

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

Minutes of the Regular Meeting
held June 27, 2023 via teleconference

The meeting was called to order at 9:01 a.m.

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

Board Members Not Present: Molly King (arrived at 9:18 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
 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: Patrice Beckham, Larry Langer, Cavanaugh Macdonald; Katherine Headley, Patrick McClain, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc., nine members of the public called in to the meeting.

Regular Meeting.

Approval of Minutes.

Regular Meeting Held May 23, 2023. Mr. Klusman requested a clarification to note that the May 23, 2023 meeting minutes contain the language "Board members received both parties' briefs and the Examiner's report." It was moved by Mr. Konrad, seconded by Mr. Klusman, and unanimously carried, with the minutes' clarification, to approve the minutes of the Regular Meeting Held May 23, 2023.

At this point, the Chair, at the request of Mr. Silber, took the meeting out of agenda order to items III., III.A., III.B., and III.C.

Investment Committee Report. Mr. Klusman noted that at its June 8 meeting, Callan presented phase 3 of the Asset-Liability study. After a lengthy discussion, he said the Committee voted

unanimously to approve the Asset Allocation identified as Mix 1 within Callan's presentation. Mr. Klusman commented that, according to the Actuary, Mix 1 will support the ERS' 7.50% discount rate, and according to Callan, Mix 1 is expected to decrease the Fund's investment volatility and improve the Fund's liquidity profile. He stated Callan provided two additional presentations at the meeting, one being an update on the Fund's Real Estate portfolio, and the other being a recommendation on how to implement the Real Estate allocation now that a 5th manager has been selected. Mr. Klusman noted that after some discussion, the Committee approved the recommended Real Estate Manager Structure, which is expected to make the Fund's Real Estate allocation more diversified by manager and sector. He then said Staff discussed a request from Loomis Sayles regarding a guideline waiver for one security that was recently downgraded, which the Committee subsequently approved. Mr. Klusman remarked that the Committee also went into closed session to discuss the Side Letter related to the Mesirov Private Equity Fund IX and then the Committee then went into open session to approve the Side Letter. He then added that since delaying approval of the Side Letter would have put the Fund at risk of missing the deadline to achieve first close fee savings, Staff utilized its authority to execute an investment-related contract that was approved by the Investment Committee as provided under Board Rule VII.G.2.b. Mr. Klusman commented that Staff also provided a performance update to the Committee. He concluded by saying the Investment Committee recommended approval of three items: Approval of Loomis Sayles Guideline Waiver, Approval of Asset Allocation Mix (Mix 1) and Approval of Real Estate Manager Structure.

Mr. Silber noted nothing had changed with respect to the three items recommended for approval since the June 8 Investment Committee meeting. He stated the Loomis Sayles Guidelines Waiver is a small allocation to an individual bond that was within the guidelines when it was purchased, but was then subsequently downgraded. He said Loomis Sayles advises them not to sell the bond at a depressed price and that it was supported at the Committee level. He said the Asset Allocation Mix was discussed thoroughly. Mr. Silber said the Real Estate Manger Structure was discussed and approved, noting that it establishes the target allocation to the fifth manager and is expected to result in sector exposures being more diversified.

Approval of Loomis Sayles Guidelines Waiver. It was moved by Mr. Heling, seconded by Mr. Konrad, and unanimously carried, to approve the Approval of Loomis Sayles Guidelines Waiver.

Approval of Asset Allocation Mix. It was moved by Ms. Ford, seconded by Mr. Heling, and unanimously carried, to approve the Approval of Asset Allocation Mix.

Approval of Real Estate Manager Structure. It was moved by Mr. Konrad, seconded by Mr. Heling, and unanimously carried, to approve the Approval of Real Estate Manager Structure.

At this point, the Chair returned the meeting to agenda order to items II. and II.A.

Chief Investment Officer Report. As a matter of information, Board members received the June 27, 2023 Performance Update. Mr. Sauer noted the Fund as of May 31, 2023, had a value of \$5.53 billion. He said the Fund had a -1.3% return in May, gross of fees, and underperformed the blended benchmark by approximately 43 basis points. Mr. Sauer commented the main driver of underperformance was Style Bias, detracting 47 basis points, primarily from the Value exposure. He said Small Cap and International detracted a bit as well. He added the Fund has underperformed

in the year-to-date and one-year time periods, while outperforming in the five-, 10-, 15- and 20-year periods. Mr. Sauer remarked as of June 26, 2023, the Fund was up 1.8% month-to-date for June, which brought the year-to-date return to 4.4%, and the Fund value to \$5.63 billion. He noted 11 out of the Fund's 16 active mandates are outperforming, year-to-date and 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 \$252.6 million, paid benefits and expenses of \$203.6 million, and received contributions of \$118.1 million.

Mr. Silber stated Staff has been working to get the Public Equity allocation to its new target of 39%, formerly 44%. He said Fixed Income did have a target of 23%, but now it is 29%. He noted in June, Staff moved \$188 million from Public Equity and put \$144 million into Bonds. He said of the remaining \$44 million, \$40 million went to pay benefits, and some went to fund capital calls in Private Equity. Mr. Silber said over the last four months, \$340 million was moved from Public Equity and \$272 million was put into Fixed Income. He said at the end of the first quarter, the Fund's Fixed Income allocation was 19.9%, and it is estimated to be close to 24.5% at the end of June, which is a significant move towards the new 29% target. He said Stocks were 44.9% at the end of Q1 and will be about 41% at the end of June. Mr. Silber said that Mr. Sauer and Mr. Walters were in New York City last week doing due diligence on two of the Fund's Private Equity managers and also attended a conference by one of the Private Equity managers. He concluded that the soft close on the plan may have an impact on the portfolio, but first the actuary will have to calculate the liability component and estimate what the contributions will be with the new law.

Approval of Statement of Investment Policy Update. Mr. Silber reviewed for the Board the new target allocations on the investment policy. It was moved by Ms. King, seconded by Mr. Kovac, and unanimously carried, to approve the Approval of Statement of Investment Policy Update.

At this point, the Chair returned the meeting to agenda order to items IV., IV.A., and IV.B.

Administration & Operations Committee Report. Ms. Sawa provided a report on the June 21, 2023 Administration & Operations Committee meeting. She noted two contracts were recommended for approval at the Committee level, and presentations were provided for the IT Projects Portfolio and the Organizational/Personnel Update. Ms. Sawa discussed whether to go into closed session and noted the Wells Fargo contract was just an amendment to extend the contract. Mr. Allen added that it was a 90-day extension as the Wells Fargo attorneys needed more time to look at it.

Approval of Wells Fargo Contract.

Please be advised that the Administration & Operations Committee 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 Administration & Operations Committee may then vote to reconvene in open session following the closed session.

The Board did not convene in closed session as noticed above.

It was moved by Mr. Klusman, seconded by Mr. Konrad, and unanimously carried, to approve the Approval of Wells Fargo Contract.

Discussion and Approval of Actuary Contract.

Mr. Allen said there was a provision for a three-year extension from the original contract and the ERS has had Cavanaugh Macdonald for five years. He stated the Committee reviewed the proposal from the actuary which includes a 2.5% escalator on their fee and it was approved at the Committee level.

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The Board did not convene in closed session as noticed above.

It was moved by Ms. King, seconded by Mr. Bell, and unanimously carried, to approve the Approval of Actuary Contract.

At this point, the Chair took the meeting out of agenda order to items. V., V.B., and V.C. while waiting for the actuary to arrive.

New Business.

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

| | |
|--|--------------|
| Active Death Benefits reported | \$0.00 |
| Deferred Death | \$20,599.47 |
| Deferred Death-Member Only Refund | \$0.00 |
| Ordinary Death Benefits reported | \$86,020.88 |
| Retired Death Benefits reported | \$53,252.19 |
| Survivor Death – Termination Benefits reported | \$6,827.02 |
| Refund of Member Contributions paid | \$163,740.78 |

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

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

| | |
|-----------------|------------------------------|
| Erich Sauer | 2023 Public Funds Conference |
| Sponsor: | Pensions & Investments |
| Location: | Scottsdale, AZ |
| Date(s): | September 19-20, 2023 |
| Estimated Cost: | \$1,250.00 |

It was moved by Ms. Ford, seconded by Ms. King, and unanimously carried, to approve the Conference Requests – June 2023 Board Meeting.

At this point, the Chair took the meeting out of agenda order to items VI, VI.A., and VI.B.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations (June). Staff presented certifications (June 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> |
|--|-----------------------|
| Christian Hlavinka | Approval |
| Joel Kujawa | Approval |
| Jasmine Lewis | Approval |
| Michael Pendergast | Approval |
| Justine Schmidt | Approval |
| <u>Fire – Re-examinations – Duty</u> | <u>Recommendation</u> |
| Nicholas Adamski | Approval |
| Mark Ashworth | Approval |
| John Kielpinski | Approval |
| Mark Tesch | Approval |
| Scott Van Roo | Approval |
| <u>GC – Applications – Duty</u> | <u>Recommendation</u> |
| Brad Bratel | Approval |
| <u>GC – Re-examinations – Ordinary</u> | <u>Recommendation</u> |
| Camille Cole | Approval |

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

Disability Findings – Benjean Lara. Mr. Bell read the following.

Benjean Lara – This is in the matter of denial of Ordinary and Duty Disability. Independent Hearing Examiner Dennis Moroney conducted a hearing for the appeal petitioned by Benjean Lara regarding the denial of his Ordinary and Duty Disability claims. Hearing Examiner Moroney later issued a written opinion. In his opinion, Hearing Examiner Moroney references Mr. Lara’s application for Ordinary Disability and states, “an ordinary disability benefit...is not supported by appropriate medical evidence...” **Hearing Examiner Moroney concludes, “The ordinary claim is hereby dismissed.”**

Hearing Examiner Moroney goes on to state in his decision, “A preponderance of evidence from his treating physician, Dr. Nora, indicates permanent impairment of the Applicant...” **Hearing Examiner Moroney then provides the following, “The Decision of the Annuity & Pension Board denying Applicant duty disability retirement status as a police officer is overruled.”**

Briefs in response to the Hearing Examiner’s decision are enclosed.

Mr. Allen stated this item was carried over from the last meeting to go into closed session to deliberate upon the recommendation from the hearing examiner.

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)(f), Wisconsin State Statutes, for considering financial, medical, social or personal histories or disciplinary data of specific persons, preliminary consideration of specific personnel problems or the investigation of charges against specific persons except where par. (b) applies which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories or data, or involved in such problems or investigations.

It was moved by Ms. King and 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 9:38 a.m.

The Board reconvened in opened session at 11:08 a.m.

Mr. Bell noted they just had a discussion on item VI.B., the Disability Findings for Benjean Lara. Mr. Bell stated the motion to be put forward is “for the Board to direct the matter to be remanded to the examiner for further reassessment based on a more accurate and detailed review of the record and subsequent briefs.” It was moved by Mr. Konrad, seconded by Mr. Klusman, and unanimously carried, to approve the motion.

The Chair called for a break at 11:09 a.m.

The Chair resumed the meeting at 11:20 a.m.

At this point, the Chair returned the meeting to agenda order to item V.A.

Presentation by Pat Beckham and Larry Langer of Cavanaugh Macdonald and Acceptance of 2023 Actuarial Valuation Report. Mr. Langer thanked the Board for renewing the Cavanaugh Macdonald contract at today's meeting and looked forward to many more years of partnership. As a matter of information, Board Members received the Cavanaugh Macdonald "Results of the January 1, 2023 Actuarial Valuation for the City of Milwaukee Employees' Retirement System." He noted every year a valuation is done as of January 1st in order to be discussed at the June Board Meeting. Mr. Langer gave a presentation to the Board members on the following topics: Purpose of the Actuarial Valuation, Actuarial Valuation Process Reserve Funding, Actuarial Valuation Process, Stable Contribution Policy, The Impact of Proposed Legislation is Not Reflected in These Results, Events During Calendar 2022 Which Impacted the January 1, 2023 Actuarial Valuation Results, Projected Contribution Under Stable Employer Contribution Policy, Change in Funded Ratio during Calendar 2022, Change in Funded Ratio From January 1, 2018 to January 1, 2023, Comparative Summary of Census Data, Historical Census Data, Comparative Summary of Assets and Liabilities, Market Value of Assets, Actuarial Value of Assets, Historical Asset Returns, Historical Funded Ratio, Comparative Summary of Contributions, Contribution Requirements for FY 2023 by Group and Fund as of January 31, 2024, Comparison of Stable Employer Contribution to Actuarially Determined Employer Contribution (ADEC), Projected Combined Fund Funded Ratio: Based on FYE 2023 returns of 7.50%, -2.50% and 17.50%, Projected Combined Fund ADEC: Based on FYE 2023 returns of 7.50%, -2.50% and 17.50%, What a Difference a Year Makes, Key Takeaways, and Actuarial Certification. Discussion ensued.

It was moved by Mr. Klusman, seconded by Mr. Heling, and unanimously carried, to approve the Acceptance of 2023 Actuarial Valuation Report.

At this point, the Chair returned the meeting to agenda order to agenda item VII.

Unfinished Business.

Pending Legal Opinions and Service Requests Report. Mr. McClain said that Act 12 threw a wrench into the timeline for completing the Legal Opinions, but the City Attorney's office is pressing ahead. He said he did not have additional comments on any other items.

Pending Legislation Report. Mr. Allen noted there is no Pending Legislation to report on.

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.

The Board did not convene in closed session as noticed above.

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.

Please be advised that the Annuity and Pension Board may vote to convene in closed session on the following item (VIII.A.), 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.

The Board did not convene in closed session as noticed above.

- 1) Pending Litigation Report.
- 2) Conferences.
- 3) Class Action Income 2023 YTD.
- 4) Adjusted Quarterly Cost Basis of Equity.
- 5) Minutes of the Investment Committee Meeting Held June 8, 2023.

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

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

Mr. Bell accepted and placed the Informational items on file.

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 12:29 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.)