

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

Minutes of the Regular Meeting  
held February 27, 2023 via teleconference during COVID-19

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

Board Members Present:           Matthew Bell, Chair  
  Deborah Ford  
  Timothy Heling  
  Molly King  
  Tom Klusman  
  Rudolph Konrad  
  Nik Kovac  
  Aycha Sawa

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  
  Thomas Courtright, Pension Investment Analyst  
  Mary Turk, Business Operations Analyst  
  Jan Wills, Board Stenographer

Others Present: Patrice Beckham, Aaron Chochon, Larry Langer, Cavanaugh Macdonald, LLC; Patrick McClain, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc., 10 members of the public called in to the meeting.

**Regular Meeting.**

**Appointment of Committees for 2023.**

**Administration and Operations Committee.** Mr. Bell re-appointed Ms. Sawa, Ms. King, and Mr. Klusman to the Administration and Operations Committee. Mr. Bell also re-appointed Ms. Sawa as Chair of the Committee, which she accepted.

**Investment Committee.** Mr. Bell re-appointed Mr. Klusman as Chair of the Investment Committee, the Committee of the whole, which he accepted.

**Legislative Committee.** Mr. Bell re-appointed Ms. Ford as Chair, Mr. Kovac and Mr. Heling to the Legislative Committee, which they accepted.

**Litigation Committee.** Mr. Allen noted this was an *ad hoc* committee.

## **Approval of Minutes.**

**Annual Meeting Held January 24, 2023.** It was moved by Ms. King, with the note that she was present at the meeting, but arrived at 9:04 a.m., seconded by Ms. Sawa, and unanimously carried, to approve the Minutes of the Annual Meeting Held January 24, 2023.

**Chief Investment Officer Report.** As a matter of information, Board members received the February 27, 2023 Performance Update. Mr. Sauer noted the Fund as of January 31, 2023, had a value of \$5.76 billion. He said the Fund had a return of 4.1% in January, gross of fees, which underperformed the blended benchmark by approximately seven basis points. Mr. Sauer commented the main drivers of relative performance were Manager Selection. He said within Real Estate, negative reports came in as interest rates rose, causing valuation declines for some of the Real Estate managers. Mr. Sauer noted Real Estate detracted 23 basis points. He commented there was strong performance from the Public Equity Managers with Brandes adding 14 basis points, and Polen added 12 basis points. Mr. Sauer said Overweight Private Equity detracted 12 basis points. He added the Fund had outperformed the benchmark in all other time periods shown. Mr. Sauer remarked as of February 24, 2023, the Fund was down 1.8% month-to-date in February, which brought the year-to-date return up 2.2%, and the Fund value to \$5.66 billion. He noted 10 out of the Fund's 16 active mandates are outperforming, year-to-date. Mr. Sauer stated the Public Equity and Fixed Income asset classes are outperforming their respective benchmarks year-to-date. He said year-to-date the Fund has seen a gain in the value of investments of \$122.6 million, paid benefits and expenses of \$42.6 million, and received contributions of \$106.9 million. Mr. Sauer concluded that due to City and Agency contributions, and a UBS redemption from January, benefits would be paid from the Fund's cash balance this month.

Mr. Silber said it is nice to be able to say that the ERS has a year-to-date positive return, which could not be said in 2022. He noted the Staff is currently handling a number of initiatives. Mr. Silber stated that the following closed session language was a placeholder on the agenda, but it was not necessary to go into closed session unless requested to by the Board. The Board did not convene in closed session.

Please be 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)(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 Board may then vote to reconvene in open session following the closed session.

**Investment Committee Report.** Mr. Klusman reported at its February 9<sup>th</sup> meeting, Callan presented phase 1 of the Asset-Liability study. He said using Callan's final 2023 capital market assumptions, the analysis focused on the expected return and risk of the Fund's current asset allocation, along with three representative asset allocations. He said Callan would begin working on phase 2 of the analysis after the Board approves the actuarial discount rate. Mr. Klusman noted that Staff presented the results of a liquidity analysis that they plan to reference in the event that the stock market does not recover in 2023. He commented that to provide Staff with the flexibility to pay 2023 monthly benefit payments by selling investments in Fixed Income rather than Stocks, the Committee approved extending to January 31, 2024 the 17.5% interim minimum Fixed Income allocation stated in the Statement of Investment Policy. He said if the Committee had not acted,

the minimum Fixed Income allocation would have reverted to 20% on March 1. Mr. Klusman commented that Staff also presented the 4<sup>th</sup> quarter performance update, the annual Value Add Analysis, along with routine due diligence reports on Brandes and Earnest. He remarked that as of December 31, 2022, the Fund's returns ranked in the top quartile of both Northern Trust's and Callan's peer universes over the past one-, five- and 10-year time periods. He noted the Value Add Analysis estimates the Fund's stock and bond allocations have added \$824 million, net of fees, over the past 28 years. He commented that when the Fund's Private Equity and Absolute Return allocations are included, the Analysis estimates that \$1.3 billion in added value has been generated, net of fees. Mr. Klusman noted that, in closed session, Callan provided an update on the Real Estate Manager Search approved last September, and the Committee Approved Real Estate Manager Finalists to interview at an upcoming meeting. He concluded by stating the Investment Committee recommended approval of the following items: Approval of Real Estate Manager Search Finalists, and Approval of Statement of Investment Policy Update.

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

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

### **Administration & Operations Committee Report.**

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)(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 Board may then vote to reconvene in open session following the closed session.

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

The Board convened in closed session at 9:18 a.m.

The Board reconvened in open session at 9:23 a.m.

**Selection of Finalist Financial Audit Firm.** It was moved by Mr. Klusman, seconded by Mr. Bell, and unanimously carried, to approve the Selection of Finalist Financial Audit Firm.

### **New Business.**

**Fiduciary Education Training – Assistant City Attorney Patrick McClain.** Mr. McClain presented the annual Fiduciary Education Training to the Board members. He provided an overview of what a fiduciary is, the sources of fiduciary obligation, who is a fiduciary, and to whom they owe their duties. Mr. McClain discussed the duties themselves, consisting of loyalty,

prudence, and communication, as well as modern trends in the fiduciary context. Discussion ensued.

Chairman Bell called for a break at 10:26 a.m.

Chairman Bell resumed the meeting at 10:35 a.m.

**Approval of Five-Year Experience Study.** As a matter of information, Board members received the “Experience Study Results: Summary of Recommendations” presentation materials from Cavanaugh Macdonald dated February 27, 2023. Mr. Langer said it is time for the Board to adopt assumptions and move forward with the valuation and work on the investment allocation. Mr. Langer noted Cavanaugh Macdonald divided the proposed motions into four motions. Discussion ensued.

It was moved by Mr. Klusman, seconded by Ms. King, and unanimously carried, to approve the Demographic Assumptions – Change Retiree Mortality, Other Mortality, Retirement, Termination, Disability, Duty-related disability and Salary increases for the Five-Year Experience Study as provided by the Cavanaugh Macdonald Actuary Presentation.

It was moved by Mr. Konrad, seconded by Ms. Sawa, and unanimously carried, to approve the Economic Assumptions – Maintain current 7.50% assumption for the Five-Year Experience Study as provided by the Cavanaugh Macdonald Actuary Presentation.

It was moved by Mr. Heling, seconded by Mr. Konrad, and unanimously carried, to approve the Actuarial Methods - Change the funding periods for Gains/Losses (20 years), Contribution gains/losses (5), plan provisions for active (15), early retirement incentive (5), inactive reductions (15) inactive increases (1) and fresh start (25) for the Five-Year Experience Study as provided by the Cavanaugh Macdonald Actuary Presentation.\*

It was moved by Mr. Konrad, seconded by Mr. Heling, and unanimously carried, to approve the Stable Contribution Policy - Choose between Eliminate or Maintain based on 1.1.2023 actuarial valuation with understanding that rates can be updated before 2028 Stable Contribution reset for changes in assumptions or plan provisions as provided by the Cavanaugh Macdonald Actuary Presentation.

**Retirements, Death Claims, and Refunds (January).** Mr. Allen presented the following activity for the months of January 2023.

|                                   |             |
|-----------------------------------|-------------|
| Active Death Benefits reported    | \$0.00      |
| Deferred Death                    | \$25,626.71 |
| Deferred Death-Member Only Refund | \$0.00      |
| Ordinary Death Benefits reported  | \$0.00      |
| Retired Death Benefits reported   | \$35,423.79 |

\*See minutes dated March 28, 2023 for revision.

|  |              |
|--|--------------|
| Survivor Death – Termination Benefits reported | \$8,450.12   |
| Refund of Member Contributions paid            | \$370,849.59 |

It was moved by Ms. King, seconded by Ms. Ford, and unanimously carried, to approve the Retirements, Death Claims, and Refunds (January 2023).

**Conference Requests – February 2023 Board Meeting.** Staff presented the Conference Requests this month.

|  |   |
|--|---|
| Erich Sauer,<br>Thomas Courtright,<br>Dave Walters<br>Sponsor:<br>Location:<br>Date(s):<br>Estimated Cost: | Brian Kennedy (Loomis Sayles) CFA Luncheon<br><br>CFA Society Milwaukee<br>Milwaukee, WI<br>March 8, 2023<br>\$15.00 per person |
|--|---|

|   |  |
|---|--|
| Thomas Courtright<br>Sponsor:<br>Location:<br>Date(s):<br>Estimated Cost: | Callan 2023 National Conference<br>Callan<br>Scottsdale, AZ<br>April 2 - 4, 2023<br>\$1,900.00 |
|---|--|

It was moved by Mr. Klusman, seconded by Mr. Konrad, and unanimously carried, to approve the Conference Requests – February 2023 Board Meeting.

**Medical Reports.**

**All Duty & Ordinary Disability Applications & Re-examinations (February).** Staff presented certifications (February 2023) of the Fire and Police Medical Panel Physicians and the Medical Council relative to Duty & Ordinary Disability Retirement benefits as follows:

| <u>Fire – Re-examinations – Duty</u>     | <u>Recommendation</u> |
|--|-----------------------|
| Gilbert Baltutis                         | Approval              |
| Derek Geppert                            | Approval              |
| Bradley Davis                            | Approval              |
| Robert Hehn                              | Approval              |
| Christine Jacobs                         | Approval              |
| John Schmaelzle                          | Approval              |
| Robert Smith                             | Approval              |
| <u>Fire – Re-examinations – Ordinary</u> | <u>Recommendation</u> |
| Samuel Uribe                             | Approval              |

| <u>GC – Re-examinations – Ordinary</u> | <u>Recommendation</u> |
|--|-----------------------|
| Wilma Mendez                           | Approval              |
| Sherry Tomasello                       | Approval              |

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

### **Unfinished Business.**

**Pending Legal Opinions and Service Requests Report.** Mr. McClain said the City Attorney’s office is caught up on Legal Opinions and the contract-related Service Requests are in process.

**Pending Legislation Report.** Mr. Allen stated there is no current Pending Legislation.

Mr. Allen stated the following closed session language is for the Administration section of his Executive Director’s Report and the first part of his report would be in open session.

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)(g), Wisconsin State Statutes, to confer with legal counsel concerning strategy to be adopted by the body with respect to litigation in which it is or is likely to become involved. The Board may then vote to reconvene in open session following the 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.

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

The Board convened in closed session at 12:07 p.m.

The Board reconvened in open session at 12:22 p.m.

### **Informational.**

- 1) Pending Litigation Report.
- 2) Conferences.
- 3) Class Action Income 2023 YTD.
- 4) Adjusted Quarterly Cost Basis of Equity.
- 5) Minutes of the Special Administration & Operations Committee Meeting Held January 30, 2023.
- 6) Minutes of the Investment Committee Meeting Held February 9, 2023.

The following is a list of activities since the last Board meeting, copies sent with meeting notice and attached to minutes:

- 7) Report on Bills.
- 8) Deployment of Assets.
- 9) Securities Lending Revenue and Budget Report.
- 10) Preliminary Performance Report and Asset Allocation.

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

Mr. Bell adjourned the meeting at 12:23 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.)