

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

Minutes of the Regular Meeting
held December 21, 2021 via teleconference during COVID-19

The meeting was called to order at 9:04 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
 Jeff Shoher, Chief Technology Officer
 Erich Sauer, Deputy Chief Investment Officer
 Anthony Lubarsky, Pension Investment Analyst
 Gust Petropoulos, Deputy Director - Disability
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Hannah Ross, Avi Josefson, BLB&G; John Jackson, Mike Joecken, Joe McGuane, Callan Associates; Patrick McClain, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc., six members of the public called in to the meeting.

Regular Meeting.

Approval of Minutes.

Regular Meeting Held November 23, 2021. It was moved by Mr. Campbell, seconded by Mr. Bell, and unanimously carried, to approve the Minutes of the Regular Meeting Held November 23, 2021.

Chief Investment Officer Report. Mr. Silber noted significant progress was made on the Fixed Income Structure Implementation approved last month. The U.S. Aggregate Bond Index allocation has now been replaced with the U.S. Government Bond Index, which will continue to be managed by BlackRock. He noted that, as part of the transaction, \$70 million was withdrawn out of the U.S. Aggregate Bond Index and deposited into Reams. Mr. Silber said the Fixed Income Structure Implementation is not complete yet, as the ERS is trying to minimize transaction costs by using the inflows into the Fund, that are expected to occur next month as part of the City and the Agencies' annual actuarial contributions, as part of the Implementation. Mr. Silber also commented that the Asset Allocation Memo approved in September allowed Staff to take more of a risk-based approach when determining what asset classes to withdraw from to pay benefits in

December, as Staff is currently using opportunities when they arise to offset the Fund's overweight to Private Equity, which is illiquid, with an underweight to Public Equity.

As a matter of information, Board members received the December 21, 2021 Performance Update. Mr. Sauer noted the Fund as of November 30, 2021, had a value of \$6.01 billion. He said the Fund return of -1.3%, gross of fees, underperformed the blended benchmark by eight basis points. Mr. Sauer commented that the Fund outperformed in the year-to-date, one-, five-, 10- and 20-year time periods, and underperformed in the 15-year period, net of fees. He said the primary November relative performance driver was Style Bias, which detracted 27 basis points, primarily from the Fund's Value- and Small-Cap exposures. Mr. Sauer said within Manager Selection, Loomis Sayles was the main detractor with -8 basis points. Offsetting the Fund's underperformance, he noted, were the Fund's Real Estate Managers adding 25 basis points. Mr. Sauer stated as of December 17, the Fund return was up 1.1% in December, bringing the year-to-date return to 15.6%, net of fees. He noted the Fund's approximate value is \$6.08 billion and 13 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 year-to-date, the Fund has generated investment gains of \$859.3 million, paid benefits and expenses of \$421.0 million and received contributions of \$107.1 million. Mr. Sauer said the monthly withdrawals for November were \$15 million from the NT S&P 500 Index, \$5 million from DFA US Small Cap Value, \$4 million from BlackRock R1000 Value, \$3 million from Earnest, \$3 million from Polen, and \$2 million from DFA US Large Cap Value. Discussion ensued.

Mr. Konrad advised that the Annuity and Pension Board may vote to convene in closed session on the following item 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. Campbell and seconded by Mr. Bell to convene in closed session. The motion prevailed by the following roll call vote: AYES: Ms. Ford, King, and Sawa; Messrs. Bell, Campbell, Klusman, Konrad, and Kovac. NOES: None.

The meeting convened in closed session at 9:17 a.m.

The meeting reconvened in open session at 9:36 a.m.

Approval of Hedge Fund of Funds Manager Search Finalists. It was moved by Mr. Bell, seconded by Ms. King, and unanimously carried, to approve the Approval of Hedge Fund of Funds Manager Search Finalists recommended by the investment consultant.

Investment Committee Report. Mr. Bell reported that at its December 9th meeting, Staff provided a performance update. He said Staff also discussed the tentative timelines for both the implementation of the Fund's new Fixed Income structure and for the Hedge Fund of Funds Manager Search, respectively. Mr. Bell commented that Staff presented two Approval items, one was an Update to the Statement of Investment Policy, and the other was to approve a contract Amendment with BlackRock. He noted the main changes with the Investment Policy had to do with incorporating the new Fixed Income structure changes into the Policy that were approved in November. Mr. Bell commented that the main change in the BlackRock contract Amendment was

to allow BlackRock to replace the Fund's current investment in the U.S. Aggregate Bond Index with a new investment into BlackRock's U.S. Government Bond Index. He said since delaying approval of the BlackRock contract Amendment would have likely made it difficult to make meaningful progress before the end of 2021 in implementing what Callan says is a better risk-adjusted Fixed Income structure. Mr. Bell reported that Staff utilized its authority to execute an investment-related contract that was approved by the Investment Committee as provided under Board Rule VII.G.2.b. He said Staff next presented a tentative 2022 Due Diligence schedule. He added that UBS, the Fund's Hedge Fund of Funds manager, gave a presentation to the Committee. Mr. Bell then concluded that the Investment Committee recommended approval of the "Approval of Statement of Investment Policy Update."

Approval of Statement of Investment Policy Update. It was moved by Mr. Campbell, seconded by Mr. Bell, and unanimously carried, to approve the Approval of Statement of Investment Policy Update.

Administration & Operations Committee Report. Ms. King, Vice-Chair, reported that she chaired the December 15, 2021 meeting in absence of the Chair. She noted the Committee went in to closed session to discuss the mailing services request for quote. (RFQ) Only the current vendor, United Mailing Services (UMS), responded to the RFQ. CMERS has had a contract with UMS since May 2017, which is due to expire in April 2022. Ms. King added that two vendors did not respond to the RFQ and two vendors replied that they do not have the capability to respond to CMERS' request. She noted UMS proposed an annual price increase of \$220 and that the attorney is drafting the contract for the March A&O meeting. Ms. King said the next item discussed was a technical correction to the 2020 Expense Reimbursement Report which is before the Board for approval today. She noted it was a non-fiscal impact correction that was identified by the CMERS Staff who consulted the auditors. She said the third item on the Committee agenda was the audit report, which was also done in closed session. Ms. King said they accepted and placed on file all three audit reports provided by CLA (CliftonLarsonAllen). She noted the audits discussed were Assessment of Entity Level Controls, Contribution Process Audit, and Investment Management Process. She commented that all three audit reports were clean with no findings or recommendations at this time. She added that two other items were also discussed -- the IT Project Portfolio as well as the Organizational/Personnel Update, which provided a progress update on recruitment of current vacancies. Ms. King also requested a referral from the Board regarding an internal audit for the election process of T. She said the last audit was in 2009 and the Board did not adhere to the recommendation.

Approve Technical Correction to 2020 Expense Reimbursement Report. It was moved by Mr. Klusman, seconded by Ms. King, and unanimously carried, to approve the Approve Technical Correction to 2020 Expense Reimbursement Report.

At this point, Mr. Konrad took the meeting out of order to agenda item VIII.A. Pending Litigation Report.

Mr. Konrad advised that the Annuity and Pension Board 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 Board may then vote to reconvene in open session following the closed session.

A. Pending Litigation Report.

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

The Board convened in closed session at 9:48 a.m.

The Board reconvened in open session at 10:16 a.m.

Mr. Konrad returned the meeting to agenda item V. New Business.

New Business.

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

Active Death Benefits reported	\$0.00
Deferred Death	\$41,447.46
Deferred Death-Member Only Refund	\$3,093.83
Ordinary Death Benefits reported	\$219,870.16
Retired Death Benefits reported	\$76,002.38
Survivor Death – Termination Benefits reported	\$4,251.70
Refund of Member Contributions paid	\$191,645.84

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

Conference Requests – December 2021 Board Meeting. Staff noted there were no requests this month to attend conferences.

Proposed 2022 Board and Committee Meeting Dates. Discussion ensued. The schedule of Board and Committee Meeting Dates were approved and placed on file.

Review of Board Rule II.A.2. Mr. Konrad noted this Board rule governs the composition of the Board. He noted the provision being discussed regarding membership on the Board states “The City Comptroller, ex-officio, or, in case of sickness or absence, his or her deputy.” Mr. Klusman asked for reconciliation from the City Attorney on the Board Rule as he stated Chapter 36 says the Comptroller does not provide for a surrogate. He said Common Council members or Board members do not have the opportunity to appoint a surrogate to sit in their place. He also noted the Deputy Comptroller does not have fiduciary education like the other Board members. City Attorney McClain said the rule tracks State law, which recognizes the capacity for the Deputy Comptroller to serve in the place of the Comptroller as the State Statute puts it, “in absence or disability.” Mr. McClain said the ERS rules capture what State law already recognizes which is

that the Comptroller’s Deputy can stand in for the Comptroller under certain circumstances and because the Comptroller’s position on the Board is ex-officio, related to the office, it is appropriate for the Deputy to be able to stand in and exercise those duties of the office, which include, serving as a Trustee. He commented that the Board Rule reflects a commonly understood notion that is already reflected in State law, and because it is an ex-officio position, it is logical that it would apply to the Trustee obligations as well. Mr. Klusman asked that it be in writing to show where the authority comes from. Mr. Klusman also requested that the Deputy Comptroller receive fiduciary education. Mr. McClain said he would be happy to provide a formal opinion to the Board.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations (December). It was moved by Ms. King, seconded by Mr. Klusman, and unanimously carried, to approve the Duty & Ordinary Disability Applications & Re-examinations (December).

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

<u>Police – Re-examinations – Duty</u>	<u>Recommendation</u>
Christopher Manney	Approval
Justine Schmidt	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Gilbert Baltutis	Approval
James Merchant	Approval
John Schmaelzle	Approval
James Youngblood	Approval
<u>Police – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Sherry Rowsey-Brown	Approval
<u>Fire – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Samuel Uribe	Approval
<u>GC – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Janice McNeary Terry	Approval
Laurie Ory	Approval
Sherry Tomasello	Approval

It was moved by Ms. King, seconded by Mr. Klusman, and unanimously carried, to approve the Duty & Ordinary Disability Applications & Re-examinations (December).

Unfinished Business.

Pending and Legal Opinions and Service Requests Report. As a matter of information, Board members received the Pending Legal Opinions and Service Requests Report. Mr. McClain noted there was nothing new to report on Legal Opinions. Staff said the Service Requests had been taken care of.

Pending Legislation Report. As a matter of information, Board members received the Pending Legislation Report. Staff mentioned a charter ordinance for Common Council action, which was on their December 14, 2021 agenda for City departments to expend monies appropriated in the 2022 City budget.

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:

Please be advised that the Annuity and Pension Board 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 Board may then vote to reconvene in open session following the closed session.

- 1) Pending Litigation Report.
- 2) Conferences.
- 3) Class Action Income 2021 YTD.
- 4) Minutes of the Investment Committee Meeting Held November 11, 2021.

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

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

It was moved by Mr. Klusman and seconded by Ms. Sawa to adjourn the meeting. Mr. Konrad adjourned the meeting at 10:51 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.)