

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

Minutes of the Investment Committee Meeting  
held December 8, 2022 via teleconference during COVID-19

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

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

Committee Members Not Present:   James Campbell (excused)

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  
  Dan Gopalan, Chief Financial Officer  
  Robin Hayes, Pension Accounting Manager  
  Gust Petropoulos, Deputy Director Disability  
  Jan Wills, Board Stenographer

Others Present: Munir Iman, John Jackson, Mike Joecken, Callan; Bryant Ferguson, Chinonso Osuji, Reinhart; Terry Siddiqui, DS Consulting, Inc., Tim Heling, ERS Trustee Elect; three members of the public called in.

Mr. Klusman advised that the Investment Committee may vote to convene in closed session on the following items (I. and II.) 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. Bell, and seconded by Ms. King 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 9:02 a.m.

The Committee reconvened in open session at 9:13 a.m.

**Approval of Abbott Capital Private Equity Investors 2023, L.P. Side Letter.** It was moved by Ms. Sawa, seconded by Mr. Konrad, and unanimously carried, to approve the Approval of Abbott Capital Private Equity Investors 2023, L.P. Side Letter.

**Callan Real Estate Presentation.** As a matter of information, Committee members received the Callan “Real Estate Performance Review.” Mr. Iman gave a presentation on the Market Overview, including the topics of Real Asset Returns as of September 30, 2022, Property Type Returns as of September 30, 2022, and U.S. Private Real Estate Market Trends. For the Portfolio Summary, he discussed Real Estate Objectives and Purpose, Real Estate Portfolio Summary, Significant Progress Made in Repositioning the Portfolio, Real Estate Portfolio Diversification, Portfolio Returns are Above Benchmark, and Returns by Style. Lastly, Mr. Iman provided Conclusions and Recommendations for the portfolio. Discussion ensued.

**Callan 3<sup>rd</sup> Quarter 2022 Performance Report and Presentation.** As a matter of information, Committee members received the Callan Investment Measurement Service Quarterly Review. Mr. Jackson and Mr. Joecken gave a Capital Markets Review, followed by a Total Fund discussion where they discussed the topics of Allocation Across Investment Managers, Actual vs. Target Asset Allocation, Total Fund vs. Total Public Fund Database, Investment Manager Returns – Gross of Fee, Investment Manager Returns – Net of Fee, Asset Class Rankings, Active Share Structure Analysis, Total Equity Style Analysis, and Manager Comparison Style Analysis.

#### **Due Diligence Reports.**

**AQR Capital Management.** As a matter of information, Committee members received from Mr. Walters a Memorandum regarding the AQR Capital Management Due Diligence meeting he and Mr. Sauer had on October 3, 2022 at their Greenwich, Connecticut office. Mr. Walters noted AQR has managed an Emerging Markets Core Public Equity Strategy for the Fund since August 2016. He stated the portfolio value is \$80.1 million dollars as of October 31, 2022, and has a two percent target of the Fund’s total assets. Mr. Walters noted they are a quantitative manager and use models based on extensive internal research to construct their portfolios. He said the models use several factors in their process, but prioritize cheap valuations as well as positive momentum of stock price when selecting stocks to purchase. Mr. Walters noted they also use equity index futures to manage country level risk and currency risk. Messrs. Walters and Sauer met with individuals from research, trading, and risk management and are impressed with their team and process in place. He said there were a couple items to monitor. Mr. Walters noted AQR experienced a rapid period of AUM growth, resulting in an increased head count, and now, asset outflows have caused them to scale back to align with their smaller client base. He said AQR has been transparent and two of AQR’s co-founders have re-engaged to oversee the investment process. Mr. Walters also stated their performance has been tied to the value factor within equity markets, and has struggled where growth stocks were favored. He concluded by noting that AQR beat their benchmark in the one- and three-year periods. Discussion ensued.

**Principal Global Investors.** As a matter of information, Committee members received from Mr. Sauer a Memorandum regarding the Principal Global Investors Virtual Due Diligence Meeting that he and Mr. Lubarsky made last year on November 8, 2021. He noted the memo was delayed due to Mr. Lubarsky’s departure and changes to the PMs. Mr. Sauer said they take changes to PM teams seriously, but he said the Principal team and strategy is in a good place going forward. He said they have had quarterly updates with the PM team and the new PM has put in place processes to make better use of the resources of the broader Principal organization. Mr. Sauer

noted one departing PM's new role would take the sales and marketing burden, which was Staff's prior concern, off the PM team. He said Principal manages the strategy of publicly traded real assets with the goal of providing inflation protection and to generate a return of CPI, plus three to five percent over full-market cycles. Mr. Sauer said because these are publicly-traded securities, performance in the short term is impacted by public market volatility. He said 2022 was the first year with the strategy where there has been an inflationary environment, but the strategy is built for the longer term.

**Chief Investment Officer Report.** Mr. Silber said the Fund value, as of December 7, is estimated to be approximately \$5.55 billion dollars, which has not changed much compared to what was reported at the November Board meeting. He said at the November Board meeting, the Fund was down -6.3% year to date, but is now estimated to be down about -5.6% year to date. He said the returns are better, even though the market value is about the same, because \$38 million in benefits was paid out at the end of November. Mr. Silber said as far as liquidity, the stock market went up at the end of November but has pulled back in the last week. Mr. Silber said that with stocks going up in November, Staff was able to justify withdrawing more from stocks to meet the Fund's December cash flow obligations. Mr. Silber also mentioned the upcoming due diligence meetings. He stated they would receive from Callan the 2023 final capital market assumptions at the end of the year or at the beginning of 2023. Mr. Silber concluded there is an ongoing real estate manager search, and he said Callan and the investment team have upcoming meetings scheduled with real estate managers, and next steps will be discussed at the February Investment Committee Meeting.

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

There being no further business, Mr. Klusman adjourned the meeting at 10:28 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.)