

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

Minutes of the Investment Committee Meeting  
held April 18, 2024 via teleconference

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

Committee Members Present: Matthew Bell  
Bill Christianson  
Deborah Ford  
Timothy Heling  
Thomas Klusman, Chair

Committee Members Not Present: Molly King (arrived 9:35 a.m.)  
Rudy Konrad (excused)  
Nik Kovac (arrived 9:46 a.m.)

ERS 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  
Dan Gopalan, Chief Financial Officer  
Jan Wills, Board Stenographer

Others present: Jason Ellement, John Jackson, Adam Lozinski, Callan; Patrick McClain, Robin Pederson, City Attorney's Office; Lauren Albanese, Financial Investment News; Carolyn Stittleburg, Legislative Audit Bureau; Terry Siddiqui, DS Consulting, Inc.

Mr. Klusman stated that the first agenda item Election of Vice Chair would be moved to the end of the meeting at the request of Ms. King due to her delayed attendance at the meeting as a result of having an earlier meeting that morning. Mr. Silber asked if there would also be a delay on the second item Approval of FactSet Client License Agreement as Amended. Mr. Klusman then went to the third agenda item for the Callan Investment Manager Due Diligence Report.

**Callan Investment Manager Due Diligence Report.** As a matter of information, committee members received from Callan the Investment Manager Due Diligence Report. Mr. Jackson provided a presentation and said the due diligence report provides an assessment summary of the different investment managers and strategies CMERS has within the portfolio. He talked about the strategies and the factors, including the managers overall, and what are considered the five P's (Product People, Philosophy/Process, Short- and Long-Term Performance, Product Dynamics, and Product Overall), in looking at the firms and the strategies. Mr. Jackson said there are some notable changes but nothing of significance that would say there are any concerns with the firms. Discussion ensued.

Mr. Klusman then continued to take the meeting out of order to the fifth agenda item CMERS 1<sup>st</sup> Quarter 2024 Preliminary Performance Update and the sixth agenda item Chief Investment Officer Report.

**CMERS 1<sup>st</sup> Quarter 2024 Preliminary Performance Update.** As a matter of information, committee members received from ERS staff the 1<sup>st</sup> Quarter 2024 Preliminary Performance Update. Mr. Sauer provided a presentation on the topics of Fund Overview, Public Equity, Fixed Income, Absolute Return, and Recent Performance Update. He said this was a preliminary report as Staff is waiting for one of the hedge fund returns to come in. Mr. Sauer took a look at the Market Environment and said it was a good quarter for stocks with the ACWI IMI up 7.7%. He said bonds were down as interest rates rose in response to economic growth and inflation coming in higher than the market expected, and with rates going up, caused bond prices to fall. Mr. Sauer said the Real Estate market, part of the Real Assets allocation, was down and digesting the higher rates and the impact those have on the valuations of properties making up the Real Estate fund. He said the ODCE benchmark is driving the -3.5% return. Mr. Sauer said Private Equity is benchmarked to a public index, the Russell 3000, from one quarter ago due to the lag in Private Equity reporting. He said that worked out to a return of 12.4% for the benchmark. Mr. Sauer said they do not get Private Equity reports during the first quarter of the calendar year due to the extra time Fund of Funds managers spend finalizing year-end audited values. He said Absolute Return stayed pretty constant based on the 90-Day T-Bill + 3% annual premium and that was a 2.1% benchmark for the first quarter. Mr. Sauer said the CMERS Benchmark for the first quarter was 3.9%. He discussed the Relative Performance Expectations and said the Value Equity Bias and Small Cap Equity Bias, which went against the Fund this month, but there was a benefit in Fixed Income Credit. Mr. Sauer stated with Private Equity, they are comparing no data, with a slight fee drag, to a benchmark that was up significantly so that ended up being the big detractor for performance for the quarter. He said for the first quarter, CMERS Total Fund has a preliminary net-of-fee return of 2.8% versus the CMERS Benchmark of 3.9%. Mr. Sauer said for the Total Fund Performance, there was underperformance in the quarter and the one-year period, even though the one-year return was 9.4%. He said there was nice outperformance over the three years and longer time periods. He said the main driver of Manager Performance was Private Equity with a -1.61% deduction from relative return. Mr. Sauer said DFA Strategies, Loomis Sayles, Morgan Stanley, Blair, AQR, and Aptitude all outperformed. He noted Style Bias, primarily small cap and value in public equity detracted 30 basis points. Mr. Sauer said they picked up a benefit to Real Assets which added 17 basis points to returns for the quarter. He discussed the asset allocation and said Public Equity is overweight at 40.4%, due to Public Equity going up 7.7% on an index basis in the quarter. Mr. Sauer said for the underweight Real Assets, they are working in the capital calls throughout 2024. He said it was a strong quarter for Public Equity with a slight underperformance with the value biases. Mr. Sauer discussed the outperforming Active Equity Managers and said AQR outperformed by 3.8% with a 6.1% first quarter return, DFA International outperformed by 2.9% with a 5.3% first quarter return, DFA U.S. Large Value outperformed by 2.5% with a 11.5% first quarter return, William Blair outperformed by 1.9% with a 6.8% first quarter return, BlackRock Global Alpha Tilts outperformed by 0.8% with a 9.0% first quarter return, DFA U.S. Small Value outperformed by 0.5% with a 3.4% first quarter return, and ERS Public Equity underperformed by 0.2% with a 7.5% first quarter return. He said a couple of the growth managers underperformed with Polen at 2.9% with a 7.6% first quarter return and MFS at 1.8% with a 6.4% first quarter return. Mr. Sauer noted Brandes had a slight underperformance at 0.6% with a 5.2% first quarter return and was strong in the one-, three-, and five-year periods with a 24% return in the one-year time period. He said Fixed

Income was negative in the first quarter as interest rates rose, but the managers generated some outperformance over the longer time periods. Mr. Sauer stated of the individual Fixed Income managers, Loomis Sayles had strong outperformance over all time periods, including the first quarter, Reams had slight outperformance this quarter and outperformance over the longer time periods. He said they are happy with how Fixed Income is navigating the volatile interest rate environment and while the returns are low, the yields on the portfolios are much higher than two years ago. Mr. Sauer then discussed Absolute Return and said the way it is benchmarked for the individual managers is by the SOFR (Secured Overnight Financing Rate), plus a 4% premium and for the total asset class, a T-bill plus 3% premium is used. He stated when they started Absolute Return in 2014, T-bills and SOFR were close to zero, but now they are in the 4% to 5% range. Mr. Sauer said Aptitude is now up 10.1% in the past year, outperforming their benchmark by 0.8%. He said UBS has a preliminary report of 2.4% for the quarter and 8.4% for the past year and underperforming the benchmark by 0.9%. Mr. Sauer concluded with a Performance Update and noted the Fund's Market Value is \$5.82 billion as of April 17, 2024. He said the first quarter performance for the Fund is 2.8%. Mr. Sauer said for April there were strong reversals with inflation and markets have pushed off their timing for Fed rate cuts, making stocks go down and interest rates rise so the Fund loses on the stock and bond portfolio. Mr. Sauer said the April estimate is down 2.6% and the year-to-date estimate through April 17 is 0.2% versus 1.4% for the benchmark. Discussion ensued regarding Private Equity. Mr. Silber added that the Fund's Private Equity program is materially outperforming its benchmark, the Russell 3000 plus 2-3%, over the past 3-year, 5-year, 7-year, and 10-year time periods.

**Chief Investment Officer Report.** Mr. Silber welcomed Keith Dickerson, the new senior analyst, to the Investment team. He stated Mr. Dickerson has over 10 years of investment industry experience, is a CFA Charterholder, and has an MBA from Marquette University. Mr. Silber added the ERS has an accepted offer on the other analyst position for a start date in early May. He said that person is also a CFA Charterholder. Mr. Silber said the support from the Board and the City regarding the new salary structure and the pay the ERS could offer made a difference. He stated the recruitment process was very competitive. Mr. Silber said they are responding to many audit requests now and are working with Mr. Gopalan and Ms. Hayes to get them the information they need. Mr. Silber said there have already been a few due diligence visits this year, and planning for the remaining visits scheduled for this year will start picking up in the next couple of months. He said Board members can attend the trips and learn about the investment managers and what the investment team does when conducting due diligence and evaluating the Fund's investment managers. He reminded the Board that they are ultimately in charge of approving the contracts, and the hiring and firing of the managers. Mr. Silber discussed the current market environment and the Fund's liquidity profile, mentioning that during the past year they have replenished the Fund's liquidity sources.

Mr. Klusman welcomed Mr. Dickerson and then took the meeting to agenda item IV, Callan Presentation on Act 12 Framework & Peer Group Comparison.

**Callan Presentation on Act 12 Framework & Peer Group Comparison.** As a matter of information, committee members received from Callan their Presentation on Act 12 Framework & Peer Group Comparison. Mr. Jackson introduced Messrs. Ellement and Lozinski from Callan's Capital Markets Group. He noted the Committee heard from them during the asset-liability studies which Callan performed. Mr. Jackson said that given the changes from the recent legislation, they

put together information with respect to Act 12. Mr. Ellement said the first part would be talking about Act 12 at a high level and Callan thought it was necessary to conduct another asset-liability study in Fall 2024 after just completing one in June 2023. He said Act 12 modifies the CMERS Plan, and as a result the Committee may want to consider alternative asset mixes and de-risking approaches, reassesses liquidity needs and gradual winding down of illiquid investments, explore investment solutions such as cash flow matching, and re-assesses contribution volatility in light of Act 12 requirements. Mr. Ellement said in the second part of the presentation, Mr. Lozinski would discuss a peer group comparison. Mr. Ellement discussed the following topics:

- Act 12 Is A Game Changer
- Current Target Allocation
- Projected Funded Status
- CMERS Expected Benefit Payments
- Time Horizon
- S&P 500 Rolling Returns for 70 Years Ending 12/31/2023
- Liability Duration
- De-Risking Glide Path Strategies
- Liquidity

Mr. Lozinski presented the following topics to the Committee:

- Public Fund Return Assumptions
- Funded Status and Return Assumption
- Public Equity Target Allocation and Return Assumption
- Funded Status and Public Equity Target Allocation
- Public Fund Net Cashflows
- Net Cashflows and Liquid Assets Target Allocation
- Net Cashflows and Funded Status
- Callan Public Plan Universe Projected Risk and Return

Mr. Klusman then went to agenda item II., the Approval of FactSet Client License Agreement as Amended.

**Approval of FactSet Client License Agreement as Amended.** As a matter of information, Committee members received the FactSet Client License Agreement Amendment and FactSet Client License Agreement. Mr. Silber said FactSet is the internal system the Investment team heavily relies on for the Board reports and quarterly presentations they prepare. He said they input the data from the custodian; returns, holdings for stock and bond managers, market values, and weights. Mr. Silber said over the years they have customized many charts. He said FactSet also calculates the short- and long-term attribution, and holdings and exposure characteristics within the Fund's stock allocation. He said they have had FactSet since 2019, but had used three other systems previously. He said two systems were replaced with FactSet in 2019. Mr. Silber said the initial cost in 2019 was about \$65,500, and with annual increases it was about \$80,000 in 2023. He noted in the amendment, there is a first-year cost of \$83,285, which includes about \$10,000 in discounts FactSet offered. Mr. Silber said there are annual increases built into this. He said FactSet has recently talked about improved Fixed Income analysis that Staff is looking forward to learning more about. Mr. Silber said although this has not been vetted by the City Attorney's office, it is more of a user agreement which is non-negotiable because FactSet only utilizes CMERS'

investment holdings and return data and provides output. Mr. Silber noted three items in the amendment – the updated fee schedule, the permission to say the ERS is a client of theirs, and some language on AI, which, he said, may become more common in agreements. Discussion ensued.

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

Mr. Klusman returned the meeting to Agenda item I. Election of Vice Chair.

**Election of Vice Chair.** Ms. King nominated Ms. Ford to be Vice Chair of the Investment Committee. Ms. Ford said she would be honored to be Vice Chair of the Investment Committee. Mr. Klusman asked three times for nominations. It was moved by Ms. King, seconded by Mr. Bell, and unanimously carried, to elect Ms. Ford as Vice Chair of the Investment Committee.

It was moved by Ms. King and seconded by Mr. Bell to adjourn the meeting.

There being no further business, Mr. Klusman adjourned the meeting at 11:22 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.)