk Tolerance, Liability

Growth, and Funded Status. Mr. Van Heuit said the Plan is underfunded as of January 1, 2020, with the market value funded status at 84.2%. Mr. Patti commented on the bullet point which stated none of the alternative asset mixes is expected to achieve 7.4% over the next 10 years. Mr. Van Heuit said the goal of the asset-liability study is to establish a long-term strategic asset allocation target for the City of Milwaukee Employees' Retirement System pension fund. Mr. Van Heuit also discussed Callan's Capital Market Projections, the broad asset classes they focused on for this study, some considerations that impacted the Capital Market Projections used including their Process and Philosophy in developing them, a comparison of the Current Target and the Actual Asset Allocation, the Expected Rate of Return, Standard Deviation, and Illiquid exposure for the Current Target allocation and other optimal Alternative Asset Mixes, the Ranges of simulated Expected Rates of Return for each mix, a survey of how Public Fund Actuarial Discount Rates have changed over time, and how the standard deviation of a portfolio seeking to achieve a 7.5% Expected Return Over Past 30+ Years has changed. Discussion ensued.

Mr. Ellement then discussed the asset liability forecasting and liquidity stress testing. He noted they are modeling a funding policy where the deficit will be closed in 24 years. He stated extra money going into the Fund would improve the liquidity situation 10 years from now. Discussion ensued regarding the reduction in the City's workforce. Mr. Langer stated benefits accruing for CMERS are around \$85 million per year. He stated members contribute \$30-\$35 million while employers contribute \$50 million. Mr. Langer noted reduction in head counts would lower both those amounts. He said payments to the unfunded liability would not go down when active head counts shrink. Discussion ensued. Mr. Ellement also discussed the output of the asset-liability results, which included 10-year projections of Funding, Liquidity Needs, Market Value of Assets (Target Mix), Actuarial Accrued Liability, Market Funded Status, Cumulative Employer Contributions, Ultimate Net Cost, Risk vs. Reward in Ultimate Net Cost, and Liquidity Stress Testing. Discussion ensued. Mr. Ellement said Callan recommended two asset mixes where one is an optimal mix to the existing target with less risk and is expected to earn 6.82% over the next 30 years. He said the other asset mix carries more risk and over 30 years is expected to earn 7%. Discussion ensued.

Approval of Asset Allocation Mix. Discussion ensued regarding the timeframe for selecting the asset allocation mix, downsizing scenarios with and without layoffs, risk considerations, and the time horizon. It was moved by Mr. Klusman to approve Mix 3 in the Asset Allocation Mix. Ms. Sawa then asked what Callan's recommendation was. Mr. Joecken noted they cannot recommend risk and return tolerance for the Board. He said a discussion would bring up staying with the current target or selecting Mix 3, and he mentioned it is reasonable to consider Mix 4 as well. Discussion ensued. Mr. Konrad asked for a second for Mr. Klusman's motion. He stated that if there is no second, the motion dies. Mr. Konrad then asked if there were any other motions. It was moved by Mr. Patti and seconded by Mr. Klusman, to keep the current target allocation. After discussion, the motion tied by the following roll call vote: AYES: Messrs. Bell, Campbell, Klusman, and Patti. NOES: Mses. Ford, Sawa and Messrs. Kovac, Konrad. Discussion ensued. Mr. Konrad then said a motion could be made to put this item over to the next meeting to obtain more information. Discussion ensued. It was moved by Mr. Kovac, and seconded by Mr. Campbell to carry the motion over to the next meeting in order to obtain more information. The motion prevailed by the following roll call vote: AYES: Mses. Ford, Sawa and Messrs. Bell, Campbell, Kovac, Konrad. NOES: Messrs. Klusman and Patti. Discussion ensued.

MFS Due Diligence Report. Mr. Courtright noted he, Mr. Sauer, and Mr. Lubarsky had a virtual due diligence meeting with MFS on September 18, 2020. He said MFS manages a global growth equity mandate for the ERS as part of the global equity asset class. The value was \$172.9 million or 3.4% as of September 30, 2020. A couple takeaways, he mentioned, were that the research department was an integral part of the firm as well as the entire process with all the strategies and portfolio managers. He noted another takeaway was that one of the Portfolio Managers is retiring in April 2021 but the portfolio will continue to be managed by two co-portfolio managers who have been on the strategy since 2008 and 2018. Mr. Courtright noted the Director of Global Trading has undertaken new initiatives beneficial to the trading operation in integrating the equity and fixed income trading to one trading desk as well as making an investment in data analytics for pre- and post-trade analysis. Mr. Courtright said that MFS, since its inception of December 1, 2012, has a return of 12.8% per year versus 9.1% for the MSCI ACWI benchmark.

3rd Quarter 2020 Performance Report. Mr. Sauer noted the market recovery was a continuation of what was seen in the 2nd Quarter. He stated risk assets did well, primarily equity assets, as well as credit bonds. Mr. Sauer said Public Equity, as measured by the ACWI Benchmark, was up 8.1% in Q3, Private Equity up 10.7%, and Absolute Return up 3.9%. He said for the quarter, the CMERS Total Fund was up 5.6% compared to 6.0% for the benchmark. Mr. Sauer spoke about the Fund's relative performance against the benchmark as growth outperformed value and large cap outperformed small cap in the equity space. He noted Fixed Income credit performed well, up 3.5%, as represented by Loomis Sayles, and the Barclays Agg was up 0.6%. Mr. Sauer said Private Equity achieved a 10.7% return for the quarter and 7.4% year to date. He stated that 8 of the 11 Public Equity managers outperformed adding 0.4%. He said the emergence of the Pfizer vaccine has caused a reversal toward value and small cap and benefited the Fund quite a bit. Mr. Sauer said for the performance update, the Fund was at a -3.9% through September 30, 2020. He said the Fund value is at \$5.27 billion.

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

There being no further business, Mr. Konrad adjourned the meeting at 12:01 p.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.)