

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

Minutes of the Regular Meeting  
held April 25, 2023 via teleconference during COVID-19

The meeting was called to order at 9:02 a.m.

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

Board Members Not Present:         Nik Kovac (arrived at 9:24 a.m.)

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  
  Mary Turk, Business Operations Analyst  
  Jan Wills, Board Stenographer

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

**Regular Meeting.**

**Approval of Minutes.**

**Regular Meeting Held March 28, 2023.** It was moved by Ms. Sawa, seconded by Ms. King, and unanimously carried, to approve the minutes of the Regular Meeting Held March 28, 2023.

**Chief Investment Officer Report.** As a matter of information, Board members received the April 25, 2023 Performance Update. Mr. Sauer noted the Fund as of March 31, 2023, had a value of \$5.64 billion. He said the Fund had a return of up 1.0% in March, net of fees, which underperformed by approximately 1.0%. Mr. Sauer commented the primary relative performance drivers were Public Equity Style Bias which detracted 64 basis points, and was primarily Value and Small Cap exposure; for Manager Selection, Private Equity detracted 97 basis points which is compared to a benchmark up over 7% since the Private Equity reports have not come in yet, Real Estate added 42 basis points, and Overweight to Private Equity added 15 basis points. He added the Fund has outperformed the benchmark in the one-, five, 10-, 15- and 20-year periods. Mr. Sauer remarked as of April 24, 2023, the Fund was up 0.4% month-to-date in April, which brought

the year-to-date return to up 3.8%, and the Fund value to \$5.67 billion. He noted 11 out of the Fund's 16 active mandates are outperforming, year-to-date. Mr. Sauer stated the Fixed Income asset class is outperforming its benchmark year-to-date. He said year-to-date the Fund has seen a gain in the value of investments of \$211.9 million, paid benefits and expenses of \$123.3 million, and received contributions of \$111.9 million. Mr. Sauer noted that for cash flows this month, there is more going on as Staff is redeeming \$57.5 million from the Fund's Public Equity Managers, and the Fund will receive \$75 million from UBS as part of the redemption plan approved by the Board in 2022. He said, in addition to paying the monthly benefits, Staff will deposit \$50 million of the excess into the U.S. Government Bond Index and another \$45 to \$50 million into Reams, one of the Fixed Income managers. Mr. Sauer stated they ended March 1% overweight to Public Equity. He noted they are getting money out of Public Equity to avoid a worst-case scenario where Fixed Income is drawn down and down. He said it is an opportunity to replenish the Fixed Income allocation to get it towards its target and save up some liquidity for future market volatility. Discussion ensued. Mr. Sauer reminded Board members of the Investment Committee Meeting on May 4 which will consist of the continuation of the asset liability study with Callan, looking at some mixes, presentation of routine due diligence reports, and a routine guideline request from UBS.

**Investment Committee Report.** Mr. Klusman noted that at its April 20<sup>th</sup> meeting, the Investment Committee unanimously elected Timothy Heling as its Vice-Chair. He said then the Investment Committee interviewed two investment managers as part of the Real Estate Manager search. The investment managers interviewed were Harrison Street and Kayne Anderson. Mr. Klusman said the Committee selected one finalist in closed session, and directed ERS Staff to conduct due diligence and coordinate legal negotiations with the selected finalist. He commented that the selection is contingent on successful due diligence and contract negotiations. Mr. Klusman said Staff also presented a preliminary 1<sup>st</sup> quarter performance update, noting that the Fund's 1<sup>st</sup> quarter return would not be finalized for about another week. He said the Fund's estimated first quarter return is 3.3%, net of fees and The Fund's estimated 10-year return is an annualized 7.9%, net of fees. Mr. Klusman stated that Staff noted that Callan will be presenting the next phase of the ALM study at the upcoming May 4 meeting. He said Staff had emphasized the importance of this meeting by highlighting how inflation and higher interest rates will allow the Committee to consider approving an asset mix with a Fixed Income allocation as high as 29%. Mr. Klusman noted the Fund last had a target allocation to Fixed Income above 28% in 2006. He said Staff also mentioned that setting the strategic asset allocation mix, and the resulting return, volatility, and liquidity characteristics associated with it, is the most important investment decision the Committee makes.

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.

Mr. Bell said the Board did not go into closed session as noticed on the agenda.

**Selection of Real Estate Manager.** Mr. Bell noted they selected the Real Estate Manager in closed session at the April 20, 2023 Investment Committee Meeting. Mr. Allen confirmed that another motion and second was not necessary. He said the contract would come back to the full Board.

**Administration & Operations Committee Report.** Ms. Sawa said the Committee met on April 18. She said they had one agenda item which was the Approval of the Draft ERS 2024 Budget. Mr. Gopalan stated the requested 2024 budget was over \$24 million dollars, an increase of over \$271,000 from 2023. He noted the two main drivers of the increase were salaries and fringe benefits. He commented the ERS has been working with DER to do market studies and reclasses. He stated the Professional Services budget is \$241,000 higher, which is due to an increase in Investment Manager fees. Mr. Gopalan said they reduced the request for the IT budget by \$1.3 million dollars, based on the hardware replacement cycle.

**Approval of Draft ERS 2024 Budget.** It was moved by Ms. Ford, seconded by Ms. King, and unanimously carried, to approve the Approval of Draft ERS 2024 Budget.

### **New Business.**

Chairman Bell took the meeting out of order to V.B. New Business - Retirements, Death Claims, and Refunds (March).

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

Active Death Benefits reported	\$0.00
Deferred Death	\$41,666.06
Deferred Death-Member Only Refund	\$0.00
Ordinary Death Benefits reported	\$36,777.91
Retired Death Benefits reported	\$15,413.71
Survivor Death – Termination Benefits reported	\$5408.53
Refund of Member Contributions paid	\$293,642.15

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

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

Thomas Courtright	2023 Madison Investment Conference
Sponsor:	CFA Society
Location:	Madison, WI
Date:	May 31, 2023
Estimated Cost:	\$300.00

Erich Sauer, David Walters	Abbott Due Diligence; Neuberger Berman Due Diligence and Annual LP Meeting
Sponsor:	Abbott and Neuberger Berman
Location:	New York, NY
Date(s):	June 20-22, 2023
Estimated Cost:	\$1,750 per person

Mr. Bell, Mr. Allen, and Ms. Ford requested to attend the NCPERS Public Pension Funding Forum in Chicago, IL on August 20-22, 2023.

It was moved by Mr. Konrad, seconded by Mr. Klusman, and unanimously carried, to approve the Conference Requests – April 2023 Board Meeting for the six persons requesting to attend conferences.

Mr. Kovac arrived at 9:24 a.m.

**Medical Reports.**

**All Duty & Ordinary Disability Applications & Re-examinations (April).** Staff presented certifications (April 2023) 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>
Willie Huerta	Approval
Kurt Lacina	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Pieter Gallagher	Approval
Christopher Underwood	Approval
James Youngblood	Approval
<u>Police – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Audra Finnegan	Approval

<u>GC – Applications –Duty</u>	<u>Recommendation</u>
James Tyler	Approval
<u>GC – Applications –Ordinary</u>	<u>Recommendation</u>
Brandon Purdy	Approval
<u>GC – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Ywanda Bryant	Approval
Leann Wolfe	Approval

It was moved by Mr. Kovac, seconded by Mr. Heling, and unanimously carried, to approve the Duty & Ordinary Disability Applications & Re-examinations (April).

### **Unfinished Business.**

**Pending Legal Opinions and Service Requests Report.** Mr. McClain stated he had no comments for this short report, but would answer any questions from the Board members.

**Pending Legislation Report.** Mr. McClain noted the Pension Contribution Offset, given the results of the litigation, would be addressed later in the meeting. He noted there would be a resolution by the next meeting.

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)(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.

Mr. Bell said the Board did not go into closed session as noticed on the agenda.

**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.**

- 1) Pending Litigation Report.
- 2) Conferences.
- 3) Class Action Income 2023 YTD.
- 4) Minutes of the Administration & Operations Committee Meeting Held March 23, 2023.

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. McClain discussed the Pending Litigation Report. As a matter of information, Board members received the memo from Mr. McClain dated April 25, 2023 regarding the Wisconsin Supreme Court decision in the case of *Milwaukee Police Supervisors Organization, et al. v. City of Milwaukee, et al.* and the Wisconsin Supreme Court opinion summarizing the history and results of litigation. Mr. McClain stated the Wisconsin Supreme Court reversed the favorable Board of Appeals opinion in relation to the 5.8% pension offset payment and ordered that payment be included in duty disability retirement benefits. He said the basis of the Wisconsin Supreme Court's opinion was unique to the prior court's and ruled that the textural structure of the agreement, specifically the salary grids were determinative of the outcome of the case. Mr. McClain noted that the salary grids contained in the collective bargaining agreement included the 5.8% increase at issue, the Court ruled that that amount must serve as the current annual salary for purposes of calculating duty disability retirement. He said the Court rejected the argument that the Court of Appeals had previously accepted that additional language within the contract effectively precluded its inclusion from duty disability. He stated the so-called language contained within Article 10 that specified that the 5.8% increase was contingent upon a member making a corresponding 7% member contribution. Mr. McClain mentioned two notes in regard to implications: the first is that the opinion is fairly limited and the Court did not address some of the broader contractual rights arguments raised by the plaintiffs which would have been a more damaging opinion and limited its decision to specifically interpreting the unique language of the collective bargaining agreement so the Court's opinion is relatively limited in terms of legal significance. He said secondly the primary implication of the Court's decision is financial and there is a breakdown of the retroactive payments that are necessary as a result of the opinion, essentially including the 5.8% salary increase in duty disability retirement benefits for MPA and Local 215 members from the time they came due under the contract and the ERS must begin including the 5.8% increase moving forward. Mr. McClain said there is a pre- and post-judgment interest that is applied to the Local 215 amounts by operation of statute and there is a corresponding implication for conversion and GPS benefits because those benefits are calculated in a fairly similar way to duty disability retirements. He stated for affected members, their conversion benefits, when they reach retirement age, as well as their GPS payments, will also be subject to the increase. Mr. McClain noted the final thing noted in the memorandum is that the MPSO, after the Court of Appeals opinion filed a motion for fees, claiming fees under the Common Fund Doctrine, said they have not received a decision on that motion despite a year passing since it was filed, and are confident that motion will be denied because the Common Fund Doctrine does not shift attorneys' fees to the losing party, but instead spreads the fees among the prevailing parties so there will not be an additional cost flowing from that motion. Discussion ensued.

Chairman Bell returned the meeting to order to V.A. New Business – Approval of New Actuarial Tables for Pension Benefits - Presentation by Cavanaugh Macdonald.

**Approval of New Actuarial Tables for Pension Benefits - Presentation by Cavanaugh Macdonald.** As a matter of information, Board members received the memo from Cavanaugh Macdonald regarding “Considerations Regarding Joint and Survivor Factors.”

Mr. McClain said, looking at Chapter 36, the charter ordinance grants the Board the authority and discretion to adopt the tables and that authority and discretion is guided by the requirement that the Board’s decision must comport with actuarial standards of practice so as long as the options presented each comport with the actuarial standards of practice, the election of one set of tables over another would be an act of discretion or policy for the Board. He concluded that as long as the actuary can certify the options would each meet the actuarial standards of practice, this appears to be a policy consideration and not a legal requirement.

Mr. Langer first discussed the memo and said new mortality rates were adopted and current factors are not based upon a 7.5% return so factors were updated for a 7.5% return. He said in the past there was one table of joint and survivor factors for all groups. Mr. Langer noted three variations among member groups that impact the actuarial value of the optional benefits: multiple cost-of-living adjustment (COLA) schedules during retirement, adoption of different mortality rates for Police officers and Firefighters versus General Employees, and the male-to-female ratio for active Police officers and Firefighters is different from that of active General Employees. He further discussed the COLA schedules, Healthy Annuitant Mortality, Male-to-Female Ratio, and blending factors of the first three items into a single table where General Employee factors were blended 50%/50% with Police officers and Firefighters. Mr. Langer discussed the tables in four appendices of Sample of Joint and Survivor Factors for Comparison among Police officers and Firefighters, General Tier I, General Tier 2 – Service Retirement, and General Tier 2 – Non-Service Retirement. Discussion ensued.

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

Mr. Bell adjourned the meeting at 10:35 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.)