

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

Minutes of the Regular Meeting
held July 26, 2021 via teleconference during COVID-19

The meeting was called to order at 9:02 a.m.

Board Members Present: Matthew Bell
 James Campbell
 Deborah Ford
 Molly King
 Tom Klusman
 Rudolph Konrad, Chair
 Nik Kovac
 Aycha Sawa

Retirement System Staff Present: Jerry Allen, Executive Director
 Melody Johnson, Deputy Director
 Daniel Gopalan, Chief Financial Officer
 David Silber, Chief Investment Officer
 Erich Sauer, Deputy Chief Investment Officer
 Thomas Courtright, Pension Investment Analyst
 Anthony Lubarsky, Pension Investment Analyst
 Gust Petropoulos, Deputy Director Disability
 Robin Earleywine, Pension Accounting Manager
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Carla Gogin, Baker Tilly; Woomin Kang, Reinhart, Boerner Van Deuren; Jim Harrod, Hannah Ross, Bernstein Litowitz Berger & Grossmann LLP (BLB&G); Andrea Fowler, Patrick McClain, Jeremy McKenzie, City Attorney's Office; John Barmore, Retired Fire & Police Association; Jim Zalewski, Milwaukee Retiree Association (MRA); Eric Pearson, Budget Office; Terry Siddiqui, DS Consulting, Inc., three members of the public called in to the meeting.

Regular Meeting.

Approval of Minutes.

Regular Meeting Held June 21, 2021. It was moved by Mr. Bell, seconded by Ms. King, and unanimously carried, to approve the Regular Meeting Held June 21, 2021.

At this point, Mr. Konrad took the meeting out of order to New Business item IV.C. Acceptance of Baker Tilly 2020 Financial Audit.

New Business.

Acceptance of Baker Tilly 2020 Financial Audit. Ms. Gogin attended the meeting representing Jason Coyle, Partner, and Darlene Middleman, Senior Manager, who were unable to attend due to a conflict. As a matter of information, Board members received the Independent

Auditors' Report and the Comprehensive Annual Financial Report dated December 31, 2020. Ms. Gogin reported on the deliverable from the 2020 financial audit and the auditor's opinion. She said the pre-audit letter was dated March 8, 2021 and Baker Tilly had communication with the A&O Committee on March 17, 2021. She noted it is Baker Tilly's responsibility to obtain reasonable assurance that the financial statements are free from material misstatements, which is a high level of assurance. Ms. Gogin stated they do gain an understanding of the internal control environment of the organization but do not audit the internal controls. She stated they form and express an opinion on the financial statements and Baker Tilly did issue an unmodified or clean audit opinion on the financial statements. She said management is responsible for preparing and providing the information for the financial statements. Ms. Gogin also said management is responsible for maintaining an effective internal control environment and providing written representations of the conclusion of the audit. She noted their audit approach focuses on several key areas including internal controls over financial reporting, fair value measurements and disclosures related to the investments of the plan, revenue recognition including investment income, benefit plan testing, and significant estimates. Ms. Gogin said Baker Tilly did not identify any material weaknesses over internal controls. Discussion ensued. Ms. Sawa requested to approve the financial statements, but not the audit, at the A&O Committee level first. It was moved by Ms. Sawa, and seconded by Ms. King, to submit to approve the audit, subject to review by the A&O Committee and to have the A&O report at the next meeting to see if there are any additions, changes, or corrections.

Mr. Konrad continued to take the meeting out of order to Informational item VII.A. Pending Litigation Report.

Informational.

Mr. Konrad advised that the Annuity and Pension Board may vote to convene in closed session on the following item (A.), 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 Board may then vote to reconvene in open session following the closed session.

Pending Litigation Report.

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

The Board convened in closed session at 9:19 a.m.

The Board reconvened in open session at 10:10 a.m.

At this point, Mr. Konrad returned the meeting to order of the agenda.

Chief Investment Officer Report. Mr. Silber mentioned the upcoming Investment Committee Meeting on July 28 and noted that the agenda includes the Absolute Return Structure Review for presentation and approval. As a matter of information, Board members received the July 26, 2021 Performance Update. Mr. Sauer noted the Fund as of June 30, 2021, had a value of \$6.01 billion. He said the return of 1.6%, net of fees, was roughly in line with the blended benchmark. Mr. Sauer commented that the Fund's returns outperformed in the year-to-date, one-, five-, and 20-year periods, and underperformed in the 15-year period, and roughly matched the benchmark in the 10-

year period, net of fees. He said the June relative performance drivers were Private Equity at 64 basis points while three DFA Strategies detracted 15 basis points, UBS detracted 10 basis points, and the Fund's Style Bias detracted 42 basis points that was primarily Value and Small Cap. Mr. Sauer stated as of July 22, the Fund return was up 0.2% in July, and the year-to-date return is 11.5%, net of fees. He noted the Fund's approximate value is \$6.03 billion and 12 out of the Fund's 16 active mandates are outperforming year to date, net of fees. Mr. Sauer said the Total Fund, along with all of the Fund's assets classes, are exceeding their respective benchmarks year to date, net of fees. He commented that year to date, the Fund has generated investment gains of \$636.6 million, paid benefits and expenses of \$229.7 million and received contributions of \$91.3 million. Mr. Sauer said the monthly withdrawals for June were \$19 million from the S&P 500 Index, \$6 million from Polen, \$4 million from MFS, and \$3 million each from BlackRock Russell 1000 Fund and DFA US Large Cap Value. Discussion ensued.

Approval of Loomis Sayles Guideline Change. As a matter of information, Board members received the Loomis Sayles Guideline updates. Mr. Sauer noted there were two requests from Loomis Sayles for guideline modifications, the first one requesting clarification on whether investing in Collateralized Loan Obligations (CLOs) was allowed under their allocation to asset-backed securities. He noted Callan said it is allowed, but best practice would be to specifically reference it in the guidelines. Mr. Sauer commented that CLOs are packages of loans which have different credit ratings. He noted Loomis said a 5% maximum would fit with their goals for inclusion in the portfolio. Mr. Sauer said the second request Loomis made was to increase the limit to 144a securities from the current 25% to a 50% maximum of the portfolio. Discussion ensued. It was moved by Mr. Campbell, seconded by Mr. Bell, and unanimously carried, to approve the Loomis Sayles Guideline Change.

Approval of Taiwan Tax Agent Agreement. As a matter of information, Board members received the Taiwan Tax Agent Agreement Memo, Reinhart Boerner Van Deuren Memo, and the KPMG Tax Agent Agreement. Mr. Sauer discussed the Agreement with KPMG for tax agent services. He noted the Agreement is required by Taiwanese law for investors who invest directly in Taiwan and who take proceeds out of Taiwan. Mr. Sauer said Brandes is the one CMERS investment manager investing in Taiwan currently. Ms. Kang stated CMERS is appointing KPMG as its tax agent and the Agreement contains market terms and an overall low level of legal risk. Ms. Fowler commented that both memos were straightforward. It was moved by Mr. Kovac, seconded by Ms. Sawa, and unanimously carried, to approve the Taiwan Tax Agent Agreement.

Administration & Operations Committee Report. Ms. Sawa reported that at its July 22 meeting, CliftonLarsenAllen, the new internal auditor for the pension fund, presented the risk assessment report as well as their three-year audit plan and detailed their first-year audit plan. Ms. Sawa stated there was also a review of the CMERS' Internal Controls and Ethics policies after the Committee reviewed the annual Internal Audit Charter in a previous meeting. She said they also discussed the lease and approval of the 4th floor space, which is on today's Board agenda. Ms. Sawa said they concluded their meeting with an Organizational/Personnel update on the vacancies in the office. Mr. Konrad accepted the report and placed it on file.

New Business.

Retirements, Death Claims, and Refunds (June). Mr. Allen presented the following activity for the month of June 2021.

Active Death Benefits reported	\$0.00
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Deferred Death	\$0.00
Deferred Death – Member Only Refund	\$0.00
Ordinary Death Benefits reported	\$35,470.64
Retired Death Benefits reported	\$251,412.57
Survivor Death – Termination Benefits reported	\$5,527.09
Refund of Member Contributions paid	\$118,792.47

It was moved by Mr. Campbell, seconded by Ms. King, and unanimously carried, to approve the Retirements, Death Claims, and Refunds (June).

Conference Requests – July 2021 Board Meeting.

Erich Sauer & Thomas Courtright	Reams Due Diligence
Sponsor:	Reams
Location:	Columbus, IN
Date:	September 30 – October 1, 2021
Estimated Cost:	\$700.00 per person

It was moved by Ms. King, seconded by Mr. Bell, and unanimously carried, to approve the Conference Requests – July 2021 Board Meeting.

Approval of Annual Report of the Annuity & Pension Board 83rd Edition, December 31, 2020 Report. As a matter of information, Board members received the Annual Report of the Annuity and Pension Board. Mr. Allen noted this accounting report is based on the GASB 67 standards. It was moved by Mr. Campbell, seconded by Ms. King, and unanimously carried, to approve the Annual Report of the Annuity & Pension Board 83rd Edition, December 31, 2020 Report.

Approval of Lease for 4th Floor Space at 789 N. Water Street. Mr. Konrad advised that the Annuity and Pension Board may vote to convene in closed session on the following item (E.), 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 Board may then vote to reconvene in open session following the closed session.

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

The Board convened in closed session at 10:35 a.m.

The Board reconvened in open session at 10:45 a.m.

It was moved by Ms. Ford, seconded by Mr. Kovac, and unanimously carried, to approve the Approval of Lease for 4th Floor Space at 789 N. Water Street.

Approval to Suspend Disability Benefits for Non-Compliance with Outside Earnings Limitation. Staff noted nine people had not yet submitted their 1040 form for tax year 2020 and are subject to the outside earnings test due to being on disability. The following people were suspended from disability benefits and will be reinstated with back pay once they submit their 1040 tax returns: Jewel Springfield, Jeffrey Dzibinski, Jenitza Crespo, Sasha Gulley, Scott Krahn, Gordon Mathews, Dorothy McLaurin, Chara Morris, and Edward Nolinski. It was moved by Mr. Klusman, seconded by Ms. Ford, and unanimously carried, to approve the Approval to Suspend Disability Benefits for Non-Compliance with Outside Earnings Limitation.

Approval of August Resolution. Staff noted this resolution allows benefit payments to be made during the August recess and until the Board reconvenes in September. It was moved by Ms. King, seconded by Ms. Sawa, and unanimously carried, to approve the Approval of August Resolution.

At this point, Mr. Konrad took the meeting out of order to Medical Reports item V.A. All Duty & Ordinary Disability Applications & Re-examinations.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations (June). Staff presented certifications (June 2021) of the Fire and Police Medical Panel Physicians and the Medical Council relative to Duty & Ordinary Disability Retirement benefits as follows:

<u>Police – Application – Ordinary</u>	<u>Recommendation</u>
Eric Fjeld	Denial
<u>Police – Re-examinations – Duty</u>	<u>Recommendation</u>
Graham Kunisch	Approval
Keith Miller	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Christopher Gauthier	Approval
Robert Hehn	Approval
Chad Hendricks	Approval
Bruce Rightmyre	Approval
<u>Police – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Laticia Robinson	Approval
<u>GC – Re-examinations – Duty Disability</u>	<u>Recommendation</u>
Daniel Ellis	Approval

GC – Re-examinations – OrdinaryRecommendation

Maurice Nicholson
Timothy Williams

Approval
Approval

Discussion ensued. It was moved by Mr. Klusman, seconded by Mr. Campbell, and unanimously carried, to approve the Duty & Ordinary Disability Applications & Re-examinations (June).

Unfinished Business.

Pending and Legal Opinions and Service Requests Report. As a matter of information, Board members received Mr. McClain’s Pending Legal Opinions and Service Requests Report. Mr. McClain reported on his one-page report that most of the items have been taken care of. Staff discussed the Service Requests and noted the Lease for the 4th Floor Space was approved at the meeting today and the KPMG Power of Attorney document for the tax agent for Taiwan was also on the Board agenda today and approved. Mr. Konrad accepted the report and placed it on file.

Pending Legislation Report. As a matter of information, Board members received the Pending Legislation Report. Staff reported on two Pending Charter Ordinances for Common Council Action that went to the Finance & Personnel Committee. It was noted that the first item involved voluntary, pensionable furlough days for general city employees in order for the City to balance its budget. Staff noted it only involved a couple of days. The second ordinance involved removing the word “mandatory” from the earlier furlough ordinance as it is voluntary. Mr. Konrad accepted the report and placed it on file.

Executive Director’s Report – Inventory of ERS Projects. As a matter of information, Staff presented a report on the ERS projects and updated the Board on ERS activities, a copy of which is on file with the ERS.

Informational.

The following is a list of informational items:

- 1) Pending Litigation Report.
- 2) Conferences.
- 3) Class Action Income 2021 YTD.
- 4) Minutes of the Investment Committee Meeting Held June 10, 2021.
- 5) Minutes of the Administration and Operations Committee Meeting Held June 16, 2021.

The following is a list of activities since the last Board meeting, copies sent with meeting notice and attached to minutes:

- 6) Report on Bills.
- 7) Deployment of Assets.
- 8) Securities Lending Revenue and Budget Report.
- 9) Preliminary Performance Report/Asset and Manager Allocation Pie Charts.

At this point, Mr. Konrad returned the meeting to item IV.H. Chief Investment Officer Performance Review.

Mr. Konrad advised that the Annuity and Pension Board may vote to convene in closed session on the following item (H.), as provided in Section 19.85 (1)(c), for considering employment, promotion, compensation or performance evaluation data of any public employe over which the governmental body has jurisdiction or exercises responsibility. The Board may then vote to reconvene in open session following the closed session.

Chief Investment Officer Performance Review.

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

The Board convened in closed session at 11:10 a.m.

Mr. Konrad adjourned the meeting from closed session at 11:51 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.)