

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

Minutes of the Investment Committee Meeting
held May 04, 2023 via teleconference during COVID-19

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

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

Committee Members Not Present: Rudy Konrad (excused)
Nik Kovac (arrived 9:04 a.m.)

ERS Staff Present: Jerry Allen, Executive Director
David Silber, Chief Investment Officer
Dave Walters, Pension Investment Analyst – Sr.
Thomas Courtright, Pension Investment Analyst
Jan Wills, Board Stenographer

Jason Ellement, John Jackson, Mike Joecken, Adam Lozinski, Callan; Larry Langer, Cavanaugh Macdonald; Patrick McClain, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc.; four members of the public called in.

Callan 2023 Asset-Liability Study Phase 2 Presentation. As a matter of information, Committee members received the "Callan 2023 Asset-Liability Study, Phase II – Preliminary Asset-Liability Results." Mr. Joecken said in Phase I they focused on the asset side of the picture and discussed capital market assumptions and what is expected from each of the asset classes over the next 10 years. He said at the last meeting, a couple preliminary asset allocation mixes were presented and today refinements to some of those mixes would be presented. Mr. Joecken said a liability analysis will also be presented. He said they will also discuss what the projected funded status will look like for the future, given the different asset mixes. Mr. Joecken said a decision will need to be reached in June.

Mr. Ellement presented an analysis of the preliminary asset results. He noted the importance of the asset-liability study as the Board is making an important decision regarding the assets in determining how to construct the portfolio which will be the main driver of long-term return and risk for contributions and funded status over the next 30 years. Mr. Ellement discussed the six alternative asset mixes and whether, at the last meeting, the 7.5% return assumption was a solid assumption for the plan over the long term. He said, in 30 years, the Fund is expected to hit a 7.5%

return. He commented that of the six alternative asset mixes, mixes one through four reduce risk by adding Fixed Income and mixes five and six increase risk. Mr. Ellement stated that the 10-year return expectations range from 7.00% to 7.25% while the 30-year return expectations range from 7.50% to 7.75%. He said that for aggressive mixes five and six, the 30-year return expectations would be 7.60% and 7.75%, respectively. Mr. Ellement also discussed 10- and 30-Year Returns, an Actuarial Liability Model, Expected Return Projection Over 10 Years, Active Plan Membership, Simulated Financial Condition, Market Value of Assets, Actuarial Accrued Liability, Employer Rate, Projected Funded Status, 10-Year Projected Funded Status, 2023-2032 Cumulative Employer Contributions, Ultimate Net Cost, and Liquidity Analysis. Discussion ensued. Board members expressed their opinions on the various asset mixes and concluded, for the next Investment Committee Meeting, to look at asset mixes one through four since Messrs. Ellement, Joecken, and Silber noted they offer downside protection, rely less on Equities, increase the Fixed Income target, and enhance the liquidity profile of the Fund.

Approval of UBS Hedge Fund Solutions Guideline Change. As a matter of information, Committee members received a memo from Mr. Sauer regarding the “UBS Guideline Request” and the UBS document regarding the “CMERS Low Beta LLC – Request amendment to the liquidity profile.” Mr. Silber noted UBS had put together a custom Hedge Fund of One portfolio for CMERS where the vehicle is not commingled with other investors. He noted UBS started with CMERS in 2014 and initially had a 2.5% target of Fund assets that subsequently got as high as 7%. Mr. Silber said that UBS presented in November 2022 and, at that time, the Committee decided to move the target down from 7% to 4% of Fund assets. He noted they have received almost half of the money and the withdrawal process is expected to be completed by early next year. Mr. Silber said UBS is trying to retain exposure with the remaining 4% to its highest conviction managers, many of whom are highly sought-after and are capacity constrained. He also noted that the mix of the Fund of One portfolio will change slightly as a result of the withdrawals. He said currently the guidelines allow up to 30% of the net asset value with UBS to be allocated to Portfolio Funds with stated liquidity terms that are greater than one year, and further allows for approximately one-third of this 30% to be allocated to Portfolio Funds with stated liquidity terms between two to three years. Mr. Silber said that in order to maintain access to the highly sought-after managers, the guidelines need to be modified to allow for two-thirds of the 30% of the net asset value with UBS to be allocated to Portfolio Funds with stated liquidity terms in the two-to three-year bucket. He said it took UBS many years to gain access to some of these managers, and if the money was withdrawn from some of these managers, it would take years to get back into. Mr. Silber said Staff recommends approving the change.

It was moved by Ms. King, seconded by Mr. Heling, and unanimously carried, to approve the Approval of UBS Hedge Fund Solutions Guideline Change.

Due Diligence Reports.

Mesirow Financial. As a matter of information, Committee members received a memo from Mr. Sauer regarding the “Mesirow Due Diligence Meeting: November 17, 2022.” Mr. Walters said he and Messrs. Sauer and Courtright visited Mesirow at their Chicago office. He stated Mesirow was one of four managers hired to invest Private Equity through diversified Fund of Fund vehicles. He noted CMERS committed \$355 million dollars across four Mesirow partnerships to date: Funds V, VI, VII, and VIII-A with \$232 million dollars in invested capital as

of September 30, 2022. Mr. Walters noted a memo correction regarding Fund IX-A and said the Investment Committee approved a \$100 million, instead of \$120 million, to Fund IX-A, pending successful contract negotiations. Mr. Walters' said Mesirow's approach aims to create a well-diversified portfolio of Private Equity Funds, utilizing multiple managers across U.S./non-U.S. buyouts, venture capital, and special situation strategies. He said they use the commingled funds to deploy capital over time. Mr. Walters noted with Fund VIII, Mesirow added secondary and co-investments to the diversified Fund of Funds, which they have continued with Fund IX also. He said CMERS Staff has no concerns, but will monitor a few items, including succession planning, secondary funds, and separate accounts.

BlackRock. As a matter of information, Committee members received a memo from Mr. Walters regarding the "BlackRock Due Diligence Meeting – February 2, 2023 Onsite and Virtual Follow Up." Mr. Walters stated he and Mr. Silber visited BlackRock at their San Francisco office as well as follow-up virtual meetings. Mr. Walters stated BlackRock was hired in 1996, originally as Barclays Global, which was acquired by BlackRock. He noted BlackRock manages three strategies for the Fund: a passively-managed Russell 1000 Value Equity Index, a passively-managed U.S. Government Bond Index, and an actively-managed Global Equity Alpha Tilts Strategy. He said BlackRock is the largest manager by assets under management at 14.2% of the Fund. Mr. Walters said BlackRock is the largest asset manager in the world with \$9 trillion assets under management as of March 31, 2023. He noted BlackRock's Global Equity Alpha Tilts Strategy uses research, technology, and artificial intelligence in their modeling. Mr. Walters noted Staff had no concerns, but will continue to monitor BlackRock's use of technology.

Polen Capital Management. As a matter of information, Committee members received a memo from Mr. Sauer regarding the "Polen Due Diligence Meeting, December 14, 2022." Mr. Courtright discussed the memo and stated Polen has managed an Active Large Cap Growth Equity mandate for the Fund since June 2012. He said that he and Mr. Sauer visited Polen at their office in December 2022 and also met with Callan Research for Polen discussions. Mr. Courtright said Polen's Large Cap Growth Equity strategy had a -37.8% return in 2022. He noted their team does remain stable and strong and there is no change in their philosophy or process. Mr. Courtright noted Mr. Ficklin assumed the administrative role of head of the Large Cap Growth team from Mr. Davidowitz in 2022. Mr. Courtright also said the assets under management has held up despite 2022's challenging performance. He noted the assets under management had increased to \$57.2 billion at the recent visit versus \$51.8 billion a couple years ago. He said CMERS and Callan will be monitoring Polen. Mr. Courtright said at the time of the Fund's inception in 2012, Polen's assets under management were \$4 billion. Mr. Courtright noted Large Cap Growth is the flagship at Polen with \$43.8 billion. He concluded that the team remains strong and the philosophy and process are unchanged.

CMERS 1st Quarter 2023 Performance Update. As a matter of information, Committee members received the "1st Quarter 2023 Performance Report" of May 4, 2023. Mr. Silber noted for the three-month period, stocks were up 6.9% and bonds were up 3.0%. He commented that the Fund had a 3.3% return during the quarter. He noted that value underperformed growth, small cap did worse than large cap, and noted that CMERS' Private Equity managers do not report during the three-month period. Mr. Silber said as of May 3, the S&P 500 was up about 7% and the Fund still had managers with double-digit returns year-to-date. He said outflows from the Fund were

about \$122 million this quarter and contributions into the Fund were about \$110 million. He noted the Fund value was \$5.64 billion at the end of Q1. Mr. Silber concluded that the Fund value on May 3, 2023 was about \$5.60 billion with the Fund return at about 3.2%.

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

There being no further business, Mr. Klusman adjourned the meeting at 11:05 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.)