

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

Minutes of the Annual Meeting
held January 23, 2024 via teleconference

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

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

Board Members Not Present: Deborah Ford (arrived 9:05 a.m.)

Retirement System Staff Present: Jerry Allen, Executive Director
 Melody Johnson, Deputy Director
 Daniel Gopalan, Chief Financial Officer
 Erich Sauer, Deputy Chief Investment Officer
 Thomas Courtright, Pension Investment Analyst
 Jeff Shober, Chief Technology Officer
 Gust Petropoulos, Deputy Director – Disability
 Karen McElwee, Management Services Analyst
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Carolyn Stittleburg, Legislative Audit Bureau; Patrick McClain, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc., seven members of the public called in to the meeting.

Annual Meeting.

Officers for 2024.

Election of Chair. Mr. Bell asked for nominations for Chair. It was moved by Mr. Klusman and seconded by Ms. King to nominate Mr. Bell for Chair. There being no further nominations, nominations were closed and a unanimous vote was cast for Mr. Bell as Chair of the Annuity and Pension Board.

Election of Vice-Chair. Mr. Bell asked for nominations for Vice-Chair. Mr. Bell nominated Mr. Kovac for Vice-Chair. It was moved by Mr. Bell and seconded by Mr. Klusman to nominate Mr. Kovac for Vice-Chair. There being no further nominations, nominations were closed and a unanimous vote was cast for Mr. Kovac as Vice-Chair of the Annuity and Pension Board.

Ms. Ford joined the meeting at 9:05 a.m. Mr. Bell confirmed the Chair and Vice-Chair election results for Ms. Ford.

Approval of Minutes.

Regular Meeting Held December 19, 2023. It was moved by Mr. Klusman, seconded by Mr. Heling, and unanimously carried to approve the minutes of the Regular Meeting Held December 19, 2023, as amended.

Chief Investment Officer Report. As a matter of information, Board members received the January 23, 2024 Preliminary Returns Performance Update. Mr. Sauer first noted Mr. Silber was attending a Real Estate Conference. He also said he would have one announcement after his performance report. Mr. Sauer stated as the reports are preliminary, the Staff is waiting on one Hedge Fund manager report and one Private Equity manager report. He said the Fund as of December 31, 2023, had a value of \$5.71 billion. Mr. Sauer said the preliminary Fund return of 3.0% in December, net of fees, outperformed the blended benchmark by approximately 17 basis points. He said the main relative Performance Driver was the Fund's Style Bias which added 28 basis points, primarily from Small Cap Equity exposure. Mr. Sauer said the overall allocation was a detractor as the Fund's overweight to Private Equity detracted 10 basis points. He added the Fund has underperformed the benchmark in the one-year period, while outperforming in the five-, 10-, 15- and 20-year periods. Mr. Sauer said for 2023, the Fixed Income and Real Assets asset classes outperformed their respective benchmarks, net of fees. He said nine out of 16 active mandates outperformed, net of fees. He said the Fund saw an investment change of \$544.7 million, paid benefits and expenses of \$488.7 million, and received contributions of \$189.8 million. Mr. Sauer said as of January 22, 2024, the Fund return is -0.9% month-to-date, and a value of \$5.86 billion. He noted seven of the 13 active mandates that Staff received data for are outperforming year-to-date. Mr. Sauer said the Fund has seen an Investment change of -52.4 million dollars and the Fund has received contributions of \$208.7 million dollars. He said with the contributions, Staff deposited \$54 million into the Fund's U.S. Government Bond Index and the rest was kept in the cash account and are earmarked for benefit payments this month and future months, as well as any capital calls that the pension fund needs to fund in the future. Discussion ensued. Mr. Sauer then announced that the Investment Committee Meeting is February 8 where Fourth Quarter Performance will be reviewed, Callan will provide some education, and some due diligence reports will be presented.

Administration and Operations Committee Report. Ms. Sawa presented the report and stated there was a Special Administration and Operations Committee Meeting on Wednesday, December 20th and the first agenda item was the closed session item as well as two other agenda items, where the IT Projects Portfolio was discussed. She noted all upgrades are on target to be completed by their deadlines. Ms. Sawa noted other upgrades are in progress and there is an IT Vulnerability Audit in progress for improved security. She noted for the Organizational Personnel Update, there is a Pension Investment Analyst – Sr. position that is currently unfilled and an ERS Fiscal Services Assistant posted was posted internally within ERS.

Please be advised that the Annuity and Pension Board may vote to convene in closed session on the following item (IV.A.), as provided in Section 19.85(d), Wisconsin State Statutes, to consider "strategy for crime detection and prevention" and 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 Mr. Bell, seconded by Mr. Heling, 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 9:22 a.m.

Approval of CLA Contract Amendment. It was moved by Mr. Heling, seconded by Mr. Klusman, and unanimously carried, to approve the Approval of CLA Contract Amendment.

New Business.

Authorization to Sign Vouchers. Mr. Allen noted this is a routine housekeeping item every year and the persons who have authority to sign the vouchers will have the document circulated to them for signature or electronic signature.

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

Administrative Withdrawal	\$5,815.33
Full Refund	\$70,559.13
Active Death Benefits reported	\$0.00
Deferred Death	\$61,401.20
Deferred Death-Member Only Refund	\$0.00
Ordinary Death Benefits reported	\$0.00
Retired Death Benefits reported	\$20,580.27
Survivor Death – Termination Benefits reported	\$3,852.76
Refund of Member Contributions paid	\$35,845.34

It was moved by Mr. Konrad, seconded by Ms. Ford, and unanimously carried, to approve the Retirements, Death Claims, and Refunds report for December 2023.

Conference Requests – January 2024 Board Meeting.

David Silber	Callan’s 2024 National Conference
Sponsor:	Callan Associates
Location:	San Francisco, CA
Date(s):	April 8-11, 2024
Estimated Cost:	\$2,350.00

It was moved by Ms. King, seconded by Mr. Heling, and unanimously carried, to approve the Conference Requests – January 2024 Board Meeting.

Approval of 2023 Securities Lending Budget. Mr. Allen stated this is an annual item to approve sweeping the securities lending earnings into the combined fund. He said otherwise,

pursuant to the Global Pension Settlement, it will result in being transferred to one of the old retirement plan funds. Mr. Gopalan said the beginning Fund balance was \$791,432.47 with income of \$1,061,173.61, bank fees to Northern Trust of \$207,784.99, an administrative transfer of \$792,000.00, and leaving a fund balance of \$852,821.09. He said the \$852,821.09 would have to be transferred to fund the administrative costs. Mr. Gopalan said if that was not done, it would revert back to the non-consenters retirement fund with around 100 members in that fund. He then discussed the last 10 years of transfers that were done, and said in 2014, the transfer was \$1,530,000, compared to \$853,000 in 2023. Mr. Gopalan said there are two main reasons why the securities lending income has been cut in half. He noted there are a lower number of securities in separate accounts and a lot of the funds are in commingled funds. Mr. Gopalan said if the funds are in a commingled fund, Northern Trust, as our custodian, doesn't custody the securities with the commingled fund and as a result cannot control securities lending activity, reducing the number of securities available to lend to borrowers. He stated the second reason is that the ERS has the highest collateral requirements and cash is required, whereas other lenders may allow borrowers to provide stocks, or similar securities, as collateral. Mr. Gopalan concluded we do not have as many securities borrowers based on the cash collateral requirement. Mr. Allen requested Mr. Sauer discuss the securities lending process Mr. Sauer said securities lending is a program that Northern Trust runs for the ERS and it is a way to earn extra income from the securities in the ERS portfolio. He said there are a lot of reasons for people to borrow securities and the most common one, with respect to stocks, is to short a stock, where it has to be borrowed to execute the short. Mr. Sauer said bonds are also lent, which is more complicated for Fixed Income arbitrage and hedge funds are the ones who are borrowing the ERS' bonds. He said another reason people would look to borrow stocks is for voting. Mr. Sauer said this is driven by the securities in ERS' separate accounts and money in commingled funds can lend securities as well, with different policies, and the income from that goes to the returns of the Fund. He concluded that whether the ERS is in a separate or commingled fund, the ERS is benefiting from securities lending. Mr. Allen then noted securities lending is a significant form of asset management for the ERS, and there is some risk. He concluded that Northern Trust could make a securities lending presentation to the trustees. Mr. Sauer commented that the ERS demands the highest-quality collateral to participate in this. He noted because of the risk, it has to be done in the lowest-risk way.

It was moved by Ms. Sawa, seconded by Mr. Klusman, and unanimously carried, to approve the Approval of 2023 Securities Lending Budget.

Mr. Gopalan then said approval is needed to transfer \$853,000.00, a little above the \$852,821.09, from the securities lending fund into the combined fund so it is clear that the Board wants to transfer all securities lending returns that may be earned for the year.

Mr. Bell said the Board would go forward with a new motion for approval of the 2023 Securities Lending Budget for the \$853,000.00 transfer.

It was then moved by Mr. Konrad, seconded by Mr. Klusman, and unanimously carried, to approve the 2023 Securities Lending Budget for the \$853,000.00 transfer.

Annual Obligation of Trustees and ERS Officers to Submit Annual Statement of Economic Interests. Mr. Allen said the form for 2023 activity is due February 28, 2024. He said each of the trustees, executive officers of the Fund and his direct reports are required to fill the form out. Mr. Allen said the Ethics Board is serious about the due date and there are penalties for late submissions.

Approval of Baker Tilly Invoice. Mr. Allen stated this is a new item. He said Baker Tilly provided their work papers to the Legislative Audit Bureau for the 2022 audit. Mr. Allen said staff is uncertain if the expired Baker Tilly contract provides the staff with authority to pay the bill. He said they wanted to ask the Board for authority to pay the bill of \$5,382.50 for Baker Tilly to provide their work papers for the 2022 audit to the state Legislative Audit Bureau as part of the 2023 audit. Mr. Bell questioned the hourly wage and wondering if it was typical. Ms. Sawa noted that the \$675.00 was their partner charge hour.

It was moved by Mr. Konrad, seconded by Ms. Sawa, and unanimously carried, to approve the Approval of Baker Tilly Invoice of \$5,382.50.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations (January). Mr. Petropoulos noted the only medical report was the Medical Panel report because the January 19, 2024 Medical Council did not meet due to a water main break which disrupted the water supply for the ERS offices at 789 N. Water St. and other business on January 19, 2024. He said the Medical Council meeting is rescheduled to February 2, 2024. Mr. Petropoulos then presented certifications (January 2024) of the Fire and Police Medical Panel Physicians relative to Duty & Ordinary Disability Retirement benefits as follows:

<u>Police – Re-examinations – Duty</u>	<u>Recommendation</u>
John Fredericks	Approval
Dexter Love	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Thomas Ptak	Approval

Discussion ensued. It was moved by Mr. Heling, seconded by Mr. Kovac, and unanimously carried, to approve the recommendations of the Medical Panel regarding Duty & Ordinary Disability Applications & Re-examinations (January).

Unfinished Business.

Pending Legal Opinions and Service Requests Report. Mr. McClain noted they have reviewed this Optional Joint and Survivor Benefits legal opinion which he issued verbally and it was pending an administrative signature. He said there has been no substantive changes since the opinion was last discussed.

Pending Legislation Report. Mr. Allen said there was nothing new on pending legislation.

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 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.

- 1) Pending Litigation Report.
- 2) Conferences.
- 3) Class Action Income 2023.
- 4) Minutes of the Investment Committee Meeting Held December 7, 2023.
- 5) Minutes of the Administration & Operations Committee Meeting Held December 20, 2023.
- 6) Copies of the Board Rules and Regulations and ERS Ethics Policy.

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.
- 11) ERS Holdings Report.

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

Mr. Klusman requested to go back to Part 3 of VII.B. Unfinished Business - Pending Legislation Report regarding the Pension Contribution Offset. He asked Mr. McClain if it were different or the same and does not remember it being discussed when it came in. Mr. McClain said the 5.8% offset case, the original case, included both the Local 215 and MPSO unions, originated in 2018 and there was an unfavorable Wisconsin Supreme Court decision in Spring 2023. He said subsequent to that, the same attorneys of the MacGillis Wiemer law firm were essentially seeking to collect fees from MPA-covered members as well so they filed litigation essentially as a mechanism to prevent anyone else from coming in to try to collect fees from MPA-covered members. Mr. McClain noted it is class-action litigation that purports to represent all MPA members affected by the original 5.8% lawsuit. He said MacGillis was that he did not need to file a second lawsuit because we were already going to be providing the benefits that they sought through the litigation. But unfortunately the case has persisted, and we have a pending motion to dismiss in that case. Mr. McClain stated there has been a motion to consolidate that case with the original case and the MPA has now moved to intervene and is opposing the motion for fees extending to MPA-covered members in the original case. He said if the motion to dismiss in the new Frank Vrtochnick case is not granted, they will probably move to intervene in that case as well and oppose it. Mr. McClain noted it is the same issue and just an effort to recover attorneys' fees from MPA-covered members. He concluded they are hoping to get a resolution or clarification on the two cases in the next couple of months. Mr. McClain added, in conjunction with our motion to dismiss in the Vrtochnick case, we did file a motion to lift that stay, essentially arguing that because the

only reason for the stay was to seek attorneys' fees and the mechanism they were attempting to use to get attorneys' fees did not apply to the case, the stay was not doing anything else other than harming the innocent members who are waiting on their benefit. Mr. McClain concluded they are very cognizant of and are trying to get the benefits to the members as quickly as possible and hope to get a resolution from the court in short order.

Mr. Heling requested more information on the due diligence trip to London. Mr. Heling and Mr. Bell also requested information on the NCPERS training in Palm Springs.

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

Mr. Bell adjourned the meeting at 10:21 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.)