

City of Milwaukee
Employees' Retirement System

Bernard J. Allen
Executive Director

David M. Silber, CFA, CAIA
Chief Investment Officer

Melody Johnson
Deputy Director

August 1, 2019

Milwaukee Common Council
Finance and Personnel Committee
City Hall
200 E. Wells Street
Room 205
Milwaukee, WI 5320

Attn: Ald. Milele Coggs, Chair

Dear Ald. Coggs and Committee Members:

The Annuity and Pension Board respectfully requests an amendment to the Salary Ordinance to add a footnote for the key position of ERS Chief Investment Officer (CIO) that would permit the Board to increase the salary for this position above the level of the mayor's salary commensurate with the pay increase percentage given to other general city employees annually.

The Board is making this request in order to have the authority necessary to discharge its fiduciary obligations to the members and beneficiaries of the Employees' Retirement System (ERS) in overseeing the investment of the ERS \$5.3 billion investment portfolio.

The Annuity and Pension Board is an IRS qualified retirement plan fiduciary subject to the highest standard of care under our legal system and is required by law to act solely in the interests of ERS members and beneficiaries. The Board is also required by law to invest ERS assets with the care, skill and diligence of a prudent expert. Further, the Board seeks to continue to obtain superior investment results over the long term. Given the size of the pension trust assets relative to the City budget, investment performance of the ERS trust has a profound, immediate and enduring impact on the City's financial condition.

A stable, experienced and talented investment team led by the CIO is a critical element enabling the Board to fulfill its fiduciary obligation and continue achieving superior investment returns. Authorizing the Board to provide competitive compensation for the CIO is a prerequisite to building and maintaining this type of team. It is in fact part of the cost of doing business for the ERS.

Unequivocally, the majority of investment returns are driven by the interaction and combination of two variables: 1) asset allocation (decisions about what portion of the portfolio to invest in



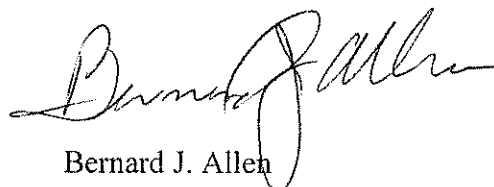
stocks, bonds, real estate, private equity, real assets, etc.) and 2) investment manager selection which are both within the purview of the investment oversight team led by the CIO. As a result, superior investment returns are mostly dependent on having a stable, experienced and talented investment team.

Asset allocation is the primary factor driving investment returns. Several academic studies indicate the impact is as high as 85-95%. Though the performance of the investment management firms hired by ERS account for no more than 5-15% of ERS investment returns and fees paid to these firms last year amounted to approx. \$42 million, paradoxically, the ERS CIO overseeing these firms to assure alignment of interests and monitor their operations has a salary limited to \$147,500 by the Salary Ordinance.

Further, a 2018 salary survey by the leading public pension compensation consultant indicates the salary limitation in the ordinance is uncompetitive with other public pension funds. The median cash compensation for a public pension fund CIO is more than double the limit imposed on the Board by the Salary Ordinance and the same also holds true for median salaries of Midwestern public pension fund CIO's as well as for public pension funds with less than \$10 billion of assets. Please see the relevant excerpt from this survey attached.

Given the uncompetitive and frozen salary limit imposed by the Salary Ordinance, the Board cannot reasonably expect to maintain a stable, experienced and talented investment team over the long term. If not addressed, the Salary Ordinance limitation is highly likely to have an adverse and material financial impact on both ERS and the City. The Board therefore requests an amendment to the Salary Ordinance to allow it to adjust pay for the CIO position above the mayor's salary limit commensurate with the annual pay increase percentage afforded to other general city employees on an annual basis.

Sincerely,

A handwritten signature in black ink, appearing to read "Bernard J. Allen". The signature is fluid and cursive, with a large, stylized initial "B".

Bernard J. Allen
Executive Director

BJA:jmw

2018 McLagan Pension Funds Compensation Survey - US (037)

Firm: Wyoming Retirement Sys
 Market: All Participants
 Currency: USD (000's)

Function: Overall Management
 Position: Chief Investment Officer

Position Code: 037-01-0300

	2017 TOTAL CASH						2017 TOTAL COMPENSATION						2018 SALARY					
	MARKET			WYOMING RETIREMENT S			MARKET			WYOMING RETIREMENT S			MARKET			WYOMING RETIREMENT S		
	# FIRMS	# INCS	LOW QUANTILE (25%)	MEDIAN (50%)	HIGH QUANTILE (75%)	MEDIAN (50%)	VARIANCE TO MEDIAN -50% 0% 50%	LOW QUANTILE (25%)	MEDIAN (50%)	HIGH QUANTILE (75%)	MEDIAN (50%)	VARIANCE TO MEDIAN -50% 0% 50%	LOW QUANTILE (25%)	MEDIAN (50%)	HIGH QUANTILE (75%)	MEDIAN (50%)	VARIANCE TO MEDIAN -50% 0% 50%	
Chief Investment Officer																		
037-01-0300 - Chief Investment Officer	43	46	265.0	350.5	532.8	232.0		265.0	370.1	542.1	232.0		271.3	331.6	401.2	232.0		
By the Fund's Bonus Practice																		
Non-Bonus Paying	20	22	242.9	286.4	352.8	232.0		242.9	286.4	352.8	232.0		257.4	286.5	364.5	232.0		
Bonus Paying	21	22	350.5	488.7	605.0	-		386.4	527.6	682.4	-		316.2	375.4	412.8	-		
By the Fund's Assets Under Management																		
Less than \$10 Billion	11	11	244.6	303.3	391.7	232.0		244.6	303.3	408.3	232.0		244.6	289.0	322.9	232.0		
\$10 - \$40 Billion	12	13	240.0	263.3	297.3	-		240.0	263.3	297.3	-		247.7	286.4	351.5	-		
\$40 Billion and Above	18	20	390.8	519.0	622.3	-		390.8	528.5	670.5	-		372.3	388.3	440.0	-		
By the Fund's Location																		
East	6	6	-	308.3	-	-		-	308.3	-	-		-	311.6	-	-		
Mid West	14	15	274.5	402.8	552.5	-		274.5	426.5	552.5	-		316.2	349.3	386.8	-		
South	7	8	-	316.1	-	-		-	316.1	-	-		-	353.0	-	-		
West	14	15	268.1	337.3	542.7	232.0		268.1	385.2	554.6	232.0		263.1	320.0	419.1	232.0		
By the Fund's Management Style																		
Primarily Internally Managed Assets	8	9	355.1	459.4	558.0	-		355.1	518.1	699.6	-		-	387.2	-	-		
Primarily Externally Managed Assets	33	35	249.4	330.0	528.5	232.0		249.4	330.0	528.5	232.0		263.1	319.2	390.0	232.0		