

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

Minutes of the Investment Committee Meeting  
held February 11, 2021 via teleconference during COVID-19

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

Committee Members Present: Matthew Bell, Chair  
James Campbell  
Deborah Ford  
Molly King  
Thomas Klusman  
Rudy Konrad  
Nik Kovac  
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, Jason Ellement, Jonathan Gould, Sally Haskins, Munir Iman, Kevin Machiz, Jan Mende, Nathan Wong, Callan; Scott Brown, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc.; six members of the public called in.

**Election of Vice-Chair.** Mr. Bell asked for a motion for nominations for Vice-Chair. It was moved by Mr. Campbell and seconded by Ms. King to nominate Mr. Konrad for Vice-Chair. Mr. Bell asked three times for any further nominations. There being no further nominations, nominations were closed and a unanimous vote was cast for Mr. Konrad as Vice-Chair of the Investment Committee.

**Callan 2021 Work Plan.** As a matter of information, Board members received the Callan 2021 Work Plan. Mr. Jackson noted Callan's discussion topics for the remaining 2021 Investment Committee meetings. He said today's meeting topic covers Real Assets Education including Real Estate, Infrastructure, Farmland, and Timberland. He said Callan, at the April Investment Committee meeting, would present various asset mixes for the Fund's new 13% target to Real Assets.

**Callan Real Assets Education.** As a matter of information, Board members received the Callan Real Assets Education booklet. Mr. Joecken gave an overview of the Real Assets Education and first discussed the Real Assets Structure Study where a framework is selected for the long-term

strategic targets for CMERS' 13% Real Assets allocation. He said other presentation topics today would include types of real assets, vehicle structure and strategy, implementation approach, and a structure review including proposed asset structures to be presented at the April Investment meeting. Mr. Joecken said the Real Assets Allocation target increased from 11% to 13% as part of last years' Asset Liability Study. Ms. Haskins discussed Real Assets, which includes real estate, timberland, agriculture, infrastructure, physical commodities, and precious metals. Ms. Haskins said Real Assets exist in both the private and public markets. She noted CMERS has exposure to publicly traded real assets within its Principal Real Assets Diversified investment. She said investments are made in Real Assets for the diversification power, return profile, and inflation protection. She also noted some other asset class considerations such as the asset class' cyclicity, illiquid structures, monthly or quarterly pricing, higher fees, and lack of investable indices. Ms. Haskins talked about the Global Real Assets market size and said Real Estate is the largest, followed by Infrastructure, Timberland, and Agriculture. She also talked about returns in various Real Assets classes. Discussion ensued.

Mr. Iman then talked about the Real Estate Portfolio and the state of the market. He stated the real estate objectives in the CMERS portfolio are to enhance diversification of CMERS's total portfolio; provide high current income and a total return that falls between stocks and bonds; lower the volatility of the total portfolio; and provide a hedge against unanticipated inflation. Mr. Iman said over rolling five-year periods, the net return target for real estate is to match or exceed the net returns of the benchmark. He said the target allocation to real estate is 7.7%. He noted the core types of real estate are retail, multi-family, logistics, and office, which the Fund invests in. Ms. Haskins commented that the portfolio is holding up well and is overweight in industrial, the sector that has been holding up the best during the pandemic, and underweight in retail, the sector that has been performing the worst during the pandemic. She said the returns have been stabilizing in the market and the Fund is continuing to get income from the Real Estate portfolio. Discussion ensued.

Ms. Mende talked about Infrastructure and discussed characteristics, market trends, considerations and risks. She noted Infrastructure is the second largest Real Assets sector at \$3.1 trillion after Real Estate Private and Public at \$13.6 trillion. She said the Timberland market size is \$60 billion and Agriculture is \$35 billion. She defined Infrastructure as long-lived assets that are essential for the economic productivity of society and facilitate the movement of people, goods, and ideas. She stated infrastructure is more of a global asset class. She discussed Brownfield as assets that already exist and have income, and Greenfield as things that will be built in the future. Ms. Mende said people like the return component of Infrastructure and there is potential for significant income. She mentioned Infrastructure can be more dependable as they can be 25-year leases. Ms. Mende showed examples of Infrastructure, including cell phone towers, a water desalination plant, and street lighting. She also discussed Infrastructure topics such as the drivers for global infrastructure investment today, investors paying attention to private infrastructure, impact from COVID-19, Revenue Types and Risks, Relative Risk/Return, Private Infrastructure Benefits and Considerations, Market Capitalization, Public (Listed) vs. Private Investments, and Infrastructure Implementation. Discussion ensued.

Ms. Haskins discussed Farmland and stated the investment universe is small. She said Farmland is hard to get invested in and there are very few publicly traded stocks, but one can buy commodities or futures. She said Farmland also has a fair degree of illiquidity with investment horizons at 15 or 20 years. Ms. Haskins also discussed Timber and stated it is more co-related to

real estate and other asset classes than farmland, infrastructure, or real estate so the diversification potential is not there. She said timber has gone through a tough time even before the global financial crisis. She noted down-market cycles last longer in timber than some of the other asset classes.

**Approval of Statement of Investment Policy Update.** As a matter of information, Committee members received a redlined updated February 2021 Statement of Investment Policy that reflects the new Asset Allocation approved as part of last years' Asset-Liability-Modeling Study. Committee members also received the complete "Statement of Investment Policy Updated February 2021." Mr. Silber said the purpose is to make the Statement of Investment Policy consistent with the Asset Liability Modeling Strategic Policy Mix 3-A that was approved. He noted that Mix 3-A increased Real Assets from 11% to 13%, Public Equity from 43% to 44%, and decreased Fixed Income from 26% to 23%. Mr. Silber noted that the effective date for the change to the Fund's benchmark will be April 1, 2021.

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

**Approval of Dimensional Fund Advisors Guideline Change.** Mr. Sauer said this is the US Small Cap Value Strategy the Fund has been invested in since 1996 and the guideline relates to the median market cap of the portfolio and has been in place a long time, if not since the very opening of the account. He said the Dimensional Fund Advisors (DFA) portfolio may not be under the median market capitalization any longer and DFA's recommendation is to update the guideline. Mr. Sauer said DFA has considered companies as small as having a \$10 million market cap, which is smaller than the Russell 2000 Value Index. He said in the past, the median market cap was much lower than the index. He commented that now there are fewer companies that small as markets have evolved and companies have tended to stay private longer so DFA's median market cap has increased. Mr. Sauer also noted that DFA implemented a profitability enhancement where the 20 to 30 companies having the worst profitability have been screened out and research found out it increased expected returns over time, but the companies with the worst profitability are typically small, which has the effect of further raising the median market cap. He said DFA is proposing the language be changed to be consistent with the guideline used in the International Small Cap Value Fund, which states that "at least 80% of the portfolio will be invested in small capitalization companies." Mr. Sauer noted that Staff discussed this with Callan who are comfortable with the change and it was recommended that the guideline change be approved.

It was moved by Mr. Kovac, seconded by Ms. Sawa, and unanimously carried, to approve the Dimensional Fund Advisors Guideline Change.

(At this point the agenda was taken out of order to move item XI. Approval of MFS Guideline Change here.)

**Approval of MFS Guideline Change.** Mr. Sauer said MFS reached out to them after distribution of the meeting packets to inform us that market movement had caused their position in Alphabet to exceed the 5% allowed in their guideline. He said the process when market movements exceed guidelines is for the manager to make a recommendation to the Board for what they believe is to be the best course of action to remedy the situation. He said the growth manager MFS would like to continue to hold Alphabet. Mr. Sauer said MFS focuses on valuation looking for stocks with

growth at a reasonable price. He said MFS is asking to raise the upper limit on portfolio holdings from 5% to 7%. Mr. Sauer said Staff and Callan are supportive and the upper limit of 7% is consistent with two other managers, Brandes and William Blair. He said Staff recommends approval of this item. Discussion ensued.

It was moved by Mr. Klusman, seconded by Mr. Konrad, and unanimously carried, to approve the MFS Guideline Change.

(At this point the agenda was taken in order.)

**Loomis Sayles Update.** As a matter of information, Committee members received a memo from Callan regarding the Loomis Sayles Multi-Sector Full Discretion. Mr. Sauer mentioned that Mr. Dan Fuss would be taking a senior advisory role as of March 1, 2021. He said Staff spent a lot of time discussing this with Callan as well as with the new Portfolio Management team at Loomis Sayles and said Staff is comfortable with the transition. Mr. Sauer said they would be getting the same type of portfolio from the new Portfolio Management team as from Mr. Fuss and they would be following the same investment philosophy and process. Mr. Sauer noted this as informational to the Committee and said no action was needed on their part. Mr. Jackson commented there would be no changes to the management style after the transition but there would be some nuances with respect to the implementation. Mr. Wong discussed succession planning with respect to Mr. Fuss and said the team of Matt Eagan, Elaine Stokes, Brian Kennedy, and Todd Vandam will remain as co-portfolio managers. He said Callan has no concerns with Mr. Fuss being off the team and he will remain an advisor to the team. Mr. Bell accepted the memo and placed it on file.

**AQR Due Diligence Report.** As a matter of information, Committee members received a memo from Mr. Sauer regarding the AQR Due Diligence virtual meeting in October 2020. He remarked that AQR is a quant firm that uses fundamental-type signals in their models, one of which is value. He noted the struggle of value impacted AQR's strategies generally and that while the Fund has experienced some underperformance, the performance was still reasonable given the market environment. He said Staff is monitoring reorganization, promotions, and turnover but there is nothing of concern. Mr. Sauer said the key takeaway is that AQR is implementing the strategy they were hired to do. He noted they are a core emerging markets manager and have not changed their investment process or philosophy. Mr. Bell accepted and placed the report on file.

**Newton Due Diligence Report.** Mr. Bell advised that the Investment Committee 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 Investment Committee may then vote to reconvene in open session following the closed session.

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

The Committee convened in closed session at 11:18 a.m.

The Committee reconvened in open session at 12:05 p.m.

**4<sup>th</sup> Quarter 2020 Performance Report.** As a matter of information, Board members received the 4<sup>th</sup> Quarter 2020 Performance Report. Mr. Sauer reported on the market environment and said that the 4<sup>th</sup> quarter was very strong for stocks, which accelerated in mid-November when the vaccine news came out. He said Private Equity also came in strong and the Fund had a 10.9% return at the end of the 4<sup>th</sup> quarter with a year-to-date return of 6.6%, net of fees. He said the vaccine news drove the shift from large cap and growth leading the markets to small cap and value leading the markets. Mr. Sauer summarized the ERS Fund Attribution for the 4<sup>th</sup> Quarter and 2020. He noted the managers did quite well. Mr. Sauer reported on CMERS Manager Events for the Committee. He also discussed the Fund's Public Equity, Fixed Income, Absolute Return, and Private Equity performance. Mr. Sauer provided a Performance Update of the Fund and noted the estimated ERS Total fund Market Value was at \$5.74 billion as of February 10, 2021. He said year-to-date, the Fund is up 3.0% with the benchmark at 2.2%. Discussion ensued. Mr. Bell accepted the report and placed it on file.

**Value Add Analysis.** As a matter of information, Committee members received the Historical Value Add – 1995-2020 CMERS Total Fund (everything except Real Assets) and the Historical Value Add – 1995-2020 CMERS Public Equity and Fixed Income only. Mr. Silber noted this analysis is done each year to determine how much value add the Fund has generated over time compared to passive benchmarks. He first discussed everything except the Real Assets analysis, and remarked that the estimate of the Fund's benefit from its decision to hire active managers over the past 26 years was \$601.4 million, net of fees. Mr. Silber commented that the second value add analysis, which covers stocks and bonds only, was also provided and noted those asset classes have liquid and low-cost benchmarks. Mr. Bell accepted the reports and placed them on file.

It was moved by Mr. Konrad, seconded by Mr. Klusman, and unanimously carried, to adjourn the meeting.

There being no further business, Mr. Bell adjourned the meeting at 12:26 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.)