

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

Minutes of the Regular Meeting
held February 27, 2024 via teleconference

The meeting was called to order at 9:00 a.m.

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

Retirement System Staff Present: Jerry Allen, Executive Director
 Melody Johnson, Deputy Director
 David Silber, Chief Investment Officer
 Daniel Gopalan, Chief Financial Officer
 Gust Petropoulos, Deputy Director – Disability
 Karen McElwee, Management Services Analyst
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

Others Present: Lisa Casel, Erin Scharlau, Carolyn Stittleburg, Legislative Audit Bureau; Patrick McClain, City Attorney's Office; Terry Siddiqui, DS Consulting, Inc., 10 members of the public called in to the meeting.

Regular Meeting.

Appointment of Committees for 2024.

Administration and Operations Committee. Mr. Bell appointed Ms. Sawa as Chair of the Administration and Operations Committee. Ms. Sawa accepted the Chair position and said she would continue until the end of her Comptroller term in April.

Investment Committee. Mr. Bell appointed Mr. Klusman as Chair of the Investment Committee. Mr. Klusman accepted the Chair position.

Legislative Committee. Mr. Bell appointed Ms. Ford as Chair of the Legislative Committee. Ms. Ford accepted the Chair position.

Litigation Committee. Mr. Bell stated a Chair would be appointed as needed.

Approval of Minutes.

Annual Meeting Held January 23, 2024. It was moved by Ms. Sawa, seconded by Mr. Heling, and unanimously carried, as amended, to approve the minutes of the Annual Meeting Held January 23, 2024.

At the request of Mr. Silber, the Chair took the meeting out of order to item IV. Investment Committee Report.

Investment Committee Report. Mr. Klusman reported that at its February 8th meeting, Callan provided a presentation on their 2024 capital market assumptions, which included slides that show that the Fund's existing strategic asset allocation target is projected to generate a 7.6% return over the next 10 years. He said Staff provided routine due diligence reports on Reams, Apogem, and Principal. Mr. Klusman stated Staff also presented the 4th quarter performance update and the annual Value Add Analysis. He said that as of December 31, 2023, the Fund's returns during the past five- and 10-year time periods rank in the 27th percentile of Northern Trust's peer universe (one is the best, 99 the worst), and rank in the 37th and 24th percentiles of Callan's peer universe over the past five- and 10-years, respectively. Mr. Klusman noted the Value Add Analysis estimates that the ERS has been able to add an additional \$1.1 billion to the Fund's value, net of fees, over the past 29 years by implementing the Fund's Stock, Bond, Private Equity, and Absolute Return allocations in a way that has outperformed low-cost passive benchmarks. He said \$428 million of that additional value is estimated to have been generated in the past 10 years. Mr. Klusman stated there were three items approved by the Committee. He noted the first was a Loomis Sayles contract amendment that Loomis needed in order to implement all of the Loomis guideline changes that the Board approved in the 4th quarter of last year. Mr. Klusman said the second approval item was an MFS Guideline Waiver which will allow MFS to avoid being forced to sell some of their exposure to Microsoft. He said the Waiver, which was requested by MFS and only applies to their Microsoft holdings, will allow MFS to hold Microsoft up to a maximum of the index plus 5%, whereas MFS' guidelines cap holdings at the index plus 3%. Mr. Klusman said the third approval item, the Approval of Recommendation regarding Public Equity Investment Manager, was discussed by the Committee in closed session. He said the Committee then went into open session to approve the Recommendation. Mr. Klusman concluded that the Investment Committee recommends approval of the following items – one, Approval of Loomis Sayles Contract Amendment, two, Approval of MFS Investment Management Guideline Waiver, and three, Approval of Recommendation regarding Public Equity Investment Manager.

Mr. Bell stated that the closed session language related to item IV.C. Approval of Recommendation regarding Public Equity Investment Manager was there as a placeholder. Mr. Bell then asked for a motion and second for the following three items in the Investment Committee Report.

Approval of Loomis Sayles Contract Amendment.

Approval of MFS Investment Management Guideline Waiver.

Please be 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.

The Board did not convene in closed session as noticed.

Approval of Recommendation regarding Public Equity Investment Manager.

It was moved by Ms. Ford, seconded by Ms. King, and unanimously carried, to approve the Investment Committee Report which includes the Approval of Loomis Sayles Contract Amendment, Approval of MFS Investment Management Guideline Waiver, and Approval of Recommendation regarding Public Equity Investment Manager.

The Chair returned the meeting to order to item III. Chief Investment Officer Report.

Chief Investment Officer Report. Mr. Silber stated Messrs. Courtright and Sauer are traveling this week for two due diligence visits and a conference, all in the same area. As a matter of information, Board members received the February 27, 2024 Performance Update. Mr. Silber said the Fund as of January 31, 2024, had a value of \$5.87 billion. He said the Fund return of -0.1% in January, gross of fees, underperformed by approximately 9 basis points. Mr. Silber said that major U.S. stock market indices continue to rise led by the Magnificent Seven stocks, and he noted that while the Fund has some of those holdings in its top 10, the Fund is more diversified in terms of its strategic asset allocation as well as in terms of being more global and small and value oriented. He stated they are seeing some Real Estate write-downs for January. Mr. Silber said the main relative Performance Driver was the Public Equity Style Bias which detracted 29 basis points, primarily from Small Cap and Value. He said this was partially offset by eight of 11 active Public Equity mandates outperforming, which added 17 basis points. Mr. Silber added the Fund has underperformed the benchmark in the one-year period, while outperforming in the five-, 10-, 15- and 20-year periods. He said as of February 26, 2024, the Fund return is 0.9% month-to-date, 0.7% year-to-date, and has a value of \$5.92 billion. Mr. Silber noted 11 out of 15 active mandates are outperforming year-to-date. He said the Fixed Income and Absolute Return asset classes are outperforming their respective benchmarks year-to-date. Mr. Silber said the Fund has an Investment Change of \$44 million, paid benefits and expenses of \$44.5 million, and has received contributions of \$211.4 million. He said that the monthly withdrawals for benefits will be paid from the cash balance this month. Mr. Silber concluded that the Approval item on the agenda related to the Public Equity Investment Manager is complete and Staff worked with Callan and Northern Trust to implement the transition as permitted by the Statement of Investment Policy. Mr. Silber said they placed \$25 million from the legacy manager into the custodian cash account and deposited the remaining \$60 million into Earnest.

Administration and Operations Committee Report. Ms. Sawa stated the Administration and Operations Committee had a Special meeting at 8:30 a.m. today. She said the Committee is recommending approval of the Engagement Letter from the Wisconsin Legislative Audit Bureau. Ms. Sawa said with the passage of Act 12, the Legislative Audit Bureau will be conducting the financial audit for the ERS. She stated the engagement letters are standard in external financial audits or any audit an organization would be receiving. She pointed out bullet point five of the ERS responsibilities “the reasonableness of significant assumptions used in making accounting estimates.” Ms. Sawa also said the ERS and Mr. Allen wanted to be cautious before signing the letter to make sure that it is crystal clear the actuarial assumptions are not part of this line . She said they have created two paragraphs they are going to add on to the Letter (shown on the screen as follows):

“ERS management has no vote in Board proceedings and as a result does not have any authority to make plan actuarial assumptions or determine their reasonableness. Accordingly, determining

the reasonableness of plan actuarial assumptions used in making accounting estimates is outside of ERS management's purview and control.”

“During the course of the audit, ERS management will provide documentation that the Board, in consultation with its expert independent actuarial and investment consultants, has duly authorized the plan actuarial assumptions used in making accounting estimates and thus determined their reasonableness.”

Mr. Allen noted the actuarial assumptions determine the plan liability and the staff does not set the discount rate, but that is reserved for the Trustees by the Charter and by state law. He said a footnote would be made to bullet point five to exclude from the acknowledgement by staff that it is responsible for determining the reasonableness of actuarial assumptions because authority to do so is reserved to the Board. Mr. Allen also said wants to make sure the acknowledgement of staff responsibilities is completely accurate as it is a sworn statement. Ms. Sawa added that the Committee did approve this item and recommend it to the full Board.

Approval of Terms of Audit Engagement Letter with the Wisconsin Legislative Audit Bureau.

It was moved by Ms. Sawa, with the modification made to the Terms of Audit Engagement Letter and shown on the screen , seconded by Mr. Heling, and unanimously carried, to approve the Approval of Terms of Audit Engagement Letter with the Wisconsin Legislative Audit Bureau.

New Business.

Retirements, Death Claims, and Refunds (January). Mr. Allen presented the following activity for the months of January 2024.

Administrative Withdrawal	\$21,462.14
Full Refund	\$100,152.21
Active Death Benefits reported	\$0.00
Deferred Death	\$16,135.47
Deferred Death-Member Only Refund	\$0.00
Ordinary Death Benefits reported	\$23,713.77
Retired Death Benefits reported	\$60,987.58
Survivor Death – Termination Benefits reported	\$4,844.58
Refund of Member Contributions paid	\$54,573.95

Mr. Heling noticed in the Retirements’ Department section of the report that Warren Price was listed as City of Milwaukee instead of Milwaukee Fire Department.

It was moved by Mr. Heling, seconded by Ms. Ford, and unanimously carried, to approve the Retirements, Death Claims, and Refunds report for January 2024, as amended indicating Mr. Price retired from the Fire Department.,

Conference Requests – February 2024 Board Meeting.

Erich Sauer	Public Funds Roundtable Conference
Sponsor:	Institutional Investor
Location:	Beverly Hills, CA
Date(s):	April 29 – May 2, 2024
Estimated Cost:	\$2,250.00

It was moved by Mr. Klusman, seconded by Ms. Sawa, and unanimously carried, to approve the Conference Requests – February 2024 Board Meeting.

Annual Obligation of Trustees and ERS Officers to Submit Annual Statement of Economic Interests. Mr. Allen mentioned the Trustees should have received an e-mail from the Ethics Board, with a link to complete the Annual Statement of Economic Interests form. He said it is due February 28, 2024.

Mr. Bell advised that the Annuity and Pension Board may vote to convene in closed session on the following items, as provided in Section 19.85 (1)(c), for considering employment, promotion, compensation or performance evaluation data of any public employe over which the governmental body has jurisdiction or exercises responsibility. The Board may then vote to reconvene in open session following the closed session.

It was moved by Mr. Klusman, 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 9:30 a.m.

Mr. Klusman departed the meeting at 9:59 a.m.

The Board reconvened in open session at 10:05 a.m.

Approval of Recruiting Travel and Relocation Expenses for Pension Investment Analyst – Sr.

Approval of Initial Salary for Pension Investment Analyst – Sr.

Mr. Bell stated both motions for approval of these items passed in closed session.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations (February).

Police – Applications – Duty

Recommendation

Francis Galloway

Denial

Effective 10/15/2023

Police – Applications – Ordinary

Recommendation

Francis Galloway
Effective 10/15/2023

Approval

Police – Re-examinations – Duty

Recommendation

Vidal Colon
Bryan Norberg

Approval
Approval

Police – Re-examinations – Ordinary

Recommendation

Darcie Trunkel

Approval

Fire – Re-examinations – Duty

Recommendation

Kyle Dannies
Bradley Davis
John Schmaelzle

Approval
Approval
Approval

Fire – Re-examinations – Ordinary

Recommendation

Jared Bertsche

Approval

General City – Applications – Duty

Recommendation

Thomas Weir
Effective 07/08/2023

Approval

General City – Applications – Ordinary

Recommendation

Lisa Ruttenberg
Effective 03/03/2023

Denial

General City – Re-examinations – Ordinary

Recommendation

Demetrick Eskridge
Sherry Tomasello

Approval

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

Unfinished Business.

Pending Legal Opinions and Service Requests Report. Mr. McClain noted the City Attorney's office is caught up with the legal opinions and service requests as earlier today the Board voted on the Loomis Sayles Investment Management Agreement.

Pending Legislation Report. Mr. Allen noted there was nothing new to report for this month. Mr. Konrad questioned whether the Pension Contribution Offset was still required to be on the report. Mr. McClain said they are close to reaching a final resolution of the case, but the it is still pending. He noted he would make some comments later about the status of the Pension Contribution Offset case and it would be removed from the Pending Legislation Report once a final judgment and disposition was made in the 2018 case.

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.

Cavanaugh Macdonald Book of Survivor Benefit Factors. Mr. Allen said the e-mail the Trustees received from Mr. Langer, the actuary, was informational. He said Mr. Langer would be talking with the Board about the updated 2024 Factors Book of survivorship benefits at the March Board meeting. He said the book was voluminous with thousands possible permutations. Mr. Allen said the Board approved the new actuarial survivor benefit factors in concept earlier, but now ERS has received the actual Factors Book. Mr. Bell said the Board would take up this item next month.

Informational.

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)(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.

It was moved by Mr. Konrad, seconded by Mr. Kovac, and unanimously carried, to convene in closed session. The Chair did not request a roll call.

The Board convened in closed session at 10:23 a.m.

The Board reconvened in open session at 10:57 a.m.

- 1) Pending Litigation Report.
- 2) Conferences.
- 3) Class Action Income 2024.
- 4) Adjusted Quarterly Cost Basis of Equity.
- 5) Minutes of the Investment Committee Meeting Held February 8, 2024.

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. Kovac, to adjourn the meeting.

Mr. Bell adjourned the meeting at 10:58 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.)