

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

Minutes of the Investment Committee Meeting  
held September 08, 2022 via teleconference during COVID-19

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

Committee Members Present: Matthew Bell  
Deborah Ford  
Thomas Klusman, Chair  
Rudy Konrad  
Nik Kovac  
Aycha Sawa

Committee Members Not Present: James Campbell, excused  
Molly King

ERS Staff Present: Jerry Allen, Executive Director  
David Silber, Chief Investment Officer  
Erich Sauer, Deputy Chief Investment Officer  
Dave Walters, Pension Investment Analyst – Sr.  
Thomas Courtright, Pension Investment Analyst  
Jan Wills, Board Stenographer

Others Present: Sally Haskins, Munir Iman, John Jackson, Mike Joecken, Gary Robertson, Jim Van Heuit, Callan; Nicholas Zuiker, Reinhart; Kathy Block, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc.; four members of the public called in.

**Due Diligence Reports.**

**Neuberger Berman.** As a matter of information, Committee members received from Mr. Sauer a Memorandum regarding the Neuberger Berman Due Diligence Virtual Meeting. Mr. Sauer said he and Mr. Lubarsky had a due diligence virtual meeting with Neuberger Berman in October 2021. Mr. Sauer said they remain impressed with Neuberger Berman as the key team of three managers who started the strategy in 1990s is still in place. He noted they added three additional members to the senior leadership over time. He noted they are well resourced and have a market-leading position in GP-led secondaries, which are becoming more important in the secondary market. Mr. Sauer said Fund V is the latest Fund that CMERS has committed to and the previous Funds III and IV have been strong as they get the money to work quickly and it comes back to CMERS quickly, generating a nice cash flow and is a complement to the rest of the Private Equity program. He said the key takeaway with Neuberger is that everything is going well and there are no concerns with them.

**CastleArk.** As a matter of information, Committee members received from Mr. Courtright a Memorandum regarding the CastleArk Due Diligence Meeting. Mr. Courtright said he and Mr. Sauer had an in-person, routine meeting with CastleArk in April 2022. He said CastleArk's philosophy and process remain unchanged, with a stable investment team of the same two portfolio

managers and two research analysts. He said one portfolio manager was named by the owner of CastleArk to be the lead portfolio manager, as the owner wanted one person be accountable for all the strategies. Mr. Courtright noted there were two personnel changes where one had asked to be moved from a trading position to a client-facing role in Fall 2021. He said another person was hired as head of ESG to build out capabilities and enhance the research process.

Ms. King arrived at 9:05 a.m.

**Loomis Sayles.** As a matter of information, Committee members received from Mr. Courtright a Memorandum regarding the Loomis Sayles Due Diligence Meeting. Mr. Courtright said he and Mr. Silber had an in-person meeting with Loomis Sayles in May 2022. Mr. Courtright reminded the Committee that Mr. Fuss announced in 2020 that he was transitioning from his role, and his three-person portfolio management team was already in place, but Mr. Fuss remains as the Firm's Vice Chairman and in an advisory role. He said changes the three-person team are making are minimal, such as having fewer larger positions above two percent and having more diversified equities of 20-30 names instead of five, which will possibly mitigate steeper drawdowns when there are market disruptions and corrections. Mr. Courtright said they have a highly collaborative process with the research analysts, traders and specialists to identify specific securities for trades. He said there are no significant concerns and CMERS remains impressed with their ability to implement the core-plus income mandate for CMERS.

Mr. Klusman advised that the Investment Committee may vote to convene in closed session on the following items (II. and III.) 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.

### **Approval of Hedge Fund of Funds Manager Contract.**

### **Hedge Fund of Funds Manager Due Diligence Report.**

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

The Committee convened in closed session at 9:15 a.m.

The Committee reconvened in open session at 9:31 a.m.

It was moved by Ms. King, seconded by Mr. Konrad, and unanimously carried, to approve the Approval of Hedge Fund of Funds Manager Contract.

**Callan Public Equity Structure Review Presentation – Phase 2.** As a matter of information, Committee members received the Callan Public Equity Structure Review Presentation – Phase 2. Mr. Van Heuit presented to the Committee the topics of CMERS Equity Structure Process and presented a Review of CMERS Existing Public Fund Structure. Mr. Van Heuit then gave a presentation on an Evaluation of Structure Alternatives, including Fund Structure Alternatives and an Existing Structure Analysis. He lastly gave a Summary and Conclusion to the Committee.

**Approval of Public Equity Structure.** It was moved by Mr. Bell to approve Structure 2 from the Structure Alternatives, seconded by Ms. Sawa, and unanimously carried, to approve the Approval of Public Equity Structure.

**Callan Infrastructure Implementation Update and Real Estate Manager Search Update.** As a matter of information, Committee members received the Callan Memorandum regarding the Infrastructure Implementation Update and Real Estate Manager Search Update. Mr. Iman reminded the Committee they had approved, with Callan's Capital Market Team, a two percent allocation to infrastructure in 2021. He noted Callan now recommends replacing the infrastructure allocation with additional real estate and conducting a search for a Real Estate Manager in non-cyclical demand drivers such as self-storage, life sciences, alternative housing, medical office, and traditional multifamily. Discussion ensued.

**Approval of Real Assets Structure.** Mr. Silber said Staff supported what Ms. Haskins and Mr. Iman put together. Mr. Silber noted the great-performing Real Estate program and the need for an additional fifth Real Estate manager. Mr. Silber said Staff also supported replacing the two percent infrastructure allocation with additional private Real Estate. Mr. Klusman noted a motion was needed to approve the new Real Assets Structure.

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

**Approval of Real Estate Manager Search and Candidate Profile.** As a matter of information, Committee members received the Callan Client Profile and Candidate Profile document. Mr. Iman noted CMERS is seeking a Core/Core Plus Real Estate Manager with the size of the allocation at approximately \$30 million to \$60 million with an open-end commingled fund. He said they would discuss, after going through Callan's research process, four to six qualified candidates at the November Investment meeting.

It was moved by Mr. Bell, seconded by Mr. Kovac, and unanimously carried, to approve the Approval of Real Estate Manager Search and Candidate Profile.

**Callan Private Equity Pacing and Reinvestments 2023 Presentation.** As a matter of information, Committee members received the Callan Private Equity Pacing and Reinvestments 2023 Memorandum. Mr. Robertson gave a program summary of the CMERS Private Equity Manager and Vehicle Detail. He noted it was a 61 percent paid-in portfolio over 12 years and is still a developing portfolio. For the CMERS Private Equity Funding, Mr. Robertson also presented information on the Background, Private Equity Program History, Private Equity Portfolio Performance Benchmarking, Pacing Model Inputs and Assumptions, and Commitment Pacing Projection. He also discussed the CMERS Funded Level Projection, which included the Reinvestment Recommendations, New Reinvestment Commitments, Additional Commitment, and Fundraising Timing. Mr. Robertson presented information on the Abbott Capital Management Reinvestment, Mesirow Private Equity Reinvestment, and Apogem Capital (formerly PA Capital and Private Advisors), including a Firm Summary, Strategy Summary, Performance, and Return Commentary. He also discussed Apogem's Small Buyouts Top-Up Commitment. He said the recommendations for commitments for 2023 total \$145 million with \$30 million for the Abbott

Annual Program (AP 2023), \$100 million for the Mesirow Partnerships Fund IX (MPF IX), and an additional \$15 million, on top of the previously approved \$15 million, for Apogem's Private Equity Fund X (APEF X).

**Approval of 2023 Private Equity Commitment Recommendation.** It was moved by Mr. Bell to approve the Callan recommendations, seconded by Mr. Konrad, and unanimously carried, to approve the Approval of 2023 Private Equity Commitment Recommendation.

**Approval of Real Estate Investment Policy Statement Update.** As a matter of information, Committee members received a redlined Real Estate Investment Policy Statement. Mr. Silber noted the only changes were the date change from June to September 2022 and the target Allocation to Real Estate from 9.1% to 9.7%. It was moved by Ms. King, seconded by Ms. Ford, and unanimously carried, to approve the Approval of Real Estate Investment Policy Statement Update.

**Approval of Statement of Investment Policy Update.** As a matter of information, Committee members received a redlined Statement of Investment Policy. Mr. Silber said the changes were the date change from June to September 2022. He noted the other document changes in Real Assets was a change from 9.1% to 9.7% in Private Real Estate and 3.9% to 3.3% in Public Diversified Real Assets. He noted that the effective date of the Fund's benchmark change would be October 1, 2022. It was moved by Mr. Bell, seconded by Mr. Kovac, and unanimously carried, to approve the Approval of Statement of Investment Policy Update.

**2023 Tentative Due Diligence Schedule.** As a matter of information, Committee members received Mr. Sauer's 2023 Tentative Due Diligence Schedule where he encouraged Board members to join ERS Staff on due diligence trips. He commented that the plans are to travel to the managers' offices to meet in person instead of the past mostly-virtual meetings.

At this point, the Chair called for a break at 11:08 a.m.

The Committee reconvened at 11:16 a.m.

**CMERS 2<sup>nd</sup> Quarter 2022 Performance Update.** As a matter of information, Committee members received the CMERS 2<sup>nd</sup> Quarter 2022 Performance Update. Mr. Sauer gave a presentation for the 2<sup>nd</sup> Quarter on the Fund Overview, Public Equity, Fixed Income, Absolute Return, Private Equity, and Recent Performance Update. He noted the 2<sup>nd</sup> quarter was difficult with an inflation narrative that took hold of the markets in June and the Fed raised interest rates aggressively, causing stocks and bonds to decline. Mr. Sauer stated the return for the CMERS Benchmark was -8.3%. He said the Fund outperformed over time in all time periods shown. Mr. Sauer said the value managers outperformed their benchmarks. He commented that the Fund had a value of \$5.62 billion as of September 7, 2022. He added that the Fund, through the 2<sup>nd</sup> quarter, was down -7.2% versus -10.0% for the benchmark. Mr. Sauer said the August estimate is -2.3%, which is in line with the -2.3% benchmark. Through September 7, he said the Fund is down -6.4% versus the -9.1% benchmark.

**Value Add Analysis Updated through June 30, 2022.** As a matter of information, Committee members received the Value Add Analysis Updated through June 30, 2022. Mr. Silber presented information from the two documents on the CMERS Total Fund (exception Real Assets) and the CMERS Public Equity and Fixed Income.

**Informational.**

**Chief Investment Officer Report.** As a matter of information, Committee members received the Chief Investment Officer Report.

**Preliminary Performance Report and Asset Allocation.** As a matter of information, Committee members received the Preliminary Performance Report and Asset Allocation.

**Adjusted Quarterly Cost Basis of Equity.** As a matter of information, Committee members received the Adjusted Quarterly Cost Basis of Equity report.

**Class Action Income 2022 YTD.** As a matter of information, Committee members received the Class Action Income 2022 YTD report.

**Callan 2<sup>nd</sup> Quarter 2022 Performance Report.** As a matter of information, Committee members received the Callan 2<sup>nd</sup> Quarter 2022 Performance Report.

It was moved by Mr. Bell and seconded by Ms. King to adjourn the meeting.

There being no further business, Mr. Klusman adjourned the meeting at 11:42 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.)