

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

Minutes of the Regular Meeting
held September 28, 2022 via teleconference during COVID-19

The meeting was called to order at 9:03 a.m.

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

Board Members Not Present: Molly King (not present)

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

Others Present: Patrice Beckham, Aaron Chochon, Larry Langer, Cavanaugh Macdonald; Jennifer Falkenholm, Christine Webb, Ryan Young, Brown & Brown; Jason Ellement, James Van Heuit, John Jackson, Mike Joecken, Callan; Harper Donahue IV, Andrea Knickerbocker, Department of Employee Relations; Kathy Block, Patrick McClain, Jordan Schettle, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc., nine members of the public called in to the meeting.

Regular Meeting.

Approval of Minutes.

Regular Meeting Held July 27, 2022. It was moved by Ms. Sawa, seconded by Mr. Klusman, and unanimously carried, to approve the Minutes of the Regular Meeting Held July 27, 2022.

Ms. King arrived at 9:04 a.m.

Special Meeting Held August 24, 2022. It was moved by Ms. King, seconded by Mr. Kovac, and unanimously carried, to approve the Minutes of the Special Meeting Held August 24, 2022.

At this point Chairman Bell took the meeting out of order to Administration & Operations Committee Report item IV. A. Renewal of Fiduciary Liability and Cyber Insurance. He noted this was to accommodate the guest presenters.

Ms. Sawa said at the September 21, 2022 A&O Committee Meeting, the Committee reviewed the renewal of Fiduciary Liability and Cyber Insurance renewal proposal and voted to recommend approval of both policies. She said the total premium went up less than for the overall market..

Renewal of Fiduciary Liability and Cyber Insurance. As a matter of information, Board members received the Brown & Brown Fiduciary & Cyber Liability document. Mr. Young spoke about fiduciary liability and stated the Hays Company, acquired by Brown & Brown Company, had been a long-time broker on the CMERS account. He said the firm was appointed in 2009 to the CMERS account. Mr. Young noted the fiduciary liability program is in five layers, with each layer having a \$10 million limit and all incumbent layers of Hudson, RLI, Chubb, and Axis, are willing to maintain their \$10 million coverage limit. He said the \$50 million limit includes \$10 million of non-indemnifiable coverage, specifically carried to protect the Trustees of the Plan. Ms. Webb then gave a presentation on Cyber Liability Insurance. She said last year that there was an increase in ransomware claims due to people working from home as a result of the response to the pandemic.. She reviewed the CMERS \$5 million cyber insurance policy and stated the first layer with Chubb is a \$1 million dollar limit, the second layer with Lloyd's of London is a \$2.5 million limit, and the third layer with Starr Surplus Lines is a \$1.5 million dollar limit. She said Brown & Brown evaluated 16 carriers in the market. Ms. Webb said the overall premium increase for the CMERS' cyber liability insurance is 21.2%.

It was moved by Ms. Sawa, seconded by Mr. Campbell, and unanimously carried, to approve the Renewal of Fiduciary Liability and Cyber Insurance.

At this point, Chairman Bell took the meeting out of order to New Business item V.A. Presentation by Patrice Beckham and Larry Langer of Cavanaugh Macdonald Consulting regarding the Five-Year Experience Study.

New Business.

Presentation by Patrice Beckham and Larry Langer of Cavanaugh Macdonald Consulting regarding the Five-Year Experience Study. As a matter of information, Board members received Cavanaugh Macdonald's presentation document, "Experience Study Results: Demographic Assumptions." Mr. Langer presented the following topics: CMERS Experience Study, Background, Actuarial Assumptions, Purpose of Experience Study, Experience Study, Types of Assumptions, Measuring Demographic Experience (including Count vs. Liability Basis), Evaluating the Results of Demographic Experience, General Cost Impact of Assumption Change, Observations of Actual vs. Expected Experience, Recommended Changes, Recommended Assumptions, Estimated Cost Impact for System (Based on 1/1/21 Valuation), Assumption Change Impact by Group, Assumption Change Impact on Total Actuarial Contribution Rate, and Certification. Mr. Langer also included an Appendix of Technical Documentation, including Mortality Assumption, Geographic Variations in Mortality, Actual Mortality Experience, and Recommendations for Mortality Assumptions, Retirement Assumptions, Retirement Experience, Termination Experience, Disability Assumption, Miscellaneous Assumptions, and Salary Experience. Discussion ensued.

As a matter of information, Board members received a memo from Mr. McClain regarding “Analysis of Legislative Amendments Necessary to Effectuate Proposed Modifications to ERS Funding Policy” that stated at the special Board meeting on August 24, 2022, the ERS’ actuary Cavanaugh Macdonald proposed a series of changes to the ERS funding policy. The memo stated Cavanaugh Macdonald recommends changes to 11 components, which would require amendments to the current provisions of Chapter 36 and which requires, for six of the components, an affirmative vote of at least five members of the Annuity and Pension Board. The memo also stated the amendments require certification from Cavanaugh Macdonald that the changes comply with Actuarial Standards of Practice. Discussion ensued. Mr. Langer said they would provide further details on the proposed changes to the components at the November 2022 Board meeting.

At this point Chairman Bell took the meeting out of order to agenda item III. Investment Committee Report.

Investment Committee Report. Mr. Klusman reported that at its September 8 meeting, Callan provided updates and presentations that covered the Fund’s Public Equity, Real Assets, and Private Equity asset classes. He said for Public Equity, the Committee approved a new Public Equity structure that was identified as Structure 2 within Callan’s presentation. Among other things, he noted, Structure 2 is expected to modestly increase the Fund’s return and Small Cap bias compared to the Fund’s benchmark, changes, which Callan indicated, have the potential to add value and generate improved risk-adjusted returns over the long-term. Mr. Klusman said that for Real Assets, the Committee approved a new Real Assets structure that eliminates the 2% unfunded private Infrastructure target and replaces it with an increased Private Real Estate target, which will now be 9.7% of Fund assets. He stated the Committee also approved a Real Estate Manager Search and Candidate Profile that establishes the parameters for Callan to use as they conduct a search on the Fund’s behalf. Mr. Klusman added that Callan expects to provide a list of recommended managers in November that the Committee will then select from to interview. He said for Private Equity, the Committee approved the recommendation to commit \$100 million to Mesirov Fund IX, \$30 million to Abbott Capital’s AP 2023 Fund, and a total of \$30 million to Apogem Capital’s APEF X Fund. Mr. Klusman said all three of these commitments are to existing Private Equity Fund of Funds managers and are contingent on successful legal negotiations. He noted that after that, the Committee approved updates to both the Real Estate Investment Policy Statement and the Fund’s Statement of Investment Policy to reflect the new Real Assets structure and the corresponding impact the new structure has on the Fund’s blended benchmark. He commented that the change to the Fund’s benchmark would be effective October 1, 2022. Mr. Klusman said Staff also provided a tentative Due Diligence schedule for 2023, routine Due Diligence reports on Neuberger Berman, CastleArk, and Loomis Sayles, and went over the Fund’s 2nd Quarter performance report. He stated that Staff also provided an updated Value Add Analysis through June 30, 2022, that shows the Fund’s decision to use active management and implement Asset Class structures different from low-cost passive options has added over \$1.1 billion to the Fund’s value over the past 27 ½ years, net of fees. Finally, in closed session, Mr. Klusman said the Committee received a Due Diligence report and approved a Hedge Fund of Funds Manager Contract. He also stated that since delaying approval of the Hedge Fund of Funds Manager Contract would have prevented the Fund from making substantial progress in implementing the new mandate this month, Mr. Klusman said 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 concluded that the Investment Committee recommended approval of the following items: Approval of Public Equity Structure (Structure 2); Approval of Real Assets Structure; Approval of Real Estate Manager Search and Candidate

Profile; Approval of 2023 Private Equity Commitment Recommendation; Approval of Real Estate Investment Policy Statement Update; and Approval of Statement of Investment Policy Update.

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

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

Approval of Real Estate Manager Search and Candidate Profile. It was moved by Mr. Klusman, seconded by Ms. King, and unanimously carried, to approve the proposed Real Estate Manager Search and Candidate Profile.

Approval of 2023 Private Equity Commitment Recommendation. It was moved by Mr. Klusman, seconded by Ms. King, and unanimously carried, to approve the proposed 2023 Private Equity Commitment Recommendation.

Approval of Real Estate Investment Policy Statement Update. It was moved by Mr. Klusman, seconded by Ms. King and unanimously carried, to approve the proposed Real Estate Investment Policy Statement Update.

Approval of Statement of Investment Policy Update. It was moved by Mr. Klusman seconded by Ms. King, and unanimously carried, to approve the proposed Statement of Investment Policy Update.

At this point Chairman Bell returned the meeting to agenda item II. Chief Investment Officer Report.

Chief Investment Officer Report. As a matter of information, Board members received the September 28, 2022 Performance Update. Mr. Sauer noted the Fund as of August 31, 2022, had a value of \$5.64 billion. He said the Fund return of -2.3% in August, gross of fees, underperformed by approximately three basis points. He said the primary relative performance driver under Manager Selection was Blair, which detracted 12 basis points. Mr. Sauer said Style Bias contributed six basis points, primarily from the government Fixed Income and Cash Allocation. He said the Fund's overall Allocation added four basis points during the month. Mr. Sauer noted the Fund outperformed the benchmark in all other time periods shown. He said the Fund return, through September 27th was down 5.6% month-to-date. He said Staff is waiting for Private Equity statements to see if they are outperforming or matching the benchmark. Mr. Sauer said the Fund return is down 11.2 percent year to date and the Fund value is \$5.33 billion. He noted eight out of the Fund's 15 active mandates are outperforming year to date, and the Public Equity, Fixed Income, and Absolute Return asset classes, along with the Total Fund, are outperforming their benchmarks year to date. Mr. Sauer said the Fund has seen a year-to-date change in the value of its investments of -\$675.9 million, paid benefits & expenses of \$315.1 million, and received contributions of \$100.2 million.

Mr. Silber commented that the portfolio and the things that can be controlled, such as asset structure, manager selection, and implementation, are not broken. He stated the large declines in the stock and bond markets, which cannot be controlled by the ERS, are what is driving the Fund's returns this year. In addition, Mr. Silber noted there are many cash demands on the Fund currently.

He said in addition to the approximately \$38 million monthly benefit payments the Fund makes, the Fund will be raising cash to fund the new Goldman Sachs Hedge Fund Mandate. He said the following manager withdrawals were made in September to fund monthly benefit payments and an initial \$85 million investment into the Goldman Sachs Mandate: \$29 million from the Government Bond Index, \$21 million from Reams, \$14.5 million from Loomis Sayles, and \$7.5 million from Principal.

Approval of Statement of Investment Policy Update. Mr. Silber discussed the Approval of Statement of Investment Policy Update, which incorporates the Public Equity Structure Update and the request to consider reducing the Fixed Income minimum range from 20 percent to 19 percent on an interim basis until February 1, 2023, where it would then revert back to the 20 percent which is currently in the guideline. He said another \$85 million is necessary to go to Goldman Sachs. He added that the asset classes the Fund is currently overweight in are illiquid. He noted that the Fund expects to receive significant cash over the next few months from real estate and UBS, as well as actuarial contributions from the City and its agencies in December and January. However, Mr. Silber said to meet immediate needs, and to avoid being in a position of being forced to sell stocks in this market, the small tweaks to the guidelines will provide Staff with more flexibility to meet the anticipated near term cash needs.

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

At this point, Chairman Bell returned the meeting to order at Administration & Operations Committee Report item IV.B. Renewal of Lease for 789 N. Water Street Building.

Renewal of Lease for 789 N. Water Street Building. Ms. Sawa said the lease renewal was discussed at the September 21, 2022 A&O meeting and Downtown lease rates are more than CMERS is currently paying. She said the A&O Committee recommended renewal of the lease. It was moved by Mr. Bell, seconded by Mr. Klusman, and unanimously carried, to approve the Renewal of Lease for 789 N. Water Street Building.

Review of RFP for Financial Audit Services. Ms. Sawa said they reviewed the audit for the external auditors. Staff requested direction of the Committee to move forward with issuing an RFP. Staff said the five-year contract with Baker Tilly is up at the end of the year. Ms. Sawa said the Committee recommended that the Staff move the RFP forward.

New Business.

Renewal of City of Milwaukee Indemnification Agreement for ERS. As a matter of information, Board members received a copy of the “Indemnification Agreement Between The City of Milwaukee And The Employees’ Retirement System.” Staff said this agreement originated in 2006 when the City agreed, according to State law, to indemnify all of the Trustees and all of the ERS employees. Staff said the agreement is up for renewal and one Trustee suggested referring the document to outside counsel. Staff noted Ms. Block, Assistant City Attorney, reviewed the agreement. Because there are exclusions in the document, Staff said in the event of litigation, there is some concern a court could narrow the State-mandated indemnification protection by pointing to the exclusions in the agreement. Mr. McClain, mentioned that he along with other assistant City attorneys, could represent ERS interests. He said this occurs with government attorneys all the time. Mr. McClain said it is up to the Board to choose who reviews it and he said there are no

conflicts of interest. Discussion ensued. Ms. Block noted the document has existed in its form for 20 years and it could be reviewed more closely. Mr. Konrad was satisfied with Ms. Block's suggestion to have Mr. McClain and Ms. Block look at the agreement again. Mr. Bell said the Board can later decide if they want outside counsel to review the agreement and the agenda item would be carried over to a future Board meeting.

Retirements, Death Claims, and Refunds (July and August). Mr. Allen presented the following activity for the months of July 2022 and August 2022.

Active Death Benefits reported	\$0.00
Deferred Death	\$0.00
Deferred Death-Member Only Refund	\$0.00
Ordinary Death Benefits reported	\$200,082.73
Retired Death Benefits reported	\$109,727.37
Survivor Death – Termination Benefits reported	\$14,551.20
Refund of Member Contributions paid	\$480,948.28

It was moved by Mr. Campbell, seconded by Ms. King, and unanimously carried, to approve the Retirements, Death Claims, and Refunds (July and August 2022).

Conference Requests – September 2022 Board Meeting. Staff presented the Conference Requests this month.

Erich Sauer & Dave Walters	UBS and AQR Due Diligence
Sponsor:	UBS and AQR
Location:	New York, NY and Greenwich, CT
Date:	October 3-4, 2022
Estimated Cost:	\$1,400.00 per person
Thomas Courtright	Abbott Capital Advisory Board Meeting
Sponsor:	Abbott Capital
Location:	New York, NY
Date:	November 8-9, 2022
Estimated Cost:	\$1,200.00

It was moved by Ms. Ford, seconded by Mr. Klusman, and unanimously carried, to approve the Conference Requests – September 2022 Board Meeting.

Mr. Bell 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)(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.

Mr. Bell asked the Board members to include Ms. Johnson, and Messrs. Allen, Silber, and Sauer at the closed session meeting.

ERS Executive Staff Compensation.

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

The Board convened in closed session at 11:21 a.m.

Mr. Campbell left the meeting at 11:48 a.m. during closed session.

The Board reconvened in open session at 1:15 p.m.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations (August and September). Staff presented certifications (August and September 2022) of the Fire and Police Medical Panel Physicians and the Medical Council relative to Duty & Ordinary Disability Retirement benefits as follows:

<u>Police – Application – Ordinary</u>	<u>Recommendation</u>
Darcie Trunkel Effective 11/23/2021	Approval
<u>Police – Re-examinations – Duty</u>	<u>Recommendation</u>
John Fredericks April Hoffman	Approval Approval
<u>Police – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Ruby Esqueda Melissa Jones	Approval Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Andrew Garncarz Christopher Gauthier Thomas Locke Patrick Norton Bruce Rightmyre	Approval Approval Approval Approval Approval

<u>Fire – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Craig Weiss	Approval
<u>GC – Application – Duty</u>	<u>Recommendation</u>
Markina Brown	Denial
James Gentry	Denial
Carrie Robinson	Denial
Reginald Harvey	Approval
Effective 05/31/2021	
<u>GC – Re-examinations – Duty</u>	<u>Recommendation</u>
Eugenia Tate Hutchins	Approval
<u>GC – Application – Ordinary</u>	<u>Recommendation</u>
James Gentry	Approval
Effective 01/28/2022	
<u>GC – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Jill Bondar	Approval
Wendylu Cox	Approval
Maurice Nicholson	Approval
Laticia Robinson	Approval

It was moved by Mr. Klusman, seconded by Ms. Sawa, 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 the Pending Legal Opinions and Service Requests Report. Staff noted Mr. McClain completed the Legal Opinion regarding the Same Sex Spouse Retirees and it is being further reviewed in the City Attorney’s office. Staff also noted a request for a legal opinion for additional service credit and final average salary where a current full-time City employee has part-time work with one or more City agencies. He said Mr. McClain is reviewing that and there are City opinions already on this matter, which Mr. McClain will review, and report to the Board. Staff noted there are currently no Legal Opinions directed to outside legal counsel. Staff said the contract for office space was approved today with the assistance of Mr. Schettle; the item regarding the annuity & pension board direct hires is still pending after today’s closed session, and City Attorneys Ms. Block and Mr. McClain will take the Indemnification Agreement under advisement and they will report to the Board.

Pending Legislation Report. As a matter of information, Board members received the Pending Legislation Report. Staff said the Mayor’s pay cap was discussed in closed session.

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. Discussion ensued.

Informational.

The following is a list of informational items:

- 1) Pending Litigation Report.
- 2) Conferences.
- 3) Class Action Income 2022 YTD.
- 4) Minutes of the Administration & Operations Committee Meeting Held July 20, 2022.

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 and Asset Allocation.

Mr. Bell accepted and placed the Informational items on file. There being no further business to come before the meeting, it was moved by Mr. Klusman and seconded by Ms. Sawa to adjourn the meeting.

Mr. Bell adjourned the meeting at 1:23 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.)