

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

Minutes of the Regular Meeting
held September 29, 2021 via teleconference during COVID-19

The meeting was called to order at 9:00 a.m.

Board Members Present: Matthew Bell
Joshua Benson
James Campbell
Deborah Ford
Tom Klusman
Rudolph Konrad, Chair
Nik Kovac

Board Members Not Present: Molly King (arrived 9:02 a.m.)

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

Others Present: Dan Kwiecienski, Eric Rismeyer, Debbie Sweeney, Hays Companies; Patrick McClain, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc., 17 members of the public called in to the meeting.

Regular Meeting.

Approval of Minutes.

Regular Meeting Held July 26, 2021. It was moved by Mr. Campbell, seconded by Ms. King, and unanimously carried, to approve the Regular Meeting Held July 26, 2021.

At this point, Mr. Konrad took the meeting out of order to item V. Administration & Operations Committee Report.

Administration & Operations Committee Report. Ms. King spoke for A&O Chairperson Ms. Sawa whose absence was due to a leave. Ms. King noted the A&O Committee recommended the full Board decide whether the cyber insurance renewal should have a coverage limitation of \$3.5 million or \$5 million. She mentioned the A&O Committee did recommend approval of the Annual Comprehensive Financial Report (ACFR) for the Year Ended December 31, 2020. She also noted the Committee did recommend approval of expanding the scope of Internal Audit Services after a

presentation by CLA (CliftonLarsonAllen). Staff also mentioned the IT Portfolio and the Organizational/Personnel Update, which were presented at the meeting.

Renewal of Fiduciary Liability and Cyber Insurance. As a matter of information, Board members received the Board Summary for Fiduciary Liability & Cyber Liability Insurance Proposal. Ms. Sweeney presented a summary of her report to the A&O Committee on September 22, 2021. Ms. Sweeney discussed claim trends for fiduciary and cyber liability, the current ERS fiduciary liability insurance program, which provides a \$50,000,000 annual aggregate limit of liability, which includes \$10,000,000 of Non-Indemnifiable Coverage, and the Cyber Liability insurance current limit of \$5,000,000 subject to \$25,000 retention. She also gave a Premium Summary and discussed Benchmarking for Fiduciary and Cyber liability. She reiterated that the overall premium increase for Fiduciary Liability amounted to 16% or \$43,673. She said the premium for the Cyber Liability coverage similar to last year would be \$136,650, if the \$5 million limit is retained, including a \$100,000 retention. Discussion ensued.

Mr. Bell left the meeting temporarily at 9:20 a.m. to attend court-ordered testimony.

It was moved by Ms. Ford, seconded by Mr. Kovac, and unanimously carried, to approve the Renewal of Fiduciary Liability and Cyber Insurance as recommended by Hays with the provision that the \$5 million limit policy be retained for the Cyber Liability portion of the program.

Approval of Annual Comprehensive Financial Report (ACFR) for the Year Ended December 31, 2020. As a matter of information, Board members received the Revised Audit Plan: Proposed Plan with Annual Review of HIGH Priority Engagements – Costed. Staff said the A&O Committee recommended approval of the audited financial statements.

It was moved by Mr. Klusman, seconded by Ms. King, and unanimously carried, to approve the Annual Comprehensive Financial Report (ACFR) for the Year Ended December 31, 2020.

Approval for Expanding the Scope of Internal Audit Services. Staff noted this was a closed session item about the risk assessment audit cycle for numerous audits. It was noted that the A&O Committee members recommended completing two of the audits every year instead of on a three-year cycle, with one of the audits being potential vulnerabilities in the IT system. Staff said, based upon the Committee's recommendation, the price would increase approx. \$3,800.00. Staff said the actual contract amendment would be presented at a later meeting.

It was moved by Mr. Klusman, seconded by Mr. Campbell, and unanimously carried, to approve the Approval for Expanding the Scope of Internal Audit Services.

At this point, Mr. Konrad returned the meeting to the order of the agenda to item II. Chief Investment Officer Report.

Chief Investment Officer Report. As a matter of information, Board members received the September 29, 2021 Performance Update. Mr. Sauer noted the Fund as of August 31, 2021, had a value of \$6.07 billion. He said the return of 1.3% in August, gross of fees, outperformed the blended benchmark by 28 basis points. Mr. Sauer commented that the Fund's returns outperformed in the year-to-date, one-, five-, and 20-year periods, and underperformed slightly in the 15-year period, and roughly matched the benchmark in the 10-year period, net of fees. He said the August relative performance drivers were Manager Selection with William Blair adding 10 basis points, Real Estate adding 10 basis points, UBS adding six basis points, and Brandes adding four basis

points. Mr. Sauer stated as of September 27, the Fund return was down 0.1% in September, bringing the year-to-date return to 13.6%, net of fees. He noted the Fund's approximate value is \$6.08 billion and 11 out of the Fund's 15 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 as of September 27, the Fund has generated investment gains of \$750.7 million, paid benefits and expenses of \$306.1 million and received contributions of \$99.2 million. Mr. Sauer said the monthly withdrawals for September were \$11 million from William Blair, \$10 million from Brandes, \$7 million from DFA International, \$6 million from Polen, and \$4 million from MFS. He said, in addition to regular withdrawals for benefit payments, the Fund also completed in September redemption of approximately \$98 million from Newton. He said \$47 million of the \$98 million went to Reams, \$33 million went to Loomis, and \$17 million went into the Agg Index.

Investment Committee Report – July 28, 2021. Mr. Silber, in the absence of Investment Committee Chair Mr. Bell, reported at its July 28th meeting, that Callan provided a status update on the Infrastructure implementation steps that were taken earlier this year, and recommended that the Committee pause implementation of the Infrastructure allocation. He said one of the reasons given for the pause is that there may be more investible options for the Fund to consider if it waits another year to conduct a search. He said Staff then discussed what the Fund's Real Assets allocation currently looks like compared to its target, and recommended that any underweight to Real Assets be offset with an overweight target to Fixed Income when making decisions about how to raise cash for monthly benefit payments, and also in the event the Fund hits any of its rebalancing thresholds. Mr. Silber noted the Committee went into closed session regarding both the Callan Diversifying Assets Education & Absolute Return Structure Study Presentation – Phase 2, and for the related Approval of Absolute Return Structure. He said the Committee approved the Absolute Return Structure identified as Mix 2 within Callan's Presentation. Mr. Silber noted upon returning to open session, Staff provided a routine due diligence report on BlackRock, and presented the 2nd Quarter preliminary performance report. He said highlights of that report showed that the Fund's one-year return as of June 30, 2021 was 30.3%, net of fees, and the Fund's market value at the end of the second quarter exceeded \$6 billion. Mr. Silber said the Investment Committee recommended approval of the Approval of Absolute Return Structure (Mix 2).

Approval of Absolute Return Structure. It was moved by Mr. Klusman, seconded by Ms. King, and unanimously carried, to approve the Approval of Absolute Return Structure.

Investment Committee Report – September 2, 2021. Mr. Silber reported at its September 2nd meeting, Callan presented a Hedge Fund of Funds Candidate Profile, and after some discussion, the Committee approved the Hedge Fund of Funds Manager Search and related Candidate Profile. He said Staff then presented a due diligence report on PA Capital, one of the Fund's Private Equity Fund of Funds managers. Mr. Silber added that Callan presented a 2022 Private Equity Pacing and Reinvestments analysis, and the Committee approved the recommendation to commit \$35 million to Abbott Capital's AP 2022 vehicle, subject to legal review. He said the Committee went into closed session to discuss the Asset Allocation Memo and in open session, the Committee approved the Statement of Investment Policy Updates that increased the maximum allocation allowed in Fixed Income to 30% from 26%, decreased the minimum allocation allowed in Absolute Return from 7% to 6%, and permitted Staff to consider the Asset Allocation Memo when making cash flow decisions. Mr. Silber concluded that Callan provided the Committee with a Fiduciary Education presentation, and Staff provided a performance update. He said the Investment Committee recommended approval of the following items: the Approval of Hedge Fund of Funds

Manager Search and Candidate Profile, the Approval of 2022 Private Equity Commitment Recommendation, and the Approval of Statement of Investment Policy Update.

Approval of Hedge Fund of Funds Manager Search and Candidate Profile.

Approval of 2022 Private Equity Commitment Recommendation.

Approval of Statement of Investment Policy Update.

It was moved by Ms. King, seconded by Mr. Klusman, and unanimously carried, to approve the Approval of Hedge Fund of Funds Manager Search and Candidate Profile, the Approval of 2022 Private Equity Commitment Recommendation, and the Approval of Statement of Investment Policy Update.

New Business.

Retirements, Death Claims, and Refunds (July and August). Mr. Allen presented the following activity for the months of July 2021 and August 2021.

Active Death Benefits reported	\$0.00
Deferred Death	\$5,558.40
Deferred Death – Member Only Refund	\$452.30
Ordinary Death Benefits reported	\$38,879.90
Retired Death Benefits reported	\$36,002.31
Survivor Death – Termination Benefits reported	\$15,512.63
Refund of Member Contributions paid	\$220,625.91

It was moved by Mr. Campbell, seconded by Mr. Klusman, and unanimously carried, to approve the Retirements, Death Claims, and Refunds (July and August).

Conference Requests – September 2021 Board Meeting. There were no Conference Requests from Staff at the September Board Meeting.

Mr. Konrad advised that the Annuity and Pension Board may vote to convene in closed session on the following item (V.I.C.), 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.

ERS Investment Staff Compensation (Analyst).

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

The Board convened in closed session at 10:03 a.m.

The Board reconvened in open session at 10:23 a.m.

Mr. Konrad asked for a motion to increase the compensation to \$116,415.26 for Mr. Lubarsky, Pension Investment Analyst – Senior. It was moved by Ms. King, seconded by Mr. Klusman, and unanimously carried, to approve the compensation for the ERS Investment Staff Compensation (Analyst).

Medical Reports.

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

<u>Fire – Application – Duty</u>	<u>Recommendation</u>
Lowell Smith	Denial
<u>Fire – Application – Ordinary</u>	<u>Recommendation</u>
Thomas Weinzierl	Approval
<u>Police – Re-examinations – Duty</u>	<u>Recommendation</u>
Dexter Love	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Monica Blazekovic	Approval
John Elliott	Approval
Andrew Korducki	Approval
Thomas Locke	Approval
Glenn Mish	Denial
Thomas Repaci	Approval
Thomas Scholz	Approval
Paul Singer	Approval
<u>Police – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Mark Johnson	Approval
Melissa Jones	Approval
Todd Rendon	Approval
<u>GC – Re-examinations – Duty</u>	<u>Recommendation</u>
Tina Swanson	Approval

GC – Application – Ordinary
Judy Madison Hemphill

Recommendation
Approval

GC – Re-examinations – Ordinary

Recommendation

Jodi Coon
Scott Geiger
Elizabeth Shannon

Approval
Approval
Approval

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

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 said they were up to date on the Legal Opinions. Staff said for the Service Requests Report, the RFQ process is being reviewed for a mail service vendor and will be before the Board when approved by the City Attorney’s office. 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 said a substitute charter ordinance relates to general city employees who can request up to two furlough days per year. 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.

Mr. Konrad advised that the Annuity and Pension Board may vote to convene in closed session on the following item (1), 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.

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

The Board convened in closed session at 10:37 a.m.

The Board reconvened in open session at 10:51 a.m.

Mr. Bell, after attending court-ordered testimony, returned to the meeting at 10:52 a.m.

The following is a list of informational items:

- 1) Pending Litigation Report.
- 2) Conferences.
- 3) Class Action Income 2021 YTD.
- 4) Minutes of the Administration and Operations Committee Meeting Held July 22, 2021.
- 5) Minutes of the Investment Committee Meeting Held July 28, 2021.
- 6) Minutes of the Special Meeting Held August 24, 2021.

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

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

Discussion ensued regarding today's meeting date change from Monday to Tuesday.

It was moved by Mr. Klusman and seconded by Ms. King to adjourn the meeting. Mr. Konrad adjourned the meeting at 10:59 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.)