

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

Minutes of the Regular Meeting  
held November 22, 2022 via teleconference during COVID-19

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

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

Board Members Not Present:     Nik Kovac (attending a scheduled meeting initially)

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  
  Gust Petropoulos, Deputy Director – Disability  
  Mary Turk, Business Operations Analyst  
  Jan Wills, Board Stenographer

Others Present: Larry Langer, Aaron Chochon, Cavanaugh Macdonald, LLC; Christine Webb, Sara Schmidt, Brown & Brown; Andrea Knickerbocker, Department of Employee Relations; Kathy Block, Patrick McClain, City Attorney's Office; Timothy Heling, ERS Trustee Elect, Terry Siddiqui, DS Consulting, Inc., six members of the public called in to the meeting.

**Regular Meeting.**

**Approval of Minutes.**

**Regular Meeting Held October 25, 2022.** It was moved by Mr. Konrad, seconded by Mr. Campbell, and unanimously carried, to approve the Minutes of the Regular Meeting Held October 25, 2022.

**Chief Investment Officer Report.** As a matter of information, Board members received the November 22, 2022 Performance Update. Mr. Sauer noted the Fund as of October 31, 2022, had a value of \$5.41 billion. He said the Fund return of 3.2% in October, gross of fees, outperformed by approximately 59 basis points. He said the primary relative performance drivers under Manager Selection were DFA Mandates, which added 18 basis points, Brandes, which added 11 basis

points, and Blair, which added 10 basis points. Mr. Sauer said Style Bias added 28 basis points with US Value & Small adding and International detracting. He noted the Overall Allocation was -16 basis points. Mr. Sauer said the Fund outperformed the benchmark in all time periods shown. He said the Fund return, through November 21<sup>st</sup> was up 2.5% month-to-date. Mr. Sauer said the Fund return is down 6.3 percent year to date and the Fund value is \$5.54 billion. He noted 10 out of the Fund's 16 active mandates are outperforming year to date, and the Public Equity, Fixed Income, Private Equity, 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 -\$386.7 million, paid benefits & expenses of \$394.7 million, and received contributions of \$105.2 million. He said the monthly withdrawals for benefit payments are \$9.5 million from Blair, \$9.5 million from Brandes, \$6 million from Principal, and \$4.5 million from Polen. Discussion ensued.

Mr. Silber said Staff is pleased with how the Fund performed in October, both in terms of total return and outperformance. He said the strong month was driven by the traditional assets classes, mostly due to stocks. Mr. Silber noted it is hard to pinpoint how much the new Public Equity structure, approved in September, added in terms of the 59 basis points of outperformance. He said most of the Public Equity structure was implemented before October started and had a benefit though, given how well value and small cap stocks did in October. He said the Public Equity portfolio outperformed by about 130 basis points in October. He commented on the liquidity discussion that took place at the last Investment Committee meeting and how the strong stock returns so far in Q4 allow the Fund to withdraw \$23.5 million from Public Equity managers in November. Mr. Silber said the flexibility the Board has given for the guidelines is still important given how volatile stock returns continue to be. He stated that markets and assets allocations will drive future decisions. Mr. Silber concluded that the last Investment Committee meeting for the year is December 8 and the agenda will include a Private Equity Side Letter, a Real Estate performance update from Callan, and a couple other items.

**Investment Committee Report.** Mr. Klusman reported that at its November 10<sup>th</sup> meeting, Staff summarized a number of challenges and considerations it is taking into account in its implementation of the Fund, including the impact that a prolonged market downturn could have on the Fund's asset allocation and liquidity oversight. He said Staff explained that the liquidity considerations needed to be addressed at the meeting, while many of the other challenges would be most appropriately addressed as part of Callan's ALM study scheduled for next year. Mr. Klusman noted after some discussion, the Committee approved an update to the Statement of Investment Policy that will reduce the Fixed Income minimum range to 17.5% on an interim basis until March 1, 2023, where it will then revert to 20% absent further action. He said the Committee also approved an update that eliminates references to the September 2021 Asset Allocation memo, since those references are no longer relevant. Mr. Klusman said Staff also presented the 3<sup>rd</sup> quarter performance update, along with routine due diligence reports on MFS, William Blair, and DFA. He stated that the Committee took up four items in closed session – three related to the UBS Hedge Fund of Funds mandate that the Fund invests in, and one related to a Callan Real Estate Manager Search Update. Mr. Klusman concluded the Investment Committee recommends approval of two items: Approval of Recommendation Regarding UBS Hedge Fund Solutions Allocation and Approval of Statement of Investment Policy Update.

**Approval of Recommendation Regarding UBS Hedge Fund Solutions Allocation.** It was moved by Mr. Klusman, seconded by Mr. Konrad, and unanimously carried, to approve the Approval of Recommendation Regarding UBS Hedge Fund Solutions Allocation.

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

**New Business.**

**Approval of Property and Excess Liability Insurance Renewal.** It was moved by Ms. King, seconded by Ms. Sawa, and unanimously carried, to approve the Approval of Property and Excess Liability Insurance Renewal.

At this point, Chairman Bell took the meeting out of order to New Business item, IV.I. Approval of ERS Executive Staff Compensation.

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.

**Approval of ERS Executive Staff Compensation.**

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

The Board convened in closed session at 9:23 a.m.

Mr. Kovac joined the meeting during closed session at 10:11 a.m.

The Board reconvened in open session at 11:18 a.m.

It was moved by Mr. Bell, seconded by Mr. Konrad, and unanimously carried, to approve adjustment of ERS Executive Staff Compensation as agreed upon in closed session.

At this point, Mr. Bell continued to take the meeting out of order of the agenda to New Business item IV.C.

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

Active Death Benefits reported	\$0.00
Deferred Death	\$16,332.42

Deferred Death-Member Only Refund	\$0.00
Ordinary Death Benefits reported	\$316,132.23
Retired Death Benefits reported	\$21,642.22
Survivor Death – Termination Benefits reported	\$15,247.28
Refund of Member Contributions paid	\$246,016.41

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

Mr. Bell took the meeting out of order to Medical Reports item V.A.

### **Medical Reports.**

**All Duty & Ordinary Disability Applications & Re-examinations (November).** Staff presented certifications (November 2022) 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>
Robert Kendziorski	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Thomas Gillespie	Approval
<u>GC – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Chesterfield Hall	Approval
Sheila Hampton	Approval
Bonnie Heikkinen	Approval
Chara Morris	Approval

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

At this point, Chairman Bell returned the meeting to the agenda order at New Business item IV.B.

**Discussion of Recommendations from the Five-Year Experience Study.** As a matter of information, Board members received from Cavanaugh Macdonald a presentation booklet “City of Milwaukee Employees’ Retirement System Funding Policy Discussion” dated November 22, 2022. Board members also received the presentation booklets “Experience Study Results: Economic Assumptions” dated August 24, 2022 and “Experience Study Results: Demographic

Assumptions” dated September 28, 2022. Mr. Langer and Mr. Chochon gave a presentation on the following topics: Actuarial Assumptions vs Funding Policy, Funding Policy, Policy Objectives for Public Pension Plan Funding Policies, Preliminary Funding Policy Recommendations, Public Sector Funding Policies Fixed vs Actuarial Funding, Employer Contributions, Phase-in Illustration, Employer Contribution and Dollar vs. Rate. The Cavanaugh Macdonald presentation booklet’s Appendix and Mr. Langer provided additional information on the Funding Policy presentation given at the August 24 Board Meeting. The Board members had requested additional information on Cavanaugh Macdonald’s preliminary recommendations so there was an additional focus on Amortization Policy and Phase-in. Discussion ensued.

Due to the length of the meeting, Mr. Bell stated the remaining agenda items would be carried over to the December 20, 2022 Board meeting.

There being no further business to come before the meeting, it was moved by Ms. Sawa and seconded by Mr. Klusman, to adjourn the meeting.

Mr. Bell adjourned the meeting at 12:37 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.)