

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

Minutes of the Investment Committee Meeting
held June 6, 2024 via teleconference

The meeting was called to order at 9:00 a.m.

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

Committee Members Not Present: Molly King

ERS Staff Present: Jerry Allen, Executive Director
David Silber, Chief Investment Officer
Erich Sauer, Deputy Chief Investment Officer
Keith Dickerson, Pension Investment Analyst – Sr.
Aaron Shew, Pension Investment Analyst – II.
Thomas Courtright, Pension Investment Analyst – II.
Dan Gopalan, Chief Financial Officer
Jan Wills, Board Stenographer

Others present: Bo Abesamis, Munir Iman, Mike Joecken, Callan; Travis Gresham, Patrick McClain, City Attorney's Office; Lauren Albanese, Financial Investment News; Carolyn Stittleburg, Legislative Audit Bureau; Terry Siddiqui, DS Consulting, Inc.; three members of the public called into the meeting.

Approval of UBS Hedge Fund Solutions and CMERS Low Beta LLC Contract Amendment.

As a matter of information, Committee members received a memo from Mr. Sauer, a Merger of UBS Hedge Fund Solutions LLC with and into UBS Asset Management (Americas) letter from UBS Hedge Fund Solutions LLC, and a Second Amended and Restated Investment Management Agreement.

Mr. Sauer said this contract amendment is related to a change to UBS' corporate structure that they underwent recently. He noted when investment managers do a change like this, Staff does an amendment to reflect it. Mr. Sauer said there are a number of guideline changes that show up as redline changes but those had already been approved by the Investment Committee in past meetings. He said the last amended and restated agreement was done in 2016. Mr. Sauer said UBS has just taken the opportunity to reflect all of those guideline changes in this restated agreement, but are already in effect, and the only change being asked to approve is the way the corporate structure is organized. He added that there is no change to the Investment team or the process or the strategy that UBS is managing for CMERS as it is just an organizational issue. He said Mr. Gresham had

looked at this and he commented that it is restructuring and what is occurring currently and that it is an organizational change.

It was moved by Mr. Bell, seconded by Mr. Heling, and unanimously carried, to approve the Approval of UBS Hedge Fund Solutions and CMERS Low Beta LLC Contract Amendment.

The Chair took the meeting out of order to item IV. Approval of Action Regarding Stock Loan Settlement.

Mr. Klusman advised that the Investment Committee may vote to convene in closed session on the following item (IV.), 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 Investment Committee may then vote to reconvene in open session following the closed session.

Approval of Action Regarding Stock Loan Settlement.

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

The Committee convened in closed session at 9:04 a.m.

The Committee reconvened in open session at 9:46 a.m.

It was moved by Mr. Konrad for the Staff to file a claim in the Litigation that was discussed, and to pay the fee necessary to gather the pertinent information in a timely manner, seconded by Ms. Ford, and unanimously carried, to approve the Approval of Action Regarding Stock Loan Settlement.

The Chair returned the meeting to order at item II. Callan Real Estate Presentation.

As a matter of information, Committee members received from Callan the Real Estate Performance Review. Mr. Iman provided a Market Overview to the Committee and discussed the topics of Real Estate Market Dynamics; U.S. Real Assets Performance as of March 31, 2024; Record Debt Maturities on the Horizon; Re-pricing expected to continue against a backdrop of reasonably healthy fundamentals, ex-office; U.S. Private Real Estate Market Trends, And Alternatives Roll On. . .; Long Term Investors Don't Need to Call the Bottom; and Real Estate Market Conditions.

Mr. Iman also presented a Portfolio Summary on the topics of Real Estate Objectives and Purpose; Real Estate Portfolio Summary, Portfolio Repositioning is Nearly Complete; Portfolio is Diversified by Property Type; Portfolio Returns Are Above Benchmark; and Returns by Style.

Mr. Iman provided Conclusions and Recommendations and noted the portfolio continues to perform well relative to the benchmark on a net basis over the short-, medium-, and long-term. He said Core continues to drive performance, while the Non-core portfolio has not been accretive to total returns over the long term. Mr. Iman noted the overweight to Industrial continues to be

beneficial to performance and Industrial fundamentals are still relatively strong. He said the portfolio is being rebalanced with the addition of a new Core fund. Mr. Iman concluded this will increase investment in alternative sectors (self-storage, senior housing, life sciences, medical office, student housing), reduce the industrial overweight, and reduce Morgan Stanley Prime's manager concentration in the portfolio. His recommendations are to monitor the J.P. Morgan Strategic Property Fund development and pace of redemption payment through 2024 (taking action on the fee credit program), and continuing to fund a new manager in 2024 (voting on a proposed strategy expansion).

Mr. Klusman advised that the Investment Committee may vote to convene in closed session on the following item (II.) 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.

Callan Real Estate Presentation.

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

The Committee convened in closed session at 10:04 a.m.

The Committee reconvened in open session at 10:22 a.m.

Approval of Harrison Street Core Property Fund Data Center Allocation Proposal. As a matter of information, Committee members received from Callan a memo regarding the Harrison Street Core Property Fund Data Center Allocation Proposal. Mr. Iman said the Harrison Street Core Property Fund Strategy selected last year focuses on demographic tailwinds in the U.S., life sciences, housing, self-storage, medical office, and senior housing. He said Harrison Street had reached out to investors to request an approval to invest in data centers and each of the existing sectors are allowed to invest up to 40%. Harrison Street is requesting to add up to 20% exposure to data centers to change their governing documents. Mr. Iman said the Fund will target purchasing and acquiring new data centers, meaning the likes of Meta, Amazon, and Apple. He said the structure of the leases is 10-15 years, and they have triple-net structuring, meaning the tenant is required to pay for any expenses in capital costs that protect the Fund from unforeseen expenditures that may impact income. Mr. Iman said the allocation will be in long-leased assets. He said Harrison Street has invested over \$4 billion in 31 data centers since 2017. Mr. Iman said a lot of the risk has been taken off the table by investing in the structure of the leases, and Callan believes this is consistent with the strategy of investing in demographic tailwinds and further balancing long-leased exposure. Mr. Silber said Staff is supportive, Callan states that Harrison Street has experience investing in data centers, and this addition to the portfolio is in the spirit of the mandate and an exposure that CMERS is not getting from other managers. Discussion ensued.

It was moved by Ms. Ford, seconded by Mr. Christianson, and unanimously carried, to approve the Approval of Harrison Street Core Property Fund Data Center Allocation Proposal.

The Chair called for a break at 10:29 a.m.

The Chair resumed the meeting at 10:35 a.m.

Brandes Investment Partners Due Diligence Report. As a matter of information, Committee members received from Messrs. Sauer and Courtright a memo regarding their Brandes Due Diligence Meetings: February 26, 2024 (Onsite). Mr. Courtright noted he and Mr. Sauer conducted the due diligence meeting at Brandes' headquarters. He said Brandes is the ERS' International Equity Large Cap Value Manager, one of the longer ERS mandates since January 1998. Mr. Courtright said as of March 31, 2024, it is a \$339 mandate and the largest single strategy allocation within ERS' Public Equity asset class. He presented a few highlights and said Brandes has enjoyed an uptick in consultant search activity in recent months and quarters. He said Brandes' assets under management have increased \$5 billion to \$23.6 billion and the International Equity strategy continues to be the flagship for Brandes and was up \$2 billion dollars to \$8 billion dollars. Mr. Courtright noted a CEO transition became effective on May 1, 2024. He said Oliver Murray, a 22-year veteran, became the new CEO, replacing Brent Woods who took an oversight role as President of the firm's general partner, but will retain his role on the International Large Cap Investment Committee. Mr. Courtright added that Charles Brandes retired from the firm in 2018 and the firm continues to make payments to Mr. Brandes in accordance with the 10-year buyout plan initiated in 2018. He concluded that the value style of investment which Brandes is a part of continues to be favorable in recent quarters and in the last year. He said Brandes' return performance has been very positive and outperformed in the one-year, three-year, five-year, and 10-year periods, as well as since inception. Mr. Courtright noted Brandes' philosophy remains in place, there is a disciplined Graham and Dodd process, and their investment team members are stable.

Chief Investment Officer Report. Mr. Silber highlighted slides from the CMERS 1st Quarter 2024 Performance Update, including Fund Overview, Public Equity, and the Recent Performance Update. He noted as of yesterday, the Fund had a 3.4% year-to-date return, net of fees. He said the Fund's return in May is estimated to be 2.3%, which would represent slight outperformance compared to the benchmark. He said they do not have final May reports from some of the Private Equity managers, a Real Estate manager, and the Hedge Fund of Funds managers. Mr. Silber noted the 3.4% return is underperforming the benchmark year-to-date as a result of how Private Equity is benchmarked against the stock market benchmark and Public Equity style bias. He said the Fund's year-to-date reported underperformance is likely to grow in June because the Fund's 1st quarter Private Equity statements are unlikely to keep up with the very strong U.S. stock market returns from Q1 2024, which is the 1 quarter-lag benchmark the Fund compares its Private Equity allocation to. Mr. Silber stated they are meeting or exceeding the Fund's benchmark and current discount rate over the 5, 7, 10, and 15-year time periods shown. Mr. Silber said CMERS has a very diversified portfolio, and that this diversification within the Public Equity allocation has not helped in the last 18 months given the performance of the Magnificent 7. Mr. Silber said those stocks are in the CMERS portfolio, but CMERS is more diversified and has less of the Magnificent 7 stocks than the average investor and the benchmark it measures its performance against. He said CMERS has great returns in Public Equity and is outperforming over the medium- and long-term periods, but is not keeping up with a benchmark like the S&P 500. Mr. Silber also stated that, as interest rates and inflation have increased in recent years, the Fund has taken steps to lower the expected volatility of the Fund's future returns by better diversifying the Fund's asset allocation. In a time period like the past 18 months, when stocks are up a lot, this diversification means that the Fund's returns might be lower than some of its peers who have a higher allocation to stocks. He said Staff

is proud of the overall Fund return and outperformance over the medium and long-term time periods, and believes the Fund's emphasis on diversification will position it well going forward. Discussion ensued.

Informational.

CMERS 1st Quarter 2024 Performance Update. As a matter of information, Committee members received from Staff the CMERS 1st Quarter 2024 Performance Update.

Callan 4th Quarter 2023 Performance Report. As a matter of information, Committee members received from Callan the Callan 4th Quarter 2023 Performance Report.

Callan 1st Quarter 2024 Performance Report. As a matter of information, Committee members received from Callan the Callan 1st Quarter 2024 Performance Report.

Mr. Klusman accepted the Informational Reports and placed them on file.

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

There being no further business, Mr. Klusman adjourned the meeting at 11:08 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.)