

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

Minutes of the Investment Committee Meeting
held November 7, 2024 via teleconference

The meeting was called to order at 9:01 a.m.

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

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

Others present: Munir Iman, John Jackson, Mike Joecken, Callan; Lawrence Taylor, Brandes; Travis Gresham, City Attorney's Office; Lauren Albanese, Financial Investment News; Terry Siddiqui, DS Consulting, Inc.; no members of the public called into the meeting.

Callan Real Estate Presentation. As a matter of information, Committee members received the Callan Real Estate Presentation booklet, a copy of which is on file with the Board Secretary and is hereby incorporated in these minutes. Mr. Iman gave a Real Estate Performance Review to the Committee and presented the following topics, after which a discussion ensued.

- Market Overview
- Portfolio Summary
- Conclusions and Recommendations

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

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

The Committee convened in closed session at 9:41 a.m.

The Committee reconvened in open session at 9:52 a.m.

Approval of Loomis Sayles Guideline Clarification. Mr. Silber noted this was referenced at the October 2024 Board Meeting. He said Loomis has the ability to invest up to 5% of their account in common stocks. Mr. Silber said that 10 to 15 years ago, Mr. Fuss was the lead on the CMERS account and he gave compelling examples of when it would be in the best interest for CMERS to have a small stock allocation in CMERS' account with Loomis. Mr. Silber stated over the course of conducting due diligence and monitoring Loomis earlier this year, the investment team identified stocks that had low dividend payments and initiated a conversation with Loomis and Callan to better understand how this guideline was being utilized. As a result of this process, Staff wanted to remove some of the stocks that were not originally intended per Mr. Fuss' reasons, and Loomis and Staff both agreed it would make sense to clarify the types of stocks comprising the 5% of common stocks held by Loomis going forward. He said Loomis did not push back and has already removed the types of stocks in question. Mr. Silber also noted that Loomis was never in violation of the guideline as written. Mr. Silber read the language in the Guideline Clarification, which states that "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." He concluded Staff and Callan recommend approval of this guideline clarification because it should reduce the chance that this guideline is misinterpreted going forward. Discussion ensued.

It was moved by Mr. Konrad, seconded by Mr. Heling, and unanimously carried, to approve the Approval of Loomis Sayles Guideline Clarification.

Brandes Investment Partners Presentation. Mr. Silber reminded the Committee that CMERS has been an investor with Brandes since 1998. He noted that the international value strategy that Brandes manages for CMERS is the largest Public Equity mandate in CMERS' portfolio. As a matter of information, Committee members received the Brandes International Equity Presentation booklet. Mr. Taylor gave a presentation to the Committee on the following topics.

- Firm Overview
- Investment Process
- International Equity
- Portfolio

2025 Tentative Due Diligence Schedule. As a matter of information, Committee members received the 2025 Tentative Due Diligence Schedule. Mr. Silber said this is a draft for 2025 and it is CMERS' practice to meet with the managers on-site every other year. He said there is a benefit to the Board members meeting with the managers and learning about the investments in the Fund. Mr. Silber said Mr. Sauer leads this process and invited Board members to speak with him regarding the due diligence visits if they are interested in attending.

CMERS 3rd Quarter Performance Update. As a matter of information, Committee members received the 3rd Quarter 2024 Performance Report. Mr. Silber's agenda included the following topics: Fund Overview, Public Equity, Fixed Income, Absolute Return, Private Equity, and a Recent Performance Update. He said the 3rd Quarter was strong across all asset classes and stocks were up 6.8% as measured by the ACWI IMI. Mr. Silber noted bonds were up 5.2% during the

quarter and the Fund's overall benchmark was up 5.0% during the quarter. He said Style Bias was positive as small cap equity outperformed large cap equity and value outperformed growth. He mentioned there was also outperformance from Fixed Income. Mr. Silber said Private Equity was up 0.5% for the quarter and resulted in Fund underperformance because of the way it is benchmarked against the Russell 3000 index at a one-quarter lag. He reminded the Committee that this benchmarking approach leads to volatility from quarter to quarter, but is expected to add value over the long term. He noted the Total Fund net of fee return is 4.8% versus the Benchmark of 5.0% for Q3 2024. Mr. Silber said the year-to-date return through September is 8.6%, the one-year return is 15.1%, and the three- to 15- years are all positive and in-line with or exceeding the benchmark, net of fees. Mr. Silber stated the year-to-date monthly cash outflows are over \$382 million and are on track to be at approximately \$500 million for the full year. He said as of September 30, there is over \$499 million in investment gains, \$237 million received in contributions, and the Fund is currently over \$6 billion. Mr. Silber said the most recent actuarial valuation projects benefit payments to total \$5.6 billion in the next 10 years. Mr. Silber concluded with a Performance Update. 4. He said markets went down in October for stocks and bonds, but the markets are off to a good start in November, particularly in equities. Mr. Silber said the year-to-date return estimate as of yesterday was 7.8%, net of fees, with the total Fund market value at \$5.98 billion dollars. He noted they used the strong gains from stocks this year to maintain a healthy cash balance throughout the year. Mr. Silber said there will be \$80 to \$85 million of outflows from now through the end of the year and the Fund has enough cash currently on hand to cover that. He also said that they expect there will be sizable contributions made into the Fund in January. He said for the December Investment Committee Meeting, Callan has put together an asset liability model and plans to present phase 1 of the ALM study at that meeting. Mr. Klusman requested that Committee members meet in person for the December meeting.

Due Diligence Reports.

Loomis Sayles. As a matter of information, Committee members received from Mr. Shew a memo regarding the Loomis Sayles Due Diligence meeting on July 25, 2024. Mr. Shew said he and Mr. Sauer met with Dan Fuss and members of the Investment, Trading, Risk, Compliance, IT, Business Continuity, and Cyber Risk teams at Loomis' headquarters in Boston. He mentioned that Loomis is the longest-serving manager for the ERS as they were hired in 1981 to manage the Core Plus Fixed Income Strategy. Mr. Shew noted Loomis manages \$479 million for the ERS, which is 8% of the Fund's assets. He said a takeaway from the meeting was the retirement of Elaine Stokes in February 2024. Mr. Shew said Bryan Hazelton was promoted to an Associate Portfolio Manager for the strategy, having 16 years of industry experience. He said Messrs. Eagan and Kennedy continue to manage with over 30 years each of industry experience. Mr. Shew commented that at the October Board meeting, the Board approved several guideline changes and also continued the discussion regarding the equity exposure within the portfolio and came to the conclusion that the focus on dividend growth was not in the spirit of the Core Plus mandate. He concluded that Loomis has consistently outperformed their benchmark over the short- and long-term time periods.

MFS Investment Management. As a matter of information, Committee members received from Mr. Shew a memo regarding the MFS Due Diligence meeting on July 24, 2024. Mr. Shew and Mr. Sauer visited MFS' headquarters in Boston on July 24, 2024. He said they met members of the Investment, Trading, Risk, Compliance, IT, Business Continuity, and Cyber Risk teams. Mr. Shew said the ERS hired MFS in December 2012 and they were hired to manage the

Global Growth Equity mandate. He noted MFS manages \$212 million, or 3.5% of the Fund's assets. Mr. Shew said MFS has been operating as expected with the biggest changes happening at the firm within the senior management team as well as a marginal change with respect that MFS exits positions within the strategy. He said within the senior management team, Mike Roberge, the current Chair and CEO, will move to the position of Executive Chair in January 2025. Mr. Shew stated Ted Maloney, the current CIO, will assume the CEO role and Alison O'Neill will also assume the CIO role from her previous co-CIO role. He said MFS informs the Investment team well in advance of staff changes and it is viewed as a positive that senior management consists of experienced investment management staff. Mr. Shew said MFS has shown some recent underperformance due to the major runoff in valuations of the Magnificent Seven stocks. He said the ERS strategy has maintained an underweight to these positions, but their Global Growth Strategy is disciplined with their strategy of locating growth stocks at a reasonable price. He also noted that the IT department worked diligently overnight with the CrowdStrike incident on July 19 to have critical systems online for the following work day. He stated Loomis' teams also had a similar response to the CrowdStrike incident. Mr. Shew concluded the Staff remains comfortable with MFS' processes.

AQR Capital Management. As a matter of information, Committee members received from Mr. Dickerson a memo regarding the AQR Due Diligence meeting on August 13, 2024. Mr. Dickerson said he and Mr. Sauer visited the AQR headquarters in Greenwich, Connecticut. He noted AQR has managed the CMERS' Emerging Markets Core Equity mandate since August 2016 with a current value of \$105 million as of September 30, 2024. Mr. Dickerson said they met with AQR members from their Investment Management team, Risk Management team, Compliance, Operations, Portfolio Implementation and Trading, along with an introduction to their Special Projects team that is currently working on new applications of machine learning, but is not currently included in their investment process. He said Fund performance has improved throughout 2023 and 2024 and firm assets have begun to rebound due to net inflows and market appreciation. Mr. Dickerson said firm leadership and reporting structures have stabilized since the previous due diligence visit. He said the firm continues to optimize its resources given its current level of assets. Mr. Dickerson stated AQR has continued to enhance its systematic quantitative investment process which allocates risk across stock, country, and currencies independently. He said their philosophy is rooted in the belief that markets are mostly efficient; however, inefficiencies do exist that the team believes that they can exploit through their quantitative process. Mr. Dickerson said AQR's portfolio implementation and training teams continue to add value to the process through thoughtful trading, implementation, and execution that has achieved de-minimization in trading costs to our Fund. He noted risk management still continues to play an active role in the portfolio and operates independently of the investment team and provides feedback on any potential risk within the portfolio as well as provides ongoing monitoring with respect to any idiosyncratic risk. Mr. Dickerson summarized that their meetings with Compliance, Operations, Technology, and Cyber Security are all robust within the firm and allows for the firm to execute on its larger firm goals. He said performance has continued to improve and the Fund has outperformed benchmarks as of September 30 for the one-, three- and five-year periods and since its inception period. Mr. Dickerson said Staff and Callan have a high level of conviction that the Fund should be able to perform as its spot within its Emerging Markets Equity allocation. Discussion ensued.

Goldman Sachs Asset Management. As a matter of information, Committee members received from Mr. Dickerson a memo regarding the Goldman Sachs XIG Aptitude Due Diligence meeting on June 25 and September 18, 2024. Mr. Dickerson said he and Mr. Silber visited Goldman Sachs in New York on June 25 and Seattle on September 18. He said Aptitude has been managing an approximately \$184 million (as of September 30, 2024) custom hedge fund portfolio for CMERS as of October 1, 2022. Mr. Dickerson said they met with executives of the home office, external Investment group, risk management, operations, technology, and compliance. He said their Seattle meeting was specific to the Aptitude investment team and included meetings with portfolio managers, operational and legal due diligence managers, investment research and risk management. Mr. Dickerson said the takeaways included that AQR is fully integrated into the Goldman Sachs' parent company, and has retained its investment philosophy and process. He said Goldman has committed to providing the necessary resources for Aptitude to successfully execute upon their investment strategy. Mr. Dickerson stated Jeff Klein, lead portfolio manager at Aptitude, still heads the Investment team and is very involved in the day-to-day operations and management of the Fund. He said Mr. Klein is supported by the legacy Aptitude team of Gino Perrina, Linda Colwell, and Todd Keeney, co-portfolio manager on the strategy, head of legal due diligence, and head of operational due diligence, respectively. Mr. Dickerson said their philosophy is still intact which revolves around identifying skill through investment management research and determining the sustainability of that skill over the long term. He noted the process remains stable in terms of evaluation of investment managers, putting them through a rigorous due diligence process, focuses on a manager's governance, investment approach, sustainability of their competitive advantages, and the quality and operations of their legal structure. Mr. Dickerson said Aptitude is supported by a robust and independent risk management team within Goldman Sachs that operates independently of the Aptitude investment team. He said their meetings with Compliance, Technology, and Internal Operations revealed no concerns of the Aptitude strategy. Mr. Dickerson concluded that from a performance standpoint, the Fund has continued to perform in line with expectations and Callan and Staff are comfortable with their continued management of it being a part of our Absolute Return allocation.

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

There being no further business, Mr. Klusman adjourned the meeting at 11:26 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.)