November [ ], 2024

Loomis, Sayles & Company, L.P.
[Attn: Name of Contact]
One Financial Center
Boston, MA 02111

Dear [Mr./Ms. Name]:

We refer to the Investment Management Agreement, dated 21 March, 2007, by and between Loomis, Sayles & Company, L.P. ("Manager") and the Employees' Retirement System of the City of Milwaukee ("ERS"), as amended from time to time (the "Agreement").

The investment guidelines attached to the Agreement as Exhibit A, in effect as of the Amendment to the Agreement dated March 5, 2024, contain the following provision:

> "Up to 20% of the market value of the portfolio may be invested in total equities (common and preferred) as determined at the time of purchase. Common stock shall be limited to 5% of the market value of the portfolio, as determined at the time of purchase."

ERS wishes to clarify the provision above with the following:

Outright purchases of dividend paying common stocks are NOT permitted. However, purchases of common stock deemed as "high conviction down the capital structure" by Loomis Sayles and common stock received as a result of restructure or conversion is permissible. The combined limit is 5% of the account market value at all times.

Please let us know of any questions, and indicate your understanding and acceptance of this letter by signing where indicated below and returning to us.

Sincerely,

EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

By: ______________________________
Name: ______________________________
Title: ______________________________

ACKNOWLEDGED AND AGREED TO BY:
LOOMIS, SAYLES & COMPANY, L.P.
By: Loomis, Sayles & Company, Incorporated, its General Partner

By: ______________________________
Name: ______________________________
Title: ______________________________

equity investing as an extension of credit

IDENTIFYING BEST RISK/REWARD ACROSS THE CAPITAL STRUCTURE

There may be times when we utilize an equity allocation as a way to express of our credit view:

- **Superior Convexity:** In certain instances we may like the fundamentals of a company but view the debt as rich because it is trading close to call price or is otherwise capped. In such a case we may move down to the equity if we believe there is strong earnings growth potential and valuation looks compelling.

- **Capital Structure Views:** There may be specific situations where owning both the debt and equity portion of the capital structure could provide the most attractive potential outcomes.

diversification

DIVIDEND PAYING STOCKS, LIKE BROAD EQUITIES, ARE A SOURCE OF DIVERSIFICATION

CORRELATION BETWEEN VARIOUS ASSET CLASSES

	US TREASURYS	US AGGREGATE	INVESTMENT GRADE BOND	HIGH YIELD BOND	DIVIDEND EQUITY	EQUITY
US TREASURYS	1	0.93	0.70	0.020	0.03	-0.05
US AGGREGATE	0.93	1	0.89	0.31	0.22	0.19
INVESTMENT GRADE BOND	0.70	0.89	1	0.58	0.36	0.39
HIGH YIELD BOND	0.02	0.31	0.58	1	0.55	0.67
DIVIDEND EQUITY	0.03	0.22	0.36	0.55	1	0.87
EQUITY	-0.05	0.19	0.39	0.67	0.87	1

Source: S&P Capital IQ, Bloomberg, Russell. Data is from 12/31/1989 through 12/31/2023
Dividend Equity is defined as an equal weighted universe of all dividend paying stocks in the Russell 1000 Index.
Equity refers to the Russell 3000 Index.
The following Bloomberg indices are used as proxies for fixed income (in order): US Treasury Index , US Aggregate Index, US Corporate Investment Grade Index, and US Corporate High Yield Index.

LOOMIS | SAYLES®

Memorandum

To: Annuity and Pension Board
From: Erich Sauer, CFA, CAIA
Date: October 22, 2024
Re: Loomis Sayles Guideline Requests

This memo addresses agenda items II. B. and C. related to the guidelines for the portfolio Loomis Sayles manages on our behalf. The first is an additional guideline that gives Loomis the ability to participate in security exchanges as part of corporate reorganizations. This issue arose recently as Dish Network, whose securities Loomis owns in our portfolio, became the subject of a merger offer. As part of the merger, Dish bondholders are being offered the option to convert to bonds of the new, merged entity. Because it is likely these bonds will have better collateral, with a stronger parent, Loomis would like to convert and continue to hold the securities.

Loomis requires this conversion language because the Dish bonds, with current ratings ranging from CC to CCC, fall into the 3% “downgraded securities” bucket in our portfolio. Loomis is allowed to continue to hold securities downgraded below B-/B3, but may not purchase them. Their compliance department treats a conversion as a new purchase, so they need the specific conversion language in the guidelines to make the transaction permissible.

Staff discussed this with Callan, and we are both supportive of approving the conversion language in the guidelines. This is a scenario that is not contemplated by the current guidelines, so it makes sense to modify them to address it. Callan also made the point that these types of transactions are becoming more and more common in fixed income markets, and Loomis needs the tools to navigate them. In addition, while we appreciate Loomis being conservative in the way they apply the guidelines, one could also make the argument that converting a security in the downgrade bucket to another similar security, due to a corporate action, is not the same thing as a purchase.

Loomis’ second guideline request involves the downgraded securities bucket. This request is also related to the Dish merger offer, in a way. News of the merger caused the value of the Dish bonds in the portfolio to spike, which led to the value of the downgraded securities bucket exceeding the 3% limit. Our investment policy states that when a market movement causes a portfolio to move outside of guidelines, the manager is to notify us, and recommend a course of action. The board then makes a decision on the manager’s recommendation within 30 days.

Loomis’ recommendation is that the board grant them the ability to allow the portfolio to exceed the 3% limit to the downgrade bucket. This is a good outcome, and is the reason we allow Loomis to continue to hold securities that have been downgraded – so they can have time to recover value that Loomis believes the securities still have.

Staff discussed this matter with Callan, and we feel that the appropriate course of action is to approve Loomis' recommendation to allow the portfolio to exceed the 3% limit for a defined time period. This would allow Loomis to continue to hold the Dish bonds, and extract what they believe the greatest possible value to be, while still keeping them accountable to the Board for the downgraded securities in the portfolio.

In the past, the Board has granted either 90- or 180-day approvals for an item like this, and we've found it works best to make the number of days approximate, and specify a monthly board meeting where the item will need to be revisited. In this case, we would be looking at the January 2025 board meeting for a roughly 90-day time period, or the April 2025 board meeting for a roughly 180-day time period.

Finally, Staff has one additional item to report with respect to Loomis. In our recent due diligence visit and subsequent follow-up conversations with Loomis, we learned some additional information about the way they have been utilizing the up to 5% common stock allocation allowed by the guidelines. Essentially, they've been investing it in a basket of stocks where the returns are more likely expected to be driven by dividend growth/capital appreciation, as opposed to income. While not a guideline violation, Staff discussed this with Callan, and we agreed that it was not in the spirit of the mandate for a fixed income portfolio. We have instructed Loomis to discontinue investing in the basket of dividend growth stocks.