



**Milwaukee County Employees' Retirement System (ERS)
September 14, 2020 Investment Committee Meeting
MINUTES**

Call to Order

Investment Committee Chairperson Ron Nelson called the Investment Committee to order at 10:04 a.m. on Monday, September 14, 2020. The meeting was held virtually due to Milwaukee County's and the City of Milwaukee's Stay Safe MKE initiative limiting gatherings in light of the COVID-19 pandemic.

Board Members Present:

Ronald Nelson
Laurie Braun
Himanshu Parikh
Fernando Aniban
David Robles

Others Present:

Chris Caparelli, Marquette Associates
Brett Christenson, Marquette Associates
Erika Bronikowski, Retirement Plan Services
Tina Lausier, Retirement Plan Services
Jessica Culotti, Reinhart Boerner Van Deuren S.C.
Judd Taback, Office of Corporation Counsel
Dan Laurila, Department of Administrative Services
CJ Pahl, Comptroller's Office
Claiborne Johnston, Morgan Stanley
Maryann Cassidy, Morgan Stanley

1. Topic: Chairperson's Report

Committee Chairperson Nelson explained he was looking forward to making progress on the Committees projects including the Investment Consultant RFP and Asset Liability Study.

2. Topic: Market Update and Report on Plan Assets

Mr. Caparelli provided a market update and went through the market tracker. A full investment allocation study is anticipated to start in the coming months to look at options to generate the required return.

In response to a question by Trustee Nelson regarding the current low interest rates, Mr. Caparelli stated that many portfolios are changing their mix between fixed and alternatives. To some extent, the minimum fixed income mix is constrained by ordinances, but there is some flexibility that will be discussed with the allocation study. The Federal government has pledged to keep rates low for the next several years, thus other steps may be required.

In answer to a question by Trustee Aniban, Mr. Caparelli stated the high-quality fixed income return from managers is about 1.5-1.75% higher than the average bonds.

Mr. Caparelli continued with a review of the preliminary Flash Report for August. Some numbers may change prior to the Pension Board meeting as more information is received.

In answer to a question by Trustee Braun, Mr. Caparelli stated they will add Greenspring to the listing of Private Equity managers and note that we are awaiting the first capital call.

3. Topic: Investment Manager Presentation

Mr. Caparelli introduced the representatives from Morgan Stanley – Mr. Claiborne Johnston, Managing Director, and Ms. Maryann Cassidy, Sales Representative.

Mr. Johnston began the presentation with an emphasis on slide 10, showing the steadiness of the Prime Property Fund. There is a tremendous focus on the Core Property Fund, as is shown by its

outperformance. While the COVID-19 pandemic has brought about some changes and revisions of processes, they continue to position the fund in a positive way.

In response to a question by Trustee Nelson, Mr. Johnston provided his view of the current Real Estate market, as well as the positioning the Prime Property Fund has within the market. He further noted that 80% or more of current investment activity has been in the Industrial space.

In answer to a question by Mr. Caparelli, Mr. Johnston stated the fund has 12-year terms for retailers and works with very large retailers. The key is high quality tenants and good duration.

Mr. Johnston continued by stating that the challenge is in valuing office space. The fund has a 10 year +/- duration for office space. There is considerable uncertainty as to how the pandemic will affect office configurations and how that will impact the overall market. There are some businesses looking for less employees in the future, but due to social distancing are looking at needing more space per employee than previously required. This may keep the space requirements more static.

One final thought was provided related to slide 16 showing the Fund profile. Key items are that the incoming queue is slightly higher than the redemption queue. The decision was made by management to only allow partial redemptions, which allows the fund to keep the competitive advantage and have access to growth. Many of the redemptions that were originally received in March have since been rescinded.

In answer to a question from Trustee Braun, Mr. Johnston stated that the Milwaukee County Employees' Retirement System redemption is still in queue and is scheduled to be paid out the end of this month. Ms. Braun further commented that Morgan Stanley has been one of the best performers within the Real Estate space of our fund, and that she is grateful for that.

4. Topic: Overview of Pension Obligation Bonds

Mr. Caparelli provided a brief explanation of Pension Obligation Bonds (POBs). The premise of the POBs is the assumption that the bond proceeds, when invested with pension assets in higher-yielding asset classes, will be able to achieve a rate of return that is greater than the interest rate owed over the term of the bonds. The last time Milwaukee County issued POBs was in 2009.

Ms. Culotti provided some insight on the previous process. The County Board has the ability to issue the POBs and there are a lot of regulations surrounding the issuance of POBs. It is important for the Pension Board to understand the framework and be ready if this influx of cash does come into the Pension fund. Mr. Laurila added that Milwaukee County is not considering POBs for the 2021 budget, but it is something they are considering in the future. A copy of the Comptrollers' Office Report on POBs from July 9, 2020 was provided in the meeting chat.

5. Topic: Asset Liability Study Update

Ms. Bronikowski stated that several months ago we contracted with Segal Marco to complete an Asset Liability Study. They are anticipating that the study will be complete by the end of this month and are hoping to have the results and the report available in early October. They can present to the Investment Committee and/or to the full Pension Board. Trustee Nelson requested to have the discussion as a joint meeting of the Investment Committee and the Audit Committee.

6. Topic: Investment Consultant RFP

The Committee voted unanimously to enter into closed session to discuss Agenda item 6, Investment Consultant RFP. Returning to open session after discussion, the committee took no action.

7. Topic: Adjournment

Meeting adjourned at 11:47 a.m.