

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

Minutes of the Investment Committee Meeting
held February 8, 2024 via teleconference

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

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

ERS Staff Present: Jerry Allen, Executive Director
 David Silber, Chief Investment Officer
 Erich Sauer, Deputy Chief Investment Officer
 Thomas Courtright, Pension Investment Analyst
 Dan Gopalan, Chief Financial Officer
 Jan Wills, Board Stenographer

Others present: John Jackson, Mike Joecken, Adam Lozinski, Callan; Travis Gresham, City Attorney's Office; Carolyn Stittleburg, Legislative Audit Bureau; Terry Siddiqui, DS Consulting, Inc.; four members of the public called in.

Approval of Loomis Sayles Contract Amendment. Mr. Sauer reminded the Committee they recently approved a number of changes to the Loomis Sayles guidelines. He said Loomis Sayles provided an amendment they felt they needed to be able to invest in futures. He noted there are some agreements Loomis Sayles needs to execute to begin investing in futures, so they are asking for authority to do that. Mr. Sauer stated the Investment staff worked with Mr. Gresham to negotiate with them. He said Mr. Gresham worked with Loomis Sayles to get the language in a place he was comfortable with. Mr. Gresham noted that initially, Loomis proposed contract items that were boilerplate that were too broad. He said that the amendment in front of the Committee is in a place where Loomis is more exacting about the goal and the provided authority that we are giving to Loomis. Mr. Gresham said with those guardrails in place, we are in a safer spot than when we started. He said there are risks involved when handing authority over. Mr. Gresham said there are some listed investment vehicles and places where the Board is handing over certain authority but that is in furtherance to the already-agreed management strategy. Mr. Sauer concluded that Staff is comfortable with the amendment and recommended going forward with approval.

It was moved by Ms. King, seconded by Mr. Konrad and unanimously carried, to approve the Approval of Loomis Sayles Contract Amendment.

Approval of MFS Investment Management Guideline Waiver. Mr. Sauer said MFS had informed Staff that the position in Microsoft in their portfolio had appreciated enough to reach their guideline limit which is the greater of 7% or benchmark weight plus 3%. He said when that happens, the manager reaches out to Staff to recommend a course of action. Mr. Sauer noted MFS is requesting to have a waiver specific to Microsoft that would allow the position to continue to appreciate up to a maximum of index weighting plus 5%. He said this was similar to something the Board allowed previously with Polen for a couple of their stocks, allowing appreciation from 10% to 12% in that instance. Mr. Sauer said MFS, in their memo, stated why they like Microsoft. He said Staff had talked with Callan about this and it is recommended that this waiver be approved. Discussion ensued.

It was moved by Mr. Konrad, seconded by Mr. Heling and unanimously carried, to approve the Approval of MFS Investment Management Guideline Waiver.

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.

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

The Committee convened in closed session at 9:14 a.m.

The Committee reconvened in open session at 10:01 a.m.

Approval of Recommendation regarding Public Equity Investment Manager. It was moved by Mr. Konrad, seconded by Ms. Ford and unanimously carried, to approve the Approval of Recommendation regarding Public Equity Investment Manager.

Callan 2024 Capital Markets Assumptions and Asset Allocation Review Presentation. As a matter of information, Committee members received the Callan 2024 Capital Markets Assumptions booklet. Mr. Joecken stated every year Callan does a 10-year projection of capital market assumptions. He said Mr. Lozinski will talk about the capital markets assumptions and how they affect the ERS' portfolio and target asset allocations. Mr. Lozinski spoke with the Committee about the process overview, current market conditions, special focus on inflation, inflation vs. interest rates, 2024 expectations, fixed income, equity, alternatives, and a detailed 2024 projections and resulting portfolio returns. Discussion ensued.

The chair called for a break at 10:49 a.m.

The chair resumed the meeting at 10:56 a.m.

Due Diligence Reports.

Reams Asset Management. As a matter of information, Committee members received a memo regarding the Reams Asset Management due diligence visit that Messrs. Sauer and Walters made on September 13, 2023. Mr. Sauer noted Reams' personnel changes and said Bob Crider moved from managing director and co-founder of the firm to a senior advisor role, Dimitri Silva replaced him on the investment committee and was promoted to managing director, Dan Spurgeon's position as president was eliminated and his duties were assumed by Ed Rick of Reams' parent company Raymond James Investment Management. Mr. Sauer said Chang Shin who was chief compliance officer left the firm and his role was integrated into Raymond James Investment Management. He noted Reams will have an individual, full-time, in its Indianapolis office who reports to Raymond James' Chief Compliance Officer and will eventually be named the Chief Compliance Officer of Reams and will focus solely on portfolio compliance. Mr. Sauer said personal trading, advertising and marketing compliance, social media, e-mail, and text message monitoring will be centralized at Raymond James' office. He said Neil Aggarwal was hired to lead the securitized products team after Stephen Vincent retired in April 2023. Mr. Sauer concluded that Staff feels comfortable in its role as a Core Plus Fixed Income Manager for the ERS.

Apogem Capital. As a matter of information, Committee members received a memo regarding the Apogem Capital due diligence visit that Messrs. Sauer and Courtright made on August 23, 2023. Mr. Sauer stated the ERS invested with PA Capital and Apogem was created through a combination of PA Capital, GoldPoint and Madison Capital. He said the Private Equity process, begun with PA Capital, remains in place, along with the key professionals. Mr. Sauer said they have additional resources available through the business combination. He said in Private Equity they added 10 junior analyst and associate-level employees who can monitor existing funds or analyze new funds. Mr. Sauer said they gained an in-house legal team, but because of the nature of Private Equity, they still utilize outside expert attorneys. He said the in-house legal team will now interface with the outside legal team, so the Apogem Private Equity professionals can focus on investments. Mr. Sauer noted with the new resources, they were able to hire a head of IT and an in-house fund administration group that allows Apogem to have day-to-day oversight of the valuations of all the underlying investments they have. He said that Chris Stringer who was president of PA Capital and long-time head of Private Equity there, retained that title and was interim CEO of Apogem until a permanent CEO, John Niedner, a former Madison Capital employee, was brought in. Mr. Sauer said Chris Stringer has a newly-created title of president and will remain head of Private Equity. He said the CEO John Niedner has a lot of responsibilities of reporting up to New York Life Investment Management and Chris Stringer will continue to focus on Private Equity. Mr. Sauer concluded that \$30 million was approved for Fund XI in the 2023 Pacing Study and Staff is comfortable with Apogem.

Principal Global Investors. As a matter of information, Committee members received a memo regarding the Principal due diligence visit that Messrs. Silber and Courtright made on September 12, 2023 and October 21, 2023. Mr. Courtright stated that Principal has managed a diversified real assets strategy for the ERS since January 2016. He said May Tong came on board in March 2022 and was named lead portfolio manager, after Jake Anonson departed. Mr. Courtright said Marc Dummer became *de facto* lead portfolio manager after Jake Anonson had departed, but then took a lateral role to be a lead client portfolio manager and be more client-facing to deal with marketing or business development issues with clients. He noted Kelly Grossman, a

long-time portfolio manager, and did a lot of the risk analytics responsibilities, made a lateral move to become head of investment analytics. Mr. Courtright stated the two remaining portfolio managers continue to be on the team alongside May Tong. He said May Tong has expanded the access of global macro research experts and has made technological enhancements. Mr. Courtright stated May Tong also bifurcated the Manager Selection team into two primary groups, the Investment Oversight Platform Group and the Manager Alpha Research and Selection Group. He commented that there have been very few changes in strategy and philosophy and they are on pace since inception. Mr. Courtright concluded that since inception, performance is quite good at 5.6% versus the custom blended benchmark of 5.3%.

Mr. Klusman commended the Investment Staff on the thoroughness of their due diligence reports as it helps the Committee to understand the managers' strategies, length of time with the ERS, people movement, and trends and developments.

CMERS 4th Quarter 2023 Performance Update. As a matter of information, Committee members received from Staff the CMERS 4th Quarter 2023 Performance Report. Mr. Sauer noted the 4th quarter was a strong quarter. At the end of November and beginning of December, the market got the idea that the Fed was probably done raising interest rates and expected interest rate cuts would be coming in early 2024, causing stocks and bonds to rally. He said Public Equity was up 11.1%, the Bloomberg U.S. Aggregate was up 6.8%, the Real Assets blended benchmark was at 0.3%, Private Equity is benchmarked the prior quarter Russell 3000+2% is down -2.7%, and the Absolute Return benchmark 90-Day T-Bill+3% stays fairly constant and is at 2.1%. He stated the Fund's benchmark return for the quarter is 6.2%. Mr. Sauer discussed the Relative Performance Expectations and said they look at Biases built into the portfolio. He noted the biggest one having an impact was the Value Equity Bias with the Russell 3000 Value up 9.8%, but did not keep pace with the Russell 3000 Growth which was up 14.1%. Mr. Sauer stated the rest of the Biases were in their favor with the Small Cap Equity Bias up 14% versus large cap with 12%, Fixed Income Credit with Loomis Sayles versus the Bloomberg US Aggregate at 7.7% versus 6.8%, Private Equity outperformed the benchmark, but with those added up, it was not enough to overcome the drag from the Value bias so the Fund was up 6.0% versus 6.2% for the benchmark. Mr. Sauer said the Fund underperformed in the quarter and the one-year, but still had a strong 10% for the 1-Year and is outperforming for the 5-Year, 7-Year, 10-Year, and 15-Year time periods, which, he said, is added value to the Fund over time. Mr. Sauer discussed 4th Quarter Attribution and noted the main driver of underperformance was the Fund's Allocation. He said Public Equities were down a bit going into the November rally and when stocks are down, it pushes the allocation underweight and the overweight to Private Equity was a drag as well and it is harder to change over shorter time periods. He said because the Private Equity benchmark was negative, the overweight to that shows as a detractor. Mr. Sauer stated there was solid manager performances in the quarter and Loomis Sayles, Reams, William Blair outperformed and Private Equity outperformed their benchmarks. He noted this was partially offset by real estate manager JP Morgan which underperformed and detracted 14 basis points. Mr. Sauer added that for Style Bias, the US Government Fixed Income was a detractor. Discussing full year attribution, he stated the majority of growth returns were from the Magnificent Seven growth story throughout the year meaning the Value and Small Cap Bias went against the Fund and was a detractor. Mr. Sauer said it masked strong manager performance with Brandes adding 67 basis points, DFA Strategies adding 33 basis points, Morgan Stanley adding 24 basis points, Polen added 22 basis points, and Loomis Sayles added 21 basis points. He discussed the 2023 Market Value Change and noted there were total outflows of \$489 million,

received contributions of \$190 million, and a capital market gain of \$546 million, allowing the Fund to grow a bit. Regarding notable CMERS Manager Events, Mr. Sauer said Polen announced in January that Damon Ficklin, a Portfolio Manager, would be re-joining Polen's Focus Growth strategy that they manage for the Fund. He added that Brandon Ladoff, a Portfolio Manager and Head of Sustainable Investing would be joining the Global Growth strategy. Mr. Sauer talked about the Public Equity Performance and said that it was 60 basis points under the benchmark which was a good outcome, all things considered. He said it had solid outperformance over a long time period versus the benchmark. He said Mr. Silber has put a lot of work and thought into how the Public Equity portfolio was constructed which paid off in relative results versus the benchmark over the past 10 years. Mr. Sauer mentioned Public Equity performance standouts and said that Polen was up 38.1% and outperformed their benchmark by 11.8%, Brandes was up 31% and outperformed their benchmark by 12.8%, DFA U.S. Small Cap was up 21% and outperformed their benchmark by 6.4%. He said the only outlier was CastleArk which had significant underperformance for the full year, but had bounced back in 2024. Mr. Sauer discussed Fixed Income, noting it was a strong quarter and the full-year return was a strong return. He said Reams was up 6.6% and outperformed 1.1% and Loomis Sayles was up 8.4% and outperformed 2.9% for the full year. Mr. Sauer next discussed Private Equity and said even though it was a tough year compared to the way Staff benchmarked it in 2023, Staff is happy with how it has shaped up and is performing. He noted there was heavy Capital Call activity in the second quarter, normalized in Q3, and the Managers are expecting Capital Call activity to be more normalized in 2024 with distributions picking up again to help the cash flow. Mr. Sauer provided a Performance Update and said as of February 7, the ERS Total Fund Market Value is at \$5.88 billion. He said for January, the Fund was estimated to be down 0.3% versus a flat benchmark at 0.0%. Mr. Sauer noted month-to-date for February, the Fund is up 0.2% versus the 0.4% benchmark and year-to-date through February 7, 2024, the ERS Fund is down 0.1% versus the 0.4% benchmark.

Mr. Silber thanked Mr. Sauer for the update and said for the five-year number, we are looking at a Fund that has a 9.1% return, is outperforming its benchmark net of fees by an annualized 86 basis points, and ranks near-the-top quartile according to the Northern Trust peer universe. In addition, every single asset class – Stocks, Bonds, Absolute Return, Private Equity, and Real Assets, is outperforming over the 5-year time period. He said the five-year period started on January 1, 2019 so that means a dollar invested in the Fund five years ago, generated a return that exceeded the majority of other public funds according to the Northern Trust and Callan peer universes. Mr. Silber looked at the numbers for the 10-year period and said a similar conclusion can be drawn about the Fund and the Fund's asset classes during the past 10-years as well.

Mr. Klusman commended Staff, including Callan, that they are doing a fantastic job and compared to the Wisconsin Retirement System (WRS), the Fund last year had a 10% return versus the WRS' 11.4% return, but when the economy had a bad year in 2022, the Fund was down about 6.5%, while the WRS was down about twice that at almost 13%. He looked at 2021 when everyone had a strong year and the Fund had an 18.9% return and the WRS had a 16.9% return. Mr. Klusman looked at the five-year returns and said the ERS Fund had only a .1% difference against the WRS. He said the ERS Fund beat them by .1% for the 10-year time frame. Mr. Klusman added that Staff picked the right managers and monitored the managers. Mr. Klusman added that the Fund in 2023 had \$198 million in and \$498 million out, and said that's \$300 million and the Fund grew a lot during 2023. Mr. Allen said they have a chart with a longer time frame of 23 years and would

include a chart for the next Investment Committee meeting. Mr. Silber thanked Mr. Sauer and Mr. Courtright and said he was proud of the team and what they put together in all the reports.

Value Add Analysis. As a matter of information, Committee members received the Value Add Analysis document. Mr. Silber noted they put the analysis together every year and they have 29 years of data. He said the ERS spends so much time as an organization and so many resources determining what managers will be selected, whether they will beat the benchmarks, whether they are going to be passive or active, and whether they are adding value investing in Private Equity versus Stocks or Hedge Funds versus Bonds. Mr. Silber went over the slides and said that over 29 years, the Fund has a value add of about \$1.1 billion, which means the Fund has \$1.1 billion more in it, net of fees, as a result of successfully selecting managers who have outperformed low-cost liquid passive benchmarks. This amount includes the net of fee outperformance that the Private Equity allocation has generated above Stock returns, and the net of fee outperformance that the Hedge Fund allocation has generated above Bond returns. He said in the last 10 years about \$400 million has been added. Mr. Silber explained that an asset class breakdown of these results was included within the analysis. Discussion ensued.

It was moved by Mr. Heling and seconded by Ms. Sawa to adjourn the meeting.

There being no further business, Mr. Klusman adjourned the meeting at 11:53 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.)