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

Minutes of the Investment Committee Meeting
held December 10, 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 Robin Earleywine, Pension Accounting Manager Mary Turk, Business Operations Analyst Jan Wills, Board Stenographer

Others Present: John Jackson, Mike Joecken, Jim Van Heuit, Jason Ellement, Sally Haskins, Jonathan Gould, Munir Iman, Callan; Larry Langer, Cavanaugh Macdonald; Patrick McClain, Andrea Fowler, City Attorney's Office; Molly King, Eric Pearson, 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. Jackson noted this presentation is a follow-up from the November 12 meeting. Mr. Van Heuit said they are reviewing the study from the last meeting to address a question about the potential for workforce attrition and how that would impact the liabilities and the selection of the asset allocation. He said the asset allocation is selected by looking at a tradeoff between investment return and investment risk with the flip side between contribution return and contribution risk. He said the higher the rate on the investment portfolio, the more volatile the portfolio is, leading to volatility in the contributions. He said a higher rate of return in the long run leads to lower contributions but in the short run can lead to volatility for contributions and conversely, a lower rate of return leads to larger contributions. Mr. Van Heuit discussed the capital market expectations that were discussed last month and reminded the Board that all of Callan's clients are in a low-return environment to meet their actuarial discount rates. Mr. Van Heuit went over the rates of returns used from six assets classes for the projections in the asset liability analysis. He stated they would concentrate on Mixes 3 and 4. Discussion ensued.

Mr. Ellement discussed the asset liability results based on a workforce reduction scenario. He said the results did not move that much. He said Callan worked with Cavanaugh Macdonald to generate the liability projections. He said they added the simulation of the capital market returns and came up with a funding policy. Mr. Ellement said the current expected return on the portfolio is 5.9% over the next 10 years. He noted the goal is to eliminate the deficit by 2043. He noted the stabilization policy would change in 2023 and there will be a big increase in employer contributions given the current funded status of the plan. Mr. Ellement noted that in their model they do not have the five-year stabilization policy. He mentioned the discount rate is 7.5%. Discussion ensued.

Mr. Ellement said the workforce reduction through attrition would be about 1,000 in their model. He noted the cost for the Plan right now is about $95 million per year. Mr. Ellement said if the workforce is cut by 10%, the reduction in contributions is about $9 million per year. He noted there would be a $70 million reduction in ongoing benefit accrual over 10 years. He said only 27% of the Fund's $6.6 billion liability is attributable to active employees. He noted amortizing the deficit is the big piece of the contributions and the normal cost is the smaller portion. At the end of 10 years, there will be less assets and fewer liabilities under the workforce reduction scenario. Discussion ensued. Mr. Ellement then talked about the simulated asset liability projections. He said funded status and contributions are two important variables that can influence the asset allocation decision. He said Mix 3 is less risk and Mix 4 is more risk while reducing contributions. Mr. Ellement commented that if Mix 3 is selected, Global Equity is reduced by 2% and put into the Real Assets asset class and with Mix 4, Fixed Income is reduced by 5% and 2% is put into the Real Assets and Global Equity asset classes, and 1% is put into the Private Equity asset class. Mr. Ellement also noted that Callan included a Mix 3A recommendation, which reduces Fixed Income by 3% and puts 2% into the Real Assets asset class and 1% into Global Equity. Discussion ensued.

Approval of Asset Allocation Mix. Discussion ensued. Mr. Campbell said asset allocation is more important than manager selection in driving the returns. He said his preference was for Mix 3A which gives the plan a healthy risk/reward scenario while having an appropriate level of Fixed Income to balance the plan during a negative market. Mr. Campbell said he would not be comfortable reducing the level of Fixed Income below 22%, which is what Mix 3A is. Ms. Ford said she is still comfortable with Mix 4 because she is looking for balance between what can be earned from investments as well as what gets made up by contributions. It was moved by Mr. Campbell and seconded by Mr. Klusman to approve Asset Allocation Mix 3A. The motion carried by the following roll call vote: AYES: Ms. Sawa, Messrs. Bell, Campbell, Klusman, Kovac, Patti, and Konrad. NOES: Ms. Ford.

Asset Allocation Implementation and Rebalancing Discussion. Mr. Silber said with Mix 3A just being approved by the Investment Committee, 3% will be coming out of Bonds and 2% will be going into Real Assets, and it will likely take at least six to 12 months to fully implement the new Real Assets allocation. He said Global Equities or Fixed Income might be overweight the Mix 3A targets until Real Assets can be fully implemented. Mr. Silber said the Global Equity target allocation will increase from 43% to 44%, and noted that the Fund's current exposure to Global Equity is between 46% and 47%. He noted the current exposure to Fixed Income is between 23% and 24%. Mr. Silber also commented that the Fund hit a rebalancing trigger on Friday where market movements pushed the Public Equity allocation above the 48% allowed by the current guidelines. He said this was a great problem to have as the Fund's stock allocation has done really well. He said they developed a two-part rebalance plan with Callan and already initiated the first rebalancing piece, which they could confidently implement right away. The second piece of the rebalancing plan can now be initiated with the additional visibility Staff now has with the approval of Mix 3A the Committee just took.

Callan Real Estate Presentation. Mr. Silber stated the first part of Callan's Real Estate Presentation would be in open session. Ms. Haskins introduced Mr. Gould and Mr. Iman. She noted Mr. Iman is working more on the ERS account now since he tracks and does research on real estate open-end funds, which comprise about 90% of the ERS' real estate portfolio. Ms. Haskins commented that items presented would be the real estate portfolio and how it is positioned, impact on the portfolio from the current environment, performance, and a recommendation to discuss in closed session. Mr. Iman said vacancies across apartments, office, and retail are increasing due to the pandemic while industrials are holding steady. He noted that during Q2, the real estate market felt the shocks from COVID and he discussed the impacts on various real estate sectors. Mr. Iman said there would be buying opportunities with the lower interest rates as well. He said the current target allocation is 7.7% and is subject to change based on the asset liability study. He said it is currently within the target range of 5% to 10%. He commented that the Real Estate portfolio was 8% (8.3% with unfunded commitments) of the total portfolio during Q2 2020. Mr. Iman said there is non-core exposure within the four core property types of real estate. He noted the non-core exposure types are land, self-storage, student housing, and senior housing. Mr. Iman said unfunded commitments for the core have all been allocated and put to work. He said there are some unfunded commitments in the non-core portfolio of $14 million, and $6 million of that is likely to be called. Mr. Gould noted the non-core portfolio is winding down and is a smaller component of the overall portfolio. He said there is an overweight to the industrial property type, which is beneficial to the portfolio and underweight to office and apartments. Mr. Gould stated the ERS is moving toward the core portfolio but not the non-core portfolio, which are the closed-end legacy funds, which CMERS is no longer committing to.

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)(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.

It was moved by Mr. Bell and seconded by Mr. Campbell to convene in closed session. The Committee voted to convene in closed session by the following roll call vote: AYES: Mses. Ford and Sawa; Messrs. Bell, Campbell, Klusman, Kovac, Patti, and Konrad. NOES: None.

The Committee convened in closed session at 10:45 a.m.

It was moved by Mr. Bell and seconded by Mr. Kovac to reconvene in open session.

The Committee reconvened in open session at 10:58 a.m.

2021 Tentative Due Diligence Schedule. Mr. Sauer said the Investment Staff puts together the due diligence meetings planned to take place for the following year, and meetings are conducted every other year with each manager. He said because of the pandemic, resumption of in person meetings will depend on how quickly vaccine rollouts occur, and how quickly managers re-open their offices and accept visitors, and that meetings are currently being held virtually. Mr. Sauer encouraged Board members to participate as a learning process and to let him know so Board members can be included in the planning and scheduling process. Discussion ensued.

CIO Report. Mr. Silber said the return for October 2020 YTD was -4.6% and underperforming the benchmark. He said November was a strong month for the markets and the benchmark, and the Fund had an estimated 7% return last month, which beat the benchmark of 6%. He said the 7% return was the fourth best monthly return in the last 26 years. Mr. Silber said the markets have risen a little more in December, and the Fund had a 1.5% increase in December month-to-date, also ahead of the benchmark. As of December 9, the Fund's year-to-date estimated return is 3.6%, net of fees, trailing the benchmark, which is up to 9.9%. Mr. Silber also said that he was notified by Loomis Sayles that Mr. Dan Fuss is moving into a senior advisor role effective March 1, 2021. He said March 1st is the 45th anniversary of his first day at Loomis Sayles.

Informational.

Callan 3rd Quarter 2020 Performance Report. As a matter of information, Board members received the Callan 3rd Quarter 2020 Performance Report.

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

There being no further business, Mr. Konrad adjourned the meeting at 11:09 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 Employes' Retirement System, 789 N. Water Street, Suite 300.)