

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

Minutes of the Investment Committee Meeting
held June 10, 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
Jan Wills, Board Stenographer

Others Present: John Jackson, Mike Joecken, Sally Haskins, Munir Iman, Pete Keliuotis, Jim McKee, Callan; Odalo Ohiku, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc.; three members of the public called in.

Callan Infrastructure Implementation Update. As a matter of information, Committee members received the Callan "Infrastructure implementation update" memo. Ms. Haskins noted CMERS had approved at the April meeting a 2% allocation to infrastructure. She said they have been talking about implementation with Staff and having more education sessions to talk about the market, portfolio construction and risks. Ms. Haskins said they will have meetings with eight open-end infrastructure managers and make a recommendation at the July 28 Investment meeting to proceed or not proceed with implementation.

Callan Real Estate Presentation. Mr. Bell noted that the Callan Real Estate Presentation can begin in open session followed by closed session. As a matter of information, Committee members received the Callan "Real Estate Performance Review" presentation booklet. Ms. Haskins talked about the Market Overview. Mr. Iman then discussed the CMERS Portfolio and said Real Estate is included in the CMERS portfolio to enhance diversification of CMERS' 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. He noted that the net return target for real estate is to match or exceed the net returns of the benchmark over rolling five-year periods. He commented that the target allocation to real estate is 7.7%. He added that in December

31, 2020, real estate comprised 7.2% of the portfolio, or about \$400 million dollars. He said the Core/Non-Core split is 84% to 16%, and non-core funds will continue to wind down. Mr. Iman said CMERS has made significant progress toward portfolio re-positioning over the past three years and reduced the non-core portfolio from 25 funds to 18 funds since 2017.

Mr. Bell advised that the Investment Committee may vote to convene in closed session on the Callan Real Estate Presentation 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 Mr. Campbell to convene in closed session. The motion prevailed by the following roll call vote: AYES: Mses. Ford, King, and Sawa; Messrs. Campbell, Klusman, Konrad, Kovac, and Bell. NOES: None.

The Board convened in closed session at 9:31 a.m.

It was moved by Mr. Konrad, seconded by Ms. Ford, and unanimously carried, to reconvene in open session.

The Board reconvened in open session at 9:41 a.m.

Callan Diversifying Assets Education & Absolute Return Structure Study – Phase I. As a matter of information, Committee members received the Callan “Diversifying Assets Education & Absolute Return Structure Study” presentation booklet. Mr. Joecken introduced Mr. Keliuotis, head of Callan’s alternative consulting group overseeing research and work in Private Equity, Private Credit, Hedge Funds, and Multi-Asset Class Solutions. He also introduced Mr. McKee, head of Callan’s Hedge Fund Research. Mr. Joecken said the purpose of the Absolute Return Structure Study is to establish a framework that supports the CMERS’ long-term strategic asset allocation and its expected risk/return objectives. Topics covered included Overview of the Current Structure, Asset Class Role in the Portfolio, Hedge Funds, Multi-Asset Class (MAC) Solutions, and Implementing Hedge Fund and MAC Solutions. Mr. Joecken said implementation suggestions would be presented at the July 28 Investment Committee meeting. Mr. Joecken said CMERS is slightly underweight to the 10% Absolute Return target as the allocation as of March 31, 2021 is 8.5%, or \$483 million of the CMERS portfolio. He said the CMERS’ Customized Absolute Return Allocation 10-Year Expected Return is 2.80% with a volatility target of 4.95%.

Mr. Keliuotis stated CMERS Absolute Return Structure is allocated across two managers with UBS Hedge Fund Solutions representing 81% and Newton Global Real Return representing 19%. He said the investment rationale is diversification, capital preservation, and inflation hedge and the investment objectives are returns between stocks and bonds, competitive risk-adjusted return, and less sensitivity to equity market risk. Mr. Keliuotis also discussed characteristics of hedge funds. He noted hedge funds are unconstrained in terms of investment strategies to achieve better risk-adjusted returns, can use a wide variety of asset classes, have significant alignment of interest with investors via side-by-side capital and incentive fee structures based on performance, and are usually private placement vehicles exempt from SEC registration and not readily available to the public. Mr. Keliuotis discussed the constrained growth of hedge fund industry assets and

underlying number of funds, the four types of underlying strategies and their sources of return, evolution of assets seeking opportunities in the primary hedge fund styles, periodic table of annual returns since 2001, degrees of separation, and the pros and cons of hedge funds.

Mr. McKee discussed multi-asset class solutions and covered the topics of the narrowing definition of alpha versus alternative betas and traditional betas, bridging the gap between traditional solutions and hedge funds, thinking outside the traditional 60/40 mix, strategy and performance characteristics of MAC styles, expected sources of return for MAC strategies, and the pros and cons of multi-asset class solutions. Mr. McKee also discussed a side-by-side comparison of Hedge Funds and Multi-Asset Class Solutions. Mr. Keliuotis then discussed implementing Hedge Fund and MAC Solutions. Discussion ensued.

Approval of Amendment to the PA Small Company Private Equity Fund IX Limited Partnership Agreement.

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. King, 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 10:45 a.m.

It was moved by Ms. Sawa, seconded by Mr. Konrad, and unanimously carried, to reconvene in open session.

The Committee reconvened in open session at 10:50 a.m.

It was moved by Mr. Konrad, seconded by Mr. Campbell, and unanimously carried, to approve the Amendment to the PA Small Company Private Equity Fund IX Limited Partnership Agreement.

Polen Due Diligence Report. Mr. Lubarsky reported on the Polen Due Diligence Meeting he and Mr. Sauer completed on December 15, 2020. He said there are no major issues and only a handful of notable updates. Mr. Lubarsky stated Polen was hired in 2012 as part of a search for an active U.S. Large Cap Equity Mandate. He commented the portfolio is comprised of 15 to 20 stocks, with a strong tilt toward growth equities. He noted as of May 31, 2021, Polen manages just over \$164 million or 2.8% of the Fund. He said Polen believes that consistent earnings growth is the primary driver of intrinsic value growth and long-term stock price appreciation. Mr. Lubarsky noted Polen's assets under management increased from \$4 billion in 2012 to \$51.8 billion at the end of September 2020. He also discussed Polen's leadership with the Board members. Mr. Lubarsky concluded that Staff is comfortable with Polen and will continue to watch the Firm and products asset growth.

1st Quarter 2021 Performance Report. Mr. Sauer's agenda topics included the Fund Overview, Public Equity, Fixed Income, Absolute Return, Recent Performance Update, and Appendix of Manager Charts & Statistics. Mr. Sauer noted Public Equity had a first quarter 5.1% return with the CMERS Total Fund return at 3.5%, partially offset by rising interest rates that caused Fixed Income to fall. He also discussed notable CMERS' Manager Events. Mr. Sauer discussed Public Equity and said the quarter had a good net return of 7.8%. Lastly, Mr. Sauer gave the Performance Update as of June 9, 2021 and noted the Fund value is at \$5.97 billion. He said the 1st quarter return for 2021 was 3.5% versus the benchmark of 3.1%. Mr. Sauer concluded the year-to-date return through June 9, 2021 was 9.9% versus the 6.9% benchmark.

Informational.

Callan 1st Quarter 2021 Performance Report. As a matter of information, Committee members received the Callan 1st Quarter 2021 Performance Report.

It was moved by Mr. Campbell, seconded by Ms. Ford, 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.)