CITY OF MILWAUKEE
MINUTES OF THE DEFERRED COMPENSATION EXECUTIVE FINANCE COMMITTEE MEETING OF THURSDAY, March 20, 2025
1:30 P.M. – VIRTUAL MEETING

MEMBERS/DESIGNEES PRESENT:
Ms. Molly Christianson arrived – 2:41pm
Mr. James Klajbor
Mr. Stuart Mukamal
Mr. Robin Pederson

EXCUSED/ABSENT:
Mr. Richard Bare - excused

OTHER PLAN PROVIDERS and STAFF PRESENT:
Mr. Jerry Allen, Deferred Compensation Board Chair
Ms. Adria Campbell, Voya Financial
Ms. Dawn Conlin, Voya Financial
Ms. Beth Conradson Cleary, Executive Director, Deferred Compensation
Mr. Paul Frantz, Baker Tilly
Mr. Travis Gresham, City Attorney
Mr. Mike Joecken, Callan LLC
Mr. Christopher Kemp, Brandywine Global
Ms. Kimberly Kuehn, Plan Coordinator, Deferred Compensation
Mr. Richard Lawrence, Brandywine Global
Mr. Jack Malone, Callan LLC
Mr. Christopher Martin, Member of the Public
Ms. Darlene Middleman, Baker Tilly
Ms. Tea Norfolk, Deferred Compensation Board Member
Assistant Chief Joshua Parish, Deferred Compensation Board Member
Mr. Richard Scott, Brandywine Global
Ms. Elizabeth Stevko, Brandywine Global
Mr. Ben Taylor, Callan LLC

1:34 p.m. A quorum being present, Mr. Klajbor, Chairman, called the meeting to order.

1. Roll call and Introductions [00:29]

2. Election of Officers – Chairperson and Vice Chairperson [1:35]

Election of Chair. Ms. Cleary asked for nominations for Chair. Mr. Mukamal moved to nominate Mr. Klajbor for Chair. There being no further nominations, nominations were closed. Seconded by Mr. Pederson. A unanimous vote was cast for Mr. Klajbor as Chair of the Executive Finance Committee

Election of Vice Chair. Ms. Cleary asked for nominations for Vice Chair. Mr. Klajbor moved to nominate Ms. Christianson for Vice- Chair. Seconded by Mr. Mukamal. There being no further nominations, nominations were closed. A unanimous vote was cast for Ms. Christianson as Vice Chair of the Executive Finance Committee

3. Approval of Meeting Minutes of January 16, 2025 [3:55]

Motion by Mr. Mukamal to approve the meeting minutes of January 16, 2025. No objections.

4. Presentation by Brandywine Global Investment Management [4:26]

Mr. Joecken reported that Brandywine Global fulfills the role of the global fixed income manager within the Actively Managed Income Account. The firm manages 15% of that Account, which is about $11 million.

Ms. Stevko provided a brief introduction and update on the team and the firm. Mr. Lawrence reported that it has been an interesting time in the global markets and commented that, while he hoped that the worst of the inflationary impulse was in the past, a residual component of this occurred during 2023, resulting in 2024 being a tough year for the strategy. Brandywine serves a diversifying role in the portfolio being a global manager. The portfolio takes on foreign currency exposure, which has been rough over the past ten years. Brandywine does think the worst of the dollar strength is in the past. The firm has outperformed the market; however, it is not exactly excited about the absolute returns they have been able to deliver to the Plan.

Mr. Lawrence made the following remarks about the portfolio. Bond returns were generally strong; however, these gains were offset by negative performance in currency markets. A key factor contributing to the negative currency returns was the persistent strength of the U.S. dollar throughout late 2022 and early 2023. This strength partially explains the underperformance relative to the benchmark, with the firm's results tracking closely in line. Notably, while the portfolio experienced positive contributions from emerging market currency exposures—such as Mexico, Chile, and Poland—these gains were offset by weaker performance in the Japanese yen and the euro, both of which depreciated against the dollar. As a result, 2023 was effectively a flat year for the strategy.

The year 2024 presented more significant challenges, despite following five consecutive calendar years of relative outperformance on a growth basis. Much of the underperformance was concentrated in the fourth quarter, which Brandywine attributes in part to market volatility and the response surrounding the U.S. presidential election. However, the firm has since observed a meaningful reversal in global markets during January, February, and early March of 2025. As of the year-to-date, the portfolio is up approximately 5.5% on a gross basis, outperforming the index by roughly 280 basis points—a sharp rebound from the prior year's results.

Several idiosyncratic market factors contributed to the underperformance in 2024. For example, the UK guilds that added value in 2023 detracted in 2024. Inflation proved more persistent than the firm had anticipated, particularly in the UK, where fiscal pressures and a slowing labor market remain concerns. Despite these headwinds, Brandywine maintains exposure to UK interest rates, believing the market presents a favorable opportunity given the current economic trajectory.

Mexico was another underperformer in 2024, largely due to political uncertainty stemming from both Mexican and U.S. elections. However, year-to-date performance of Mexican assets in 2025 has been notably strong. On the positive side, agency mortgage allocations continued to contribute positively to performance, and an overweight to U.S. bonds in 2023 proved beneficial—although the firm has since been reducing that exposure.

The dominant theme for both the benchmark and the portfolio last year was currency. The dollar, which peaked in 2022, continued to show strength through 2023. After the U.S. election, the dollar experienced a significant spike, but has since declined notably in early 2025. The dollar is currently responding to a multitude of factors, including a high degree of uncertainty within the U.S., and the increasing attractiveness of opportunities in other global markets.

Brandywine believes the prevailing narrative of U.S. exceptionalism, which has characterized the past several years, is now at least pausing—if not beginning to reverse. U.S. equity markets have weakened, while Chinese and European equities have shown renewed strength. As a result, the firm is actively adjusting its positioning, including increasing allocations to currencies such as the euro, yen, Mexican peso, and Australian dollar, while reducing dollar exposure accordingly.

The firm has been actively reducing its exposure to the U.S. dollar within the portfolio and reallocating toward other currencies, including the euro, Japanese yen, Mexican peso, and Australian dollar. These are the primary currency positions currently held within the portfolio.

Regarding fixed income, the firm is not pursuing a significant allocation to bonds at this time. While the Federal Reserve, as recently as the previous day, downgraded U.S. growth projections due to ongoing uncertainties—including developments related to digital assets (e.g., DOGE), federal workforce reductions, and potential tariffs—the firm does not foresee an imminent economic collapse. Instead, the outlook suggests a moderate slowdown in U.S. economic activity through 2025, while other global economies may begin to strengthen.

Given this context, Brandywine maintains a relatively low exposure to U.S. bonds. The portfolio's overall duration is currently in the range of four years, compared to approximately seven years for the benchmark index. This reflects a more conservative stance on interest rate risk. The majority of the portfolio's interest rate exposure is concentrated in the United Kingdom, where Mr. Lawrence anticipates a meaningful economic slowdown, presenting potential opportunities.

From a currency strategy standpoint, Brandywine remains underweight the U.S. dollar. It has increased its overweight allocation to the euro significantly in recent weeks. At the end of February, the euro allocation stood at approximately 29 percent, which has since been increased to around 41 percent, representing a substantial shift in positioning.

During the meeting, Mr. Klajbor inquired about the potential impact of the Mar-A-Lago Accord on the portfolio and broader financial markets. Discussion ensued.

Mr. Mukamal asked whether the recent relative improvement in international equity performance compared to U.S. markets might spill over into the foreign bond markets. Mr. Lawrence responded that, in the firm's view, the effect is currently more apparent in currency markets than in bond markets. Additional discussion followed.

Mr. Scott provided an overview of the firm's cybersecurity program. In response to a question from Mr. Klajbor regarding the adequacy of cybersecurity insurance coverage—given the substantial assets under management—Mr. Scott confirmed that the firm believes its coverage is sufficient. Further discussion ensued.

5. Baker Tilly Pre-audit Communications for 2024 Plan Audit [36:33]

Mr. Frantz provided the required pre-audit communications. Baker Tilly plans to perform the audit in accordance with generally accepted accounting principals but the firm is not providing absolute assurance that issues will not be identified during the audit process. From the GASB standpoint, there are no new GASB's rules that are going to affect the financial statements for this round.

Ms. Middleman stated that as part of the audit the firm sets materiality levels and that is what drives what testing Baker Tilly does. The firm does have significant risks taken into consideration and that is the management override of controls. Baker Tilly wants to make sure that management is not doing anything that they should not, including not changing any records. The firm takes a look at the fair-value measurements of investments and then contributions, distributions and participant accounts. Baker Tilly uses statistical and non-statistical samples, and sample investments and distributions paid out of the Plan. The firm also looks at a sample of participants, both active and non-active, to determine that the appropriate enrollment forms and elections are made on their behalf. Baker Tilly does know that the Plan has a management specialist that is for the valuation of investments, and that it relies on those third-party trustees to price their investments. Accordingly, Baker Tilly takes a look at the pricing of those investments during the testing.

Throughout the audit Baker Tilly communicates with the Executive Director as far as timing and open items, if there are any issues with internal controls or they do deem there would be any significant deficiencies or material weakness in internal control they will let the Chair know ahead of time so that there are no surprises when the final communication is presented in July. Field work has started and the firm is starting to gather information ongoing for planning so it can select samples and get the information out to management and third parties to obtain the information ready for the firm to pull. Final field work is scheduled to begin the weak of April seventh and then continue the week of April 14^{th} and then they are set to present the draft of the financial statements and any other communications to this committee in July. Mr. Klajbor asked how the firm determines what a sufficient sample is. Ms. Middleman responded the firm uses materiality and it conducts statistical and non-statistical samples so without saying what materiality is, because it can't disclose that with management, the firm does have a number-driven template, which it puts information in and it has a formula that indicates how much of a certain item the firm should be testing.

As Baker Tilly goes through the audit process, if it does find any discrepancies or deficiencies in internal controls, the firm will reach out to the Chair prior to any closing meeting so there will be no surprises when the results are delivered.

6. Economic and Markets Review/Update from Callan LLC [43:46]

Mr. Malone reported that markets began 2025 on a strong note in January, but February was marked by uncertainty. Many of the new administration's policies remain unpredictable, creating a "wait and see" environment for both the Federal Reserve and the broader financial markets. Stakeholders are closely monitoring incoming economic data to gauge how these policy changes may ultimately influence market dynamics.

On a more positive note, the labor market has remained resilient. Unemployment continues to hover around four percent, and applications for unemployment benefits—typically a leading indicator of labor market stress—remain low by historical standards. This stability is a key metric that the Federal Reserve is watching closely.

Over the coming months, several macroeconomic factors will likely shape market sentiment, including ongoing inflation concerns, the economic impact of new tariff policies, the potential sensitivity of the labor market to changes in immigration policy, and federal workforce reductions. That said, there is also the potential for market tailwinds, particularly if deregulation efforts move forward and if the 2017 tax cuts are extended.

In its most recent meeting, the Federal Reserve signaled an expectation for economic growth to slow in 2025. Inflation is forecasted to remain elevated, and while the Fed has left interest rates unchanged through the first two meetings of the year, it has indicated the possibility of two rate cuts later in the year. That guidance remains data-dependent, with the Fed reserving the flexibility to adjust rates either up or down depending on inflationary pressures or labor market performance.

In equity markets, U.S. stocks declined in February due to concerns surrounding trade policy and softer economic growth expectations. These concerns were exacerbated by the announcement of new tariffs on China, Mexico, and Canada. Investors responded by rotating out of crowded positions in large-cap growth stocks, which underperformed value stocks. At the same time, large-cap stocks outperformed small-cap equities, reflecting a flight to perceived stability. As a result, the U.S. market declined by approximately two percent for the month, and continued to trend downward into March, with the Russell 3000 Index falling roughly 4.5 percent for the month to date and approximately 3.5 percent year-to-date—erasing the gains made in January.

International equity markets told a different story. European equities, in particular, posted gains in February, driven by renewed optimism surrounding a potential ceasefire between Russia and Ukraine. While the situation remains fluid, the news inspired increased investor confidence. Despite continued volatility in AI-related stocks globally, international equities broadly outperformed. The MSCI ACWI ex-USA Index rose 1.4 percent for the month, with developed markets nearing a two percent return, outpacing emerging markets. International equities continued to strengthen into March, with the index gaining approximately 3.5 percent for the month and over nine percent year-to-date—suggesting a potential shift away from U.S. market dominance.

Fixed income markets also posted positive returns across most sectors. Treasury yields declined, reflecting diminished long-term U.S. growth expectations and general policy uncertainty. Lower yields boosted bond prices, supporting positive quarterly returns. Notably, credit spreads widened slightly, signaling market concerns over corporate earnings in a slowing economy. Treasury securities outperformed corporate credit during the month. The Bloomberg U.S. Aggregate Bond Index returned just over two percent in February, while March has been relatively flat, with the index down roughly 15 basis points for the month but still up 2.6 percent year-to-date.

In response to a question from Mr. Klajbor, Mr. Malone provided a high-level overview of the proposed Mar-A-Lago Accord. The initiative aims to coordinate efforts with global trading partners to weaken the U.S. dollar, thereby alleviating U.S. debt burdens and potentially reshoring manufacturing. The proposal involves persuading countries that hold U.S. government debt—particularly China and members of the European Union—to exchange their holdings for 100-year perpetual bonds that pay no interest.

Mr. Malone acknowledged that the political and logistical challenges of executing such an agreement are immense. Convincing global creditors to accept terms that are clearly advantageous to the U.S. at their expense would be extremely difficult. Moreover, the policy carries several potential unintended consequences. While it could be beneficial for fixed income markets, it could also increase import costs for U.S. consumers, potentially driving inflation higher. Additionally, global investors may demand higher risk premiums on future U.S. debt issuance, raising borrowing costs for the federal government.

At this point, the proposal remains speculative, but large financial institutions are beginning to treat it as a serious possibility. From the Plan's perspective, Mr. Malone emphasized the importance of staying informed about how investment managers are positioned in relation to these developments. Many downstream impacts are not yet fully understood, and more clarity will be needed before any policy is implemented. The potential effects on the American consumer remain uncertain, with possible outcomes pointing in several different directions.

Mr. Joecken added that, from both the Board and Executive Finance Committee (EFC) perspectives, the implications of the Accord—and related global policy shifts—are complex, with many competing factors. Some sectors are likely to benefit, while others may face headwinds. This underscores the critical importance of diversification, which has long been a foundational principle of the Plan's investment strategy. The Plan's managers are responsible for navigating these challenges on behalf of participants, and the portfolio is currently well-positioned to withstand various market scenarios. Discussion ensued.

Please be advised that the Committee may vote to convene in closed session on the following Items 7 and 8 on proper motion and action pursuant to Section 19.85(1)(d), Wisconsin Statue for deliberating or negotiating the purchasing of public properties, the investing of public funds, or conducting the specified public business, whenever competitive or bargaining reasons require a closed session (Items 7 & 8). Please note: A roll call is required for the Committee to enter closed session. The Committee may then vote to reconvene in open session following the closed session.

[1:20:36] Motion by Mr. Mukamal to convene in closed session. Seconded by Ms. Christianson. No objections.

[1:21:39] Roll call vote taken.

2:56 p.m. Committee enters closed session.

7. Update regarding Callan Agreement Taken out of order

8. Update on Custodial Banking Services Taken out of order

3:20 p.m. Meeting adjourned from closed session.

9. Update on SECURE 2.0 [1:06:26]

Ms. Cleary reported there are no significant updates to report, they are on track with updates that needed to be made that have already been reported on. Ms. Cleary plans on meeting with Wisconsin Representatives during the spring NAGDCA Board meeting in D.C.

10. Personnel Update [1:08:31]

Ms. Cleary reported that she will be out of town next week on vacation and will be picking this up again when she returns. Per recent conversations with DER, the supply and demand with the market has shifted and there appear to be a lot of qualified applicants.

11. Executive Director's Request to attend Voya Client Conference April 9-11, 2025, Chicago IL [1:09:09]

Ms. Cleary stated that she has attended this client conferences in the past but has not gone in the last two years and believes that it would be beneficial to attend now, especially given the fast-paced changes happening in the world pertaining to the markets, economy and benefits.

Motion by Ms. Christianson to approve the Executive Director's Request to attend Voya Client Conference April 9-11, 2025, Chicago IL, seconded by Mr. Mukamal. No objections.

12. Voya Report(s) and Update [1:10:26]

a. Activity Report [1:10:35]

Ms. Campbell reported that for January there were a total of 13 one-on-one appointments completed, 11 outreach appointments and 28 outreach phone calls. Topics addressed related to account reviews, loans, investment information and deferral changes. For the month of February there were a total of 55 one-on-one appointments, 13 outreach appoints and 45 outreach calls. There was a lot of activity related to account reviews, deferral changes, investment information and loans.

b. Rollover Report [1:12:02]

Ms. Campbell reported that there were 26 rollovers out of the Plan in January, totaling just under $5 million. There were 23 rollovers out of the Plan in February, totaling just under $5 million dollars. Ms. Cleary noted that the balances for January and February were higher than usual. She plans to reach out to individuals in hopes of obtaining feedback and what the Plan can do better to prevent this. Ms. Cleary asked Ms. Campbell to add any participant adapters to her report to track trends related to the recently available emergency withdrawal options.

c. VRA Report [1:12:55]

Ms. Campbell reported that one quarter of participants have participated in utilizing the advice product in one form or another, which includes the free options of calling in to VRA advisors or utilizing the online product. There were 244 calls that went to the call center and 1185 participants used the online advice product. There are 976 participants that are utilizing the paid professional management. There were 23 calls for the month and 10 of those participants received a retirement plan and one actually took that plan and processed it through. There were eight new online adopters and seven of those received a forecast and five received the actual online advice. There was a net of three new participants who adopted the professional management so there are 976 participants with total assets of $141 million ; the average balance amongst these participants is $144,000.

d. Loan Outreach Update [1:14:24]

Ms. Campbell reported there were 32 participants in January who were facing default totaling $250,000 in outstanding loan balance. Ms. Martin was able to contact 28 participants and of that six were planning to make up their loan payments. For February there were 19 participants with a total outstanding loan balance of $131,000, Ms. Martin was able to contact 16 and four were planning on making up their missed payments. There are currently 1,082 outstanding loans; the active outstanding loan balance is $12 million.

13. Informational Items [1:19:27]

a. Charles Schwab – Explanation of Fees and Services

b. P&I Eddy Awards [1:19:38]

Ms. Cleary commented on this award the Plan recently received, in recognition of its financial wellness program.

3:20 p.m. Meeting adjourned.

Ref: 03/20/min25