

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

Minutes of the Regular Meeting
held April 23, 2024 via teleconference

The meeting was called to order at 9:03 a.m.

Board Members Present: Matthew Bell, Chair
 Bill Christianson
 Timothy Heling
 Molly King
 Thomas Klusman
 Rudolph Konrad

Board Members Not Present: Deborah Ford (excused)
 Nik Kovac (arrived 9:04 a.m.)

Retirement System Staff Present: Jerry Allen, Executive Director
 David Silber, Chief Investment Officer
 Erich Sauer, Deputy Chief Investment Officer
 Keith Dickerson, Pension Investment Analyst – Sr.
 Thomas Courtright, Pension Investment Analyst
 Daniel Gopalan, Chief Financial Officer
 Jeff Shober, Chief Technology Officer
 Gust Petropoulos, Deputy Director – Disability
 Mary Turk, Business Operations Analyst
 Jan Wills, Board Stenographer

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

Mr. Bell extended a welcome to new Board member William Christianson (newly-elected Comptroller). Mr. Christianson stated he was honored to join the Board and had just attended the A&O and Investment Committee meetings and was very impressed with the leadership of Mr. Heling and Mr. Klusman and with Mr. Allen and his team at the ERS.

Regular Meeting.

Approval of Minutes.

Regular Meeting Held March 26, 2024. It was moved by Mr. Kovac., seconded by Mr. Konrad, and unanimously carried, to approve the minutes of the Regular Meeting Held March 26, 2024.

Chief Investment Officer Report. As a matter of information, Board members received the April 23, 2024 Performance Update. Mr. Sauer said the Fund as of March 31, 2024, had a value of \$5.97 billion. He said the Fund return of 1.9% in March, net of fees, underperformed by approximately 79 basis points. Mr. Sauer said the primary driver of relative Performance was Private Equity which detracted 159 basis points this month, and partially offsetting that was Real Estate which added 30 basis points. Mr. Sauer said Style Bias added 19 basis points, primarily from the Fund's Value Bias, and the Fund's Overall Allocation also added 19 basis points, driven by an overweight to Private Equity and an underweight to Real Assets. Mr. Sauer added the Fund has underperformed the benchmark in the year-to-date and one-year time periods, while outperforming in the five-, 10-, 15- and 20-year periods. He said as of April 22, 2024, the Fund return is down 2.4% month-to-date, bringing the year-to-date return to up 0.4%, and the Fund value is at \$5.83 billion. Mr. Sauer noted nine 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. Sauer said year-to-date, the Fund has an investment change of a positive \$25.4 million, paid benefits and expenses of \$124.4 million, and has received contributions of \$216.8 million. He said benefits would be paid from the Fund's cash balance this month.

Mr. Silber said at the Investment Committee meeting last Thursday, the Committee reviewed preliminary performance through March as well as a lot of ongoing initiatives. He thanked the Board for modifying the guidelines last year to provide investment staff with additional flexibility specific to cash management purposes, which was driven by some of the higher contributions being received as a result of Act 12. Mr. Silber said it is necessary to be prepared for various market environments. He stated that so far in 2024, we are in a time period where being able to keep most of the contributions received in January in cash has proved useful, as opposed to having the guidelines force Staff to put it into Fixed Income, where it probably would have gone if the guidelines had not been modified. Mr. Silber said that keeping the majority of contributions in cash, which is generating an annualized yield of over 5% right now, has probably saved the Fund \$5 to \$10 million dollars in the first few months of this year. He said these decisions can work against you or for you based on the market environment, but having extra flexibility has helped the Fund this year. Mr. Silber noted that in a month like April, where rates are up and stocks are down, the Fund benefits by not being forced to go to its stock and bond managers and have them realize some losses to pay benefits. He said when stocks were going up at the beginning of this year, Staff trimmed about \$50 million dollars from stock managers who were off to a good start earlier this year to pay benefits. Mr. Silber said he wanted to reinforce the comments that Mr. Sauer made about Private Equity earlier. Mr. Silber said they have spent a lot of time at recent meetings talking about the Fund's Private Equity benchmark, how it is benchmarked to the U.S. stock market at a one-quarter lag, and how the benchmark has done really well the last few quarters. He said the Fund has been consistent in how it has benchmarked the Private Equity program since its inception in 2010, and it has added value net of all fees over three, five, seven, and 10 years. Mr. Silber noted that, excluding Private Equity, the Fund would have outperformed in Q1 and over the past 12 months.

Investment Committee Report. Mr. Klusman said the Investment Committee, at its April 18th meeting, unanimously elected Deborah Ford as its Vice-Chair. He said Callan provided the Committee with a due diligence report on the Fund's investment managers. Mr. Klusman said Callan also gave a presentation titled "Act 12 Framework and Peer Group Comparison." He stated

Callan noted that Act 12 significantly changed many of the assumptions that were used in the Fund's previous Asset-Liability study, and that as a result, Callan recommends completing a new asset-liability study. Mr. Klusman said that Staff and the Committee agreed with Callan's recommendation. He noted Callan expects to start this process later this year, and anticipates it being an iterative process that may not be finalized until 2025. Mr. Klusman said Staff provided an update on the investment team's on-going initiatives, which included an update on the Investment Analyst recruitment process. He commented that Staff also presented a 1st quarter performance update which included preliminary March 31, 2024 data. Mr. Klusman said finally, that Staff discussed how the investment team utilizes FactSet and requested approval of the Client License Agreement as Amended. He noted that after some discussion, the Committee approved the FactSet agreement. Mr. Klusman concluded that the Investment Committee recommends approval of the following item: Approval of FactSet Client License Agreement as Amended.

Approval of FactSet Client License Agreement as Amended. It was moved by Mr. Klusman, seconded by Ms. King, and unanimously carried, to approve the Approval of FactSet Client License Agreement as Amended.

Mr. Bell requested the Act 12 first-quarter sales tax numbers could be discussed at the next meeting since the numbers would be released at the end of April. Mr. Allen said he would include the requested information in the Executive Director's report, but that the ERS does not have much visibility on sales tax receipts. However, the Budget office and Treasurer's office can be contacted. He added no action needs to be taken by the Board of Trustees as it is a matter between the Plan Sponsor and State revenue people. Mr. Allen said, however, the Fund has an interest in the City's tax receipts because much of it will be used to fund our Fund. Mr. Kovac added that in Spring of 2025, there will be useful information on the tax receipts. He said there is a lag when tax receipts are due, another lag in distribution, so the amounts are not immediately known after the first quarter. Also, there is an overlap and uncertainty about which money is for which month and there will not be full clarity until after a full year.

Administration & Operations Committee Report. Mr. Heling stated the Administration & Operations Committee met on Wednesday, April 17 and there were two items on the agenda. He said the first was the Approval of the Peraton Contract Amendment. He said they perform IT application services for the MERITS system. Mr. Heling said the City attorney reviewed and negotiated the fourth amendment. Mr. Foundos said he reviewed the initial contract which was signed in 2016 and which is being extended by this amendment. He said he did not note any issues that would prevent the extension of this contract and he worked with the ERS Administration to draft this amendment which would extend the contract for a certain period and change the maximum amount under this contract and one other provision that relates to the timeliness with which the ERS pays invoices each month. Mr. Heling said the Committee approved the amendment for the Board to approve that. He said the second agenda item was for the Approval of Draft ERS 2025 Budget. Mr. Heling stated there was a robust discussion on that with Mr. Gopalan providing the overview. He said the Committee also approved that for the Board. Mr. Gopalan summarized the main points of the 2025 Budget. He said they are requesting \$24,475,619, an increase of just under \$1.5 million from the 2024 adopted budget. He said the main driver of the increase is increased salary and fringe benefit costs, due to market studies completed from 2022, 2023, and 2024. Mr. Gopalan said the other notable item is the investment manager fees

directly invoiced to the ERS, and the ERS is predicting those to go down by under half a million dollars. He stated the main driver of that is the change in the asset allocation from Public Equity to Fixed Income. Discussion ensued.

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

Approval of Draft ERS 2025 Budget. It was moved by Mr. Bell, seconded by Ms. King, and unanimously carried, to approve the Approval of Draft ERS 2025 Budget. Ms. King wanted to point out on the last page of the Draft ERS 2025 Budget where it states the Employers' Retirement Fund Contribution, for the 2024 Adopted Budget has \$205,410,000 listed and the 2025 Draft Request does not have a number listed. Mr. Klusman said that was part of the motion in Committee when they recommended approval that there was going to be a number in there. He said his vote for approval was contingent upon there being a number there because every number in the 2025 draft request is an estimate. He said the page is not reader friendly to someone who might look at it and wonder why it went from 210 million to 4 million. Mr. Klusman said he would like to make the motion to approve it with the addition of a number that would be a reasonable assumption. Mr. Allen stated the number from the actuary was presented to the Board last month so the overall number is known on an estimated basis for the entire Fund and all the Plan Sponsors collectively and the City of Milwaukee. He said the final amount of the 2025 contribution would be presented in June and the number the actuary cited at last month's meeting would be included for the motion. Mr. Gopalan stated the actuary estimated the City's contribution to be just over \$175 million for 2025. Mr. Allen added there is an updated written estimate by the actuary of the City's share to be \$180 million. He said the total amount for all the employers is over \$200 million.

It was moved by Mr. Bell, seconded by Ms. King, and unanimously carried, to approve the Approval of Draft ERS 2025 Budget.

New Business.

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

Administrative Withdrawal	\$11,123.70
Full Refund	\$85,363.50
Active Death Benefits reported	\$0.00
Deferred Death	\$20,544.65
Deferred Death-Member Only Refund	\$1,308.40
Ordinary Death Benefits reported	\$18,903.07
Retired Death Benefits reported	\$62,090.90

Survivor Death – Termination Benefits reported	\$7,613.49
Refund of Member Contributions paid	\$47,712.56

Ms. King questioned the difference between Max and 100 on the Retirements schedule. Mr. Allen stated that 100 is the 100% survivor benefit and Max is the single life annuity, where there is no survivor benefit and the member is getting an unreduced pension benefit based upon a single life annuity.

It was moved by Ms. King, seconded by Mr. Konrad, and unanimously carried, to approve the Retirements, Death Claims, and Refunds report for March 2024.

Conference Requests – April 2024 Board Meeting.

Thomas Courtright	2024 Madison Investment Conference
Sponsor:	CFA Society
Location:	Madison, WI
Date:	May 8, 2024
Estimated Cost:	\$300.00

Thomas Courtright	BlackRock Institutional Investor Insights (In3) Conference
Sponsor:	BlackRock
Location:	New York, NY
Date(s):	May 15 - 16, 2024
Estimated Cost:	\$1,200.00

Erich Sauer	Americas Investor Summit
Sponsor:	LaSalle
Location:	Chicago, IL
Date(s):	June 25 - 26, 2024
Estimated Cost:	\$800.00

Keith Dickerson	2024 Neuberger Berman Conference and Goldman Sachs Due Diligence
Sponsor:	Neuberger Berman and Goldman Sachs
Location:	New York, NY
Date(s):	June 25 - 27, 2024
Estimated Cost:	\$1,850.00

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

Medical Reports. Mr. Petropoulos presented certifications (April 2024) of the Fire and Police Medical Panel Physicians and the Medical Council relative to Duty & Ordinary Disability Retirement benefits as follows:

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

<u>Police – Applications – Ordinary</u>	<u>Recommendation</u>
Stephanie Ramskugler Effective 01/07/2024	Approval
<u>Police – Re-examinations – Duty</u>	<u>Recommendation</u>
Robert Kendziorski Jason Mucha	Approval Approval
<u>Police – Re-examinations – Ordinary</u>	<u>Recommendation</u>
James McNichol	Approval
<u>Fire – Re-examinations – Duty</u>	<u>Recommendation</u>
Gilbert Baltutis Pieter Gallagher Christine Porter Robert Smith	Approval Approval Approval
<u>Fire – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Dennis Kowalski	Approval
<u>General City – Re-examinations – Ordinary</u>	<u>Recommendation</u>
Jill Bondar Harold Cross Hope Dismuke Joseph Kaminsky Duane Rondorf Demertha Wilder	Approval Approval Approval Approval Approval Approval

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

Unfinished Business.

Pending Legal Opinions and Service Requests Report. Mr. McClain said one of the provisions in Act 12, Section 241 changed the definition of employees contained in Chapter 396 of the laws of 1937, which is the enabling legislation for the Employees' Retirement System and that language was subsequently codified in various parts of Chapter 36. He said it limited the membership eligibility of employees hired to the City or City agency after December 31, 2023,

which has the effect of limiting who can accrue benefits after that date. Mr. McClain stated they are now running into nuanced questions about this language, particularly what happens when an employee attempts to transfer from an MPS position to the General City service. He noted because there is a change of employers, there is a resignation and rehiring involved and the question arose whether that change in employment status would trigger this provision and essentially require the employee to be enrolled in the WRS (Wisconsin Retirement System). Mr. McClain said after the initial request, they also received questions about General City employees looking to return to City service after a separation and they expanded the opinion to look at that issue as well. He stated because these inquiries are pending and are going to affect employment decisions, they are working on this as quickly as possible in order to have an opinion before the next meeting. Mr. Allen added that since the beginning of the year, there have been hires and re-hires enrolled in the WRS. He said in the last two weeks, there have been five or six separate inquiries from people weighing an employment offer and who are interested in what their pension benefits are going to be. He said the inquiries are regarding new hires and rehires from MPS, the Common Council, and MMSD. Mr. Allen said the issue is whether the members have any contractual rights to remain in the ERS. He stated if there is an opinion that says they have the right to remain in the ERS as a contractual and property right that they owned prior to the adoption of Act 12, then the ERS will have to unwind its enrollment in the WRS. Mr. Allen concluded they are proceeding to follow the language of the statute and ask questions about the members' rights. Mr. Konrad mentioned that Chapter 36 uses the term "agency," or "City agency," which, he said, is in Chapter 36 for historical reasons and an agent is someone controlled by a principal and the City does not control the MMSD or the school board, and so forth. He said it is a term of art used to identify the other entities in the system. He said when reading Chapter 36 not to be confused by it to think they are legal agents of the City because they are not. Mr. Konrad noted when the term "transfer" is used, people are not resigning from one employer and joining another employer. Mr. McClain said it is not as simple as transferring within one employer. He said it is a matter of one employee leaving an employer, in this case MPS, and accepting a position with a new employer, in this instance the City, or vice versa. Mr. McClain said if someone were transferring within the City, the ERS would not be running into this issue, as they would not be hired as contemplated by this provision. He said because they are being hired when they leave MPS, and joining the City, that is why this question arose prompting this legal analysis. Mr. McClain said he would be addressing the issue at length in the legal opinion. Mr. Allen stated there are some provisions in the Global Pension Settlement for persons who joined the City prior to January 1, 2000, to effect the settlement provides some rights for them that need to be evaluated. He also mentioned Article 13 in Chapter 36 which creates a contractual relationship between the Plan Sponsors and the members for their rights and benefits under the ordinance in Chapter 36 and Section 396 of the state law. Mr. Allen stated those are the contractual issues that are involved.

Pending Legislation Report. Mr. Allen said there is no pending legislation to discuss today.

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 2024.
- 4) Minutes of the Investment Committee Meeting Held February 8, 2024.
- 5) Minutes of the Administration & Operations Committee Meeting Held March 20, 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 Mr. Heling and seconded by Mr. Klusman, to adjourn the meeting.

Mr. Bell adjourned the meeting at 10:11 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.)