

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

Minutes of the Investment Committee Meeting
held April 20, 2023 via teleconference during COVID-19

The meeting was called to order at 9:04 a.m.

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

Committee Members Not Present: Molly King (arrived at 9:41 a.m.)
Nik Kovac (arrived at 9:44 a.m.)

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: Joey Lansing, Paul Marchese, Harrison Street; Mike Beley, Kyle Mayes, Al Rabil, David Selznick, Kayne Anderson; Sally Haskins, Munir Iman, John Jackson, Mike Joecken, Aaron Quach, Callan; Terry Siddiqui, DS Consulting, Inc.; three members of the public called in.

Election of Vice Chair. Mr. Klusman asked for nominations for Vice Chair of the Investment Committee. Mr. Klusman nominated Ms. Ford who declined. Mr. Klusman then nominated Mr. Heling who accepted the nomination for Vice Chair. Mr. Klusman asked three more times for nominations. There being no further nominations, nominations were closed and a unanimous vote was cast for Mr. Heling as Vice Chair of the Investment Committee.

Real Estate Manager Interviews. Mr. Iman reminded the Committee the rationale for the Real Estate Manager Search was to complement the current allocation in the CMERS Real Estate Portfolio and to additionally diversify away from manager concentration risk. He said the initial search started with 19 managers, focusing on diversified alternative sector focused funds. He noted alternative sector focused funds include self storage, medical office, life sciences, and senior and student housing. Mr. Iman said 10 Real Estate Managers were presented to Callan's Manager Search Committee and they advanced six managers. He stated that after the November meeting, Callan and Staff interviewed six semi-finalists in January 2023 when two multi-family focused funds were removed from the search to focus on the alternative sector-focused funds. Mr. Iman commented that four funds were reviewed in February and finally two core-focused funds were

advanced. He concluded that the Committee, when hearing the presentations, should focus on portfolio construction, allocations and how they differ, the valuation of the alternative sectors, and redemption queues and how long it takes for capital to be called.

Harrison Street. As a matter of information, Committee members received the “Harrison Street Core Fund Overview” presentation booklet. Mr. Marchese stated the Fund began in 2005, focusing on alternative or niche real estate sectors. He noted they deployed \$65 billion in capital since inception. He discussed the Firm Overview (First Mover in Alternative Real Assets, Platform Dedicated to Alternative Real Assets, Cycle-Tested Investment Thesis, and Resiliency in Harrison Street’s Sectors of Focus). Mr. Lansing discussed the Core Fund Overview (Harrison Street Core Property Fund, Open-End Fund Dedicated to Alternative Real Estate, 10+ Year Track Record Highlights Diversification Benefits, Historical Performance with Attractive Income, and Debt Profile & Strategy). Mr. Lansing also discussed the five sectors in the Sector Overview (Medical Office Portfolio, Medical Office: Key Tenants and Health Systems, Case Study: Montrose Regional Health MOB; Senior Housing Portfolio, Senior Housing: Best-in-Class Partners, Case Study: Oakmont Senior Housing; Student Housing Portfolio, Student Housing: University Presence, Case Study: Hub Blacksburg; Life Sciences Portfolio, Life Sciences: Tenants and Other Key Relationships, Case Study: City Science Portfolio; Storage Portfolio, Storage: Operating Partners, Case Study: Project Cascade Self Storage Portfolio; Actionable Pipeline, Looking Ahead, and Harrison Street’s Edge). Discussion ensued.

Ms. King arrived at 9:41 a.m.

Mr. Kovac arrived at 9:44 a.m.

Kayne Anderson. As a matter of information, Committee members received the Kayne Anderson “Kacore” presentation booklet. Messrs. Rabil, Selznick, and Mayes discussed the KACORE Leadership Team, KA Real Estate Platform Overview, A Differentiated Approach to Core Real Estate, Disciplined Deployment, Timely Investments, Kayne Anderson Core Real Estate Fund, and KACORE Portfolio Overview. They also discussed the following topics in the Sector Strategy & Review: Strong Performance in Target Sectors, High Conviction in the Future of Medical Office, Industry-Leading Medical Office Portfolio, Disciplined Deployment in Medical Office, Seniors Housing Portfolio on Upswing, Well-Positioned Seniors Housing Portfolio, Growing Opportunities in Core Student Housing, and Thoughtfully Acquiring Student Housing. They discussed the following topics in Fund Management: KACORE Debt Profile, and KACORE Capital Flows. They concluded with presenting the following topics in their Performance Outlook: KACORE Relative Valuation Metrics, Consistent KACORE Performance, and Designed for Robust Income Returns. Discussion ensued.

Chairman Klusman called for a break at 10:52 a.m.

Chairman Klusman resumed the meeting at 11:00 a.m.

Mr. Kovac left at 11:00 a.m.

Mr. Klusman advised that the Investment 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 Investment Committee may then vote to reconvene in open session following the closed session.

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

The Committee convened in closed session at 11:01 a.m.

The Committee reconvened in open session at 11:17 a.m.

It was moved by Mr. Konrad, seconded by Mr. Bell, and unanimously carried, to direct the Investment Team to enter negotiations to select a Real Estate manager, as directed in closed session.

1st Quarter 2023 Preliminary Performance Update. As a matter of information, Committee members received, as of April 13, 2023, the 1st Quarter 2023 Preliminary Estimate of Fund Performance and Attribution booklet. Mr. Sauer commented that they are waiting on the final March report from one of the Hedge Fund of Funds Managers, as the current estimate is flat. He noted the Market Environment slide and said it was a good quarter for stocks and bonds. He said Public Equity had a benchmark return of up 6.9%, Fixed Income was up 3.0%, Private Equity was up 7.5%, which was based on Public Equity markets from the prior quarter with the Russell 3000 return from the fourth quarter of 2022, and Absolute Return was up 1.9%. Mr. Sauer said the Real Assets benchmark was down 3.5% due to the ODCE benchmark. He said for the first quarter the Fund's benchmark was 4.3%. Mr. Sauer discussed the Relative Performance Expectations of Value Equity Bias, Small Cap Equity Bias, Fixed Income Credit and Private Equity and noted for the first quarter, the CMERS Total Fund (net) was 3.3%. He said 13 out of the Fund's 16 active mandates outperformed and noted Brandes, Polen, Morgan Stanley, and DFA Small Cap Mandates added the most value to the Fund's relative performance. Mr. Sauer said the Fund is outperforming in all the longer time periods and is higher than the 7.5% discount rate over 10 years. He said the 20-year return is 8.1% and the Fund has performed well over the long term. Mr. Sauer concluded that the estimated total fund market value is \$5.67 billion as of April 19, 2023. He said the April estimate for the Fund is 0.4% versus 0.6% for the benchmark, and year-to-date through April 19, the ERS Fund is 3.7% versus the 4.9% benchmark.

Chief Investment Officer Report. Mr. Silber said the next Investment Committee Meeting is May 4 and could be one of the most consequential Investment meetings in a number of years. He commented that Callan would be back with the next phase of the ALM study and will provide five or six asset mix allocations that will support a 7.5% discount rate. He said some of the mixes will show what will happen when making significant material changes, namely with Fixed Income, to the portfolio. Mr. Silber said currently there is a 23% allocation to Fixed Income and two mixes will show a 28% allocation, and one, a 29% allocation. He noted they haven't talked about a 29%

allocation to Fixed Income since 2006. He commented that higher interest rates and higher inflation mean that a 7.5% return can be obtained over the next 30 years with less risk-taking, according to Callan. Discussion ensued.

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

There being no further business, Mr. Klusman adjourned the meeting at 11:40 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.)