

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

Minutes of the Investment Committee Meeting
held April 15, 2021 via teleconference during COVID-19

The meeting was called to order at 9:01 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
Jan Wills, Board Stenographer

Others Present: John Jackson, Sally Haskins, Munir Iman, Callan; James Blake, Suzanne Hutchins, Newton; Eric Pearson, Budget Office; Terry Siddiqui, DS Consulting, Inc.; one member of the public called in.

Callan Real Assets Structure Study Presentation. As a matter of information, Board members received the Callan Real Assets Structure Study. Ms. Haskins stated they are looking at where to allocate the additional allocation to Real Assets. She commented that at the December 2020 meeting, a new target allocation was approved to increase the allocation to Real Assets by 2%. She noted the study concentrated on Real Estate, Infrastructure, and Diversified Real Assets. Mr. Iman discussed Scenario Modeling and said Callan did not want to reduce the Private Real Estate Portfolio because it is performing well. He discussed three mixes or options for the Diversified Real Asset Portfolio. Mr. Iman said they set Option A at 9.0% CMERS Real Estate, 4.0% diversified public real assets; Option B at 8.1% CMERS Real Estate, 3.5% diversified public real assets, 1.4% infrastructure; and Option C at the current 7.7% CMERS Real Estate, the current 3.3% diversified public real assets, and 2.0% infrastructure. He noted infrastructure would be a new asset class. Mr. Iman said Callan projects a small difference in the risk and return results over the next 10-years. Discussion ensued.

Approval of Real Assets Structure. Mr. Konrad asked if one of the three options needed to be selected today. Mr. Silber said they are seeking guidance from the Committee and that once one of the options is selected, the next steps would be taken. Ms. Haskins noted they are not locked into funding anything today. Mr. Campbell thanked Callan for putting the options together. He

noted he supported Option C because of the increase in diversification with a minimal risk increase and a small decrease in liquidity. It was moved by Mr. Campbell, seconded by Ms. King, and unanimously carried, to approve the Approval of Real Assets Structure.

Newton Investment Management Presentation. As a matter of information, Committee members received the Newton Global Real Return Strategy presentation booklet. Mr. Blake stated the current value of the ERS' Newton Fund was over \$93 million as of March 31, 2021 and the mandate has been running since its inception date of August 2014. Ms. Hutchins gave an overview of what the strategy is about and mentioned there are nine persons with a long history in the industry who are responsible for the strategy and expertise for the various asset classes. She noted the objective of the strategy is a cash objective of LIBOR + 4% over a five-year rolling basis before fees. Ms. Hutchins showed a conceptual representation of the portfolio with a stabilizing layer designed to reduce overall portfolio risk, smooth fund volatility and produce a positive return in times of market stress. She also talked about the return-seeking core, and said the allocation to the core would change over time and is at 86% now of the total and is being reduced. She also talked about the process over the course of the strategy, which includes the long-term objective of LIBOR + 4%, the thematic framework driving the stock selection, the analyst-recommended securities, portfolio construction and security characteristics, and risk management. She also talked about contributions to performance with equities contributing 11.6% of the 12.9% return in the last 12 months and noted the securities did very well and performed as expected. Mr. Blake concluded they achieved their objective of the strategy.

Approval of Neuberger Berman Consent to Amendment to LPA. 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. Konrad, and seconded by Ms. Ford, 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 10:17 a.m.

The Committee reconvened in open session at 10:25 a.m.

It was moved by Mr. Konrad, seconded by Mr. Kovac, and unanimously carried, to approve the Neuberger Berman Consent to Amendment to LPA.

1st Quarter 2021 Preliminary Performance Update. As a matter of information, Committee members received the 1st Quarter 2021 Preliminary Performance Update. Topics in the Update included Market Environment, Relative Performance Expectations, ERS Fund Attribution, Total Fund Performance, Total Fund Rolling Returns, Total Fund Rolling Excess Returns, Total Fund vs. Universe, Asset Allocation, P/E Ratio Comparisons in the U.S. Since 1980, and Performance Update. Mr. Silber recognized Mr. Lubarsky for his work on the Preliminary Performance Update. Mr. Silber noted for the Market Environment that this quarter described an ideal environment for the CMERS Pension Fund because interest rates went up 0.5 percent on the bond index, there is

talk of potentially rising inflation, and the Fund generated an estimated first quarter return of 3.5, net of fees, because the Fund's Public Equity benchmark increased 5.1% and Public Equity reflects the largest weight in the portfolio. Mr. Silber noted the ERS Total Fund Market Value is estimated to be \$5.80 billion as of April 14, 2021. He concluded by saying the year-to-date return through April 14, 2021 is estimated to be up 5.4% and the benchmark is up 4.9%.

Due Diligence Reports. As a matter of information, Committee members received due diligence reports from the Investment team for William Blair, Loomis Sayles, Mesirow Financial, UBS Hedge Fund Solutions, and Earnest Partners.

William Blair. Mr. Courtright reported on a virtual meeting that he, Mr. Sauer, and Mr. Lubarsky had with William Blair on November 20, 2020. He commented that William Blair handles the International All-Cap Growth Equity strategy for developing and emerging markets equities. Mr. Courtright said Blair has an experienced and stable investment team.

Loomis Sayles. Mr. Courtright reported on a virtual meeting that he, Mr. Sauer, and Mr. Lubarsky had with Loomis Sayles on September 30, 2020. Mr. Courtright noted Loomis has been a manager for the Fund since 1981. He mentioned that Loomis had earlier announce that Mr. Fuss is scaling back to be a senior advisor but three other co-portfolio managers will lead the strategy. Mr. Courtright said the philosophy and process of the strategy would remain the same but with bond holdings slightly more diversified than in the past as well as improved drawdown downside protection when markets are disruptive. He also mentioned dividend-paying equities would be more diversified.

Mesirow Financial. Mr. Lubarsky reported on a virtual meeting that he, Mr. Sauer, and Mr. Courtright had with Mesirow on October 27, 2020. He commented that Mesirow is one of the ERS's four Private Equity Fund of Funds managers and one of two core managers within the Private Equity program alongside Abbott. Mr. Lubarsky said the ERS has committed \$355 million across four Mesirow Funds. He said Mesirow launches a new Fund every three or four years as compared to Abbott's annual launch. Mr. Lubarsky said Mesirow has a succession plan in place for when officers do retire. He concluded that Mesirow began including a 15% allocation, as their competitors are doing, to co-investments in the co-mingled flagship of Fund of Funds.

UBS Hedge Fund Solutions. Mr. Lubarsky reported on a virtual meeting that he, Mr. Sauer, and Mr. Courtright had with UBS on October 6, 2020. He mentioned that UBS has managed a customized hedge fund-of-funds portfolio for the ERS since December 2014 and is one of the two Absolute Return managers alongside Newton and UBS, has a target weight of 6.67%. He said that typically 20 to 39 hedge funds are held in the portfolio. Mr. Lubarsky noted the investment goal is to generate a return between bonds and stocks while keeping a low co-relation to both asset classes with a chance to achieve a positive return regardless of the direction of the stock market. He said the public equity market had a return of -20% in Q1 2020 but UBS, in the same quarter, had a return of -2% and they are managing the strategy as anticipated.

Earnest Partners. Mr. Sauer reported on a virtual meeting that he and Mr. Lubarsky had with Earnest Partners on December 2, 2020. Mr. Sauer commented that Earnest is the ERS' Mid-Cap Core Equity manager and has managed money for the Fund since 2005. He said Earnest has been remarkably stable as well as during the last visits. Mr. Sauer said the investment team is stable, and the philosophy and process remain unchanged. He said among the equity managers,

Earnest is unique in the types of people they hire for the investment team as they draw persons with prior industry experience, who want to get into the investment area.

Informational.

Callan 4th Quarter 2020 Performance Report. As a matter of information, Board members received the Callan CMERS' Investment Measurement Service Quarterly Review. Mr. Bell accepted the report and placed it on file.

It was moved by Mr. Campbell, seconded by Mr. Kovac, and unanimously carried, to adjourn the meeting.

There being no further business, Mr. Bell adjourned the meeting at 11:13 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.)