

**PRIVATE EQUITY  
STATEMENT OF INVESTMENT POLICY  
September 2023**

**THE MILWAUKEE EMPLOYEES'  
RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
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**THE MILWAUKEE EMPLOYEES'  
RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**

**STATEMENT OF INVESTMENT POLICY**

This policy applies to the Private Equity assets within the Milwaukee Employees' Retirement System of the City of Milwaukee ("ERS").

**PURPOSE OF THIS STATEMENT OF INVESTMENT POLICY**

This policy provides the broad strategic framework for managing the Private Equity assets.

**GOALS AND OBJECTIVES**

***A. The Role of Private Equity***

The primary role of private equity is:

- Enhance ERS long-term total risk-adjusted return
- Provide diversification to the ERS overall investment program

***B. Allocation***

The target allocation to private equity (measured as actual Private Equity Net Asset Value) is 12% of total Plan assets, with a minimum and maximum allowable range of 9% - 17% of Plan assets. The range is designed to accommodate fluctuations in the valuation of the Program or the total Plan and the illiquid nature of private equity.

***C. Performance Benchmark***

ERS Private Equity performance is benchmarked on a long-term, 10 year, rolling basis against the Russell 3000 stock index plus 200 basis points on a quarter lag, net of fees and expenses.

The private equity portfolio and manager returns will also be benchmarked against peer group information from a recognized private equity database provider. It is expected that the vehicles will attain performance rankings above the median levels of return evidenced in the database.

Attainment of these objectives does not guarantee continued investment by ERS in a specific manager's vehicles, nor does failure to achieve these guidelines ensure a lack of future investment support for follow-on vehicles. Providers are selected at the discretion of the Board.

## **RISK MANAGEMENT POLICIES**

### ***A. Private Equity Sectors and Diversification***

Diversification is an important element for the long-term success of the private equity program. The private equity portfolio will achieve diversification by a number of measures including strategy, industry, capitalization, geography, manager, vehicle, and time. Key strategies of focus may include, but are not limited to:

- Venture Capital
- Growth Equity
- Buyouts
- Special Situations:
  - Restructuring / Distressed Securities
  - Mezzanine Debt
  - Secondary Investments
  - Co-Investments

By geography, ERS expects the majority of investments to be U.S. domiciled, but the portfolio will also have exposure to developed international markets, and potentially a modest exposure in emerging markets.

### ***B. Investment Vehicles***

This policy authorizes commitments to private equity fund-of-funds and secondary vehicles that insulate ERS from liability in excess of the amounts committed.

### ***C. Liquidity***

Private equity investments are illiquid and typically have expected legal lives of 10-13 years. Investments are typically held until full liquidation, as selling prior to maturity generally results in a discount to fair market value. ERS manages liquidity risk primarily through its asset allocation policy, and by annual investment pacing to minimize the probability of the portfolio exceeding the stated exposure ranges around the target. The Board recognizes that lowering the private equity target allocation may result in the need to gradually manage the private equity portfolio to the new target level in a prudent and economic manner.

### ***D. Vintage Year Risk***

The vintage year of an investment or a portfolio of investments is defined as the year of the first capital draw (including draws made by the manager from a line of credit). Vintage year risk refers to the variability of private equity returns over time. ERS will manage vintage year risk by seeking to dollar-cost-average the portfolio's pace of investments in underlying partnerships through an annual commitment pacing review as part of the ongoing strategic planning process. It will also seek to diversify investments within a vintage year so that no single investment may have outsized influence if it underperforms its vintage year peers.

***E. Derivatives***

ERS may invest in Fund-of-Funds whose strategy includes the use of derivative instruments for purposes of minimizing risks and enhancing returns and shall comply with ERS Derivatives Policy. Staff shall endeavor to secure provisions in investment agreements that the partnerships conform to these limitations.

***F. Real Estate***

Real estate is not within the scope of this policy and investment in partnerships targeted primarily to real estate equity and/or debt will be minimized or avoided.

## **INVESTMENT PROCEDURES**

The Program shall be implemented and monitored as follows:

1. Role of the Board:

- Set the allocation to Private Equity;
- Establish goals and objectives for the Private Equity program;
- Monitor the Private Equity performance and compliance at Investment Committee meetings;
- Approve the selection of the private equity managers;
- Approve the annual commitment pacing review;
- Approve the Side Letter for investment vehicles.

2. Role of the Investment Staff:

- Assist the Board in establishing the private equity allocation within the total portfolio, and the goals and objectives of the private equity allocation;
- Work with the Investment Consultant with respect to the assumptions used in the development of the Consultant's annual commitment pacing reviews and reinvestment evaluations;
- Work with the Investment Consultant with respect to periodic policy document updates;
- Work with the Investment Consultant with respect to manager searches;
- Conduct due diligence on ERS' existing investment managers at least once every two years;
- Prepare funding procedures and coordinate the receipt and distribution of capital through the ERS' custodian with respect to funding of new and/or existing private equity investments or dispositions of investments; and,
- Monitor the Private Equity performance and compliance.

3. Role of the Investment Consultant

- Regularly review the private equity portfolio for which the Investment Consultant has been retained, and evaluate such portfolio's investment strategy, as it relates to the overall Fund;
- Provide the Board and Staff with relevant, reliable and timely research and information requests to fulfill their responsibilities;
- Regularly review and discuss the investment strategy and other relevant issues with Staff;
- Assist the Board and Staff in establishing appropriate asset allocation targets and ranges;
- Conduct annual commitment pacing reviews and reinvestment evaluations as deemed appropriate;
- Conduct manager searches and evaluations as requested; and,
- Monitor and review existing partnerships and vehicles on an ongoing basis for adherence to ERS' private equity objectives and guidelines.