

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

Minutes of the Regular Meeting held May 27, 2008

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

Board Members Present: John Barmore
 William C. Carey
 Thomas Fischer
 W. Martin Morics, Chair
 Ron Walter

Board Members Not Present: Larry Holland (excused)
 Michael J. Murphy (arrived later in meeting)
 Sebastian Raclaw (excused)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Martin Matson, Deputy Director
 Thomas Rick, Chief Investment Officer
 David Silber, Pension Investment Analyst
 Bruce Thomas, Pension Investment Analyst
 Alva Owens, Information Services Manager
 Michael Haley, Financial Officer
 Michael Becker, Pension Accounting Specialist
 Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Conradson Cleary, Rudolph Konrad and Maurita Houren, City Attorney's Office; Jon Granger, Sagetic Solutions, Jay Patel, S & S Consulting, Terry Siddiqui, DS Consulting; and S. Lynn Hill, Larry Langer, Tim Abramic and Marco Ruffini, Buck Consultants.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held April 28, 2008. It was moved by Mr. Carey, seconded by Mr. Barmore, and unanimously carried, to approve the Minutes of the Regular Meeting held April 28, 2008.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated May 21, 2008. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Silber updated the Board stating the Fund's value as of April 30, 2008 was \$4.98 billion. The Fund's return of 3.4 percent during the month slightly outperformed its blended benchmark return of 3.3 percent. He reported that the Fund has underperformed over the year-to-date and one year time periods, but has outperformed during the three and five year time periods. Mr. Silber indicated the domestic equity composite had a return of 4.6 percent, which still underperformed its benchmark return of 5.0 percent. Artisan, DFA and Turner underperformed their benchmarks by 3.0 percent, 2.1 percent and 1.7 percent, respectively. He said that on the positive side, Earnest and Bernstein outperformed their benchmarks by 1.9 percent and 0.8 percent, respectively. The domestic equity composite has underperformed in all time periods except the five year.

(During the above report, Mr. Murphy arrived at 9:04 a.m.)

Mr. Silber reported that the international equity composite had a return of 5.7 percent during the month outperforming its benchmark return by 0.3 percent. Brandes has strong returns and outperformed its benchmark by 2.2 percent, while DFA and Blair underperformed their benchmarks by 1.1 percent and 0.2 percent, respectively. The international equity composite has outperformed in all time periods except year-to-date. Mr. Silber stated the fixed income composite had a return of 1.2 percent during the month, outperforming its benchmark by 1.4 percent. Both Loomis and Reams had good months, with Loomis outperforming its benchmark by 2.8 percent and Reams outperforming their benchmark by 0.7 percent.

Mr. Silber indicated that through Friday, month-to-date, the Fund is up about 0.3 percent. The international equity composite is leading the way as it is up about 1.0 percent, and the domestic equity composite is about flat. He reported that the fixed income composite is up about 0.4 percent, and the Fund's projected value is just under \$5 billion. Mr. Silber talked about the returns based style analysis, which shows all domestic equity managers are plotting within their expected styles. Over the last five years on a risk return basis, the Fund has generated above benchmark returns while taking on additional risk versus its benchmark. Mr. Silber noted that at the end of the month the Fund will be withdrawing \$14 million, \$10 million from William Blair and \$4 million from Loomis. As of May 23, 2008, year-to-date, the Fund had: capital market losses of \$156.3 million; paid out \$82.2 million in payroll and expenses; and received contributions of \$11.9 million.

Acceptance of William Blair Due Diligence Report. As a matter of information, Board members received a copy of a Memorandum from Mr. Thomas, dated May 20, 2008. Mr. Rick indicated that he, Mr. Thomas and Mr. Allen went to visit William Blair, and Mr. Thomas would provide the Board with a report. Mr. Thomas reported that Mr. Greig provides most of the direction for the strategy, which is a concern to ERS in the event that Mr. Greig would leave William Blair. He stated that William Blair has been taking measures to structure the team to be able to respond in the event Mr. Greig would depart. Mr. Thomas noted that William Blair was hired to provide international all cap growth equity, which Blair continues to do for ERS. Mr. Rick said when ERS hired William Blair, Mr. Greig's staff included two other people, plus a trader, and were managing about \$4 billion in assets. This strategy has grown significantly, partly due to the fallout of Putnam, so William Blair has groomed this team to meet that growth. Mr. Rick did indicate that if Mr. Greig would leave, ERS would need to look at this strategy again.

Approval to Move Forward with RFP for Custodial Services. As a matter of information, Board members received a draft of the RFP. Mr. Rick handed out a copy of a letter from the City Attorney's Office, dated May 20, 2008, which include comments from the City Attorney's Office. He indicated these comments have all been incorporated into the draft RFP. Mr. Rick briefly talked about the RFP and process, which could take approximately three months to complete. He asked the Board for approval to distribute the RFP. It was moved by Mr. Murphy, seconded by Mr. Walter, and unanimously carried, to approve distribution of the RFP for Custodial Services.

Mr. Rick reported that Mercer has announced senior leadership changes to support its growth in its investment businesses. The changes were somewhat of a ripple effect in that the head of their investment consulting business has assumed a new role as global chief investment strategist. He indicated that based on discussions with Doug Kryscio, the management changes do not impact his and Patty Schneider's role with ERS. Mr. Rick asked Mr. Kryscio

to comment on these changes at the June 11th Investment Committee meeting. He informed the Board that Barclays also had some similar top management level changes, but they indicate that day-to-day management of client portfolios remains unchanged.

Mr. Rick updated the Board on the Northern Trust – Securities Lending. He handed out an updated chart of historical earnings in the securities lending program which shows nearly \$478,000 in net revenue in 2008 as of March 31st. Mr. Rick indicated that during April, our program earned over \$170,000, and in May, we are expecting to earn over \$200,000. This totals approximately \$850,000 for the first 5 months of 2008. He stated that Northern Trust also manages securities lending via our investment in their S&P 500 Collective Index fund. Last month we reported on an unrealized loss which caused our return in the index fund to lag the benchmark by 12 basis points. Mr. Rick said that during April, Northern Trust's S&P 500 index fund beat the benchmark by 10 basis points making up some of the lost ground. As of this past Friday, Northern Trust indicated to ERS that they continue to expect all of their cash collateral holdings within this security lending program to mature at par over the next 16-20 months. Mercer will comment on their view of their securities lending world at the June Investment Committee meeting.

Mr. Rick updated the Board on upcoming Due Diligence trips, which Board members are welcome to attend. He stated that ERS has also been invited to an upcoming Great Lakes Public Pension Fund Forum in Lake Geneva on June 24 and 25. If any Board members are interested in attending, please let him know. Discussion ensued with respect to Mercer's Asset Allocation Study.

Administration and Operations Committee Report. Mr. Barmore reported that the Committee met and Jefferson Wells gave their first internal audit report to the committee. They completed their review of calculation processing, with three minor recommendations to improve the process. No errors were found. He indicated the Committee recommends that the internal auditor present its findings as it completes each internal audit, rather than waiting for a quarterly review. The next report will arrive for the July A & O meeting. Mr. Barmore noted that Virchow Krause discussed questions related to the financial audit, which is a result of the change in reporting standards now being implemented. ERS management has prepared a response to their questions that were included with the A&O packet, and will now require our input. He stated that going forward there will be a standing meeting with Virchow Krause to be held in March where the auditor will interact directly with the Board without the presence of ERS management. This will become standard practice.

Approval to Continue Disaster Recovery Option(s). Mr. Barmore stated that in relation to MERITS, the Committee voted to approve moving forward with the first four recommendations from staff of the disaster recovery options. The Committee chose to leave open the possibility of reviewing the other five recommendations pending the outcome of the first four. Mr. Granger handed out a chart on the Business Continuity Planning and briefly talked about the Disaster Recovery options.

Approval of Contract Amendments with DS Consulting Group, S&S Consulting, Sagetic Solutions and Symphony Corp. Mr. Barmore reported that the four contract renewals/amendments for IT consultants supporting MERITS are recommended for approval.

Summary Review of the RFP for Banking and Approval to Extend the Wells Fargo Contract. Mr. Barmore stated the committee heard from Mr. Haley on the RFP for banking services. In order to allow for a smooth transition, the current vendor's contract (Wells Fargo) will be extended one year, to June 2009 to cover the clearance of outstanding checks.

Approval to Conduct RFP for Organizational Study. Mr. Barmore indicated that the organization study RFP was held until the next A&O committee meeting so Board members could review the RFP in more detail. Specifically we should pay attention to the scope of work outlined on pages 8 and 9.

He noted that DPW responded in writing to the Board's request from December 2007 regarding the electrical outages in the 809 Building server room. DPW provided three recommendations. The Committee recommends authorizing the ERS management to conduct an outside engineering study of the issues, for an amount not to exceed \$15,000.

It was moved by Mr. Barmore and seconded by Mr. Carey, to approve the Administration and Operations Committee Report, including approval of items III. A. through E. and also spending up to \$15,000 for an independent engineer review of the 809 building issues. After discussion, the motion unanimously carried. Mr. Matson indicated the motion should also include approval item F. of extending the Wells Fargo contract. Mr. Morics stated that would be included in the motion to approve the A & O report.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity from the month of May 2008, as well as Service Credits for the month of May 2008.

Active Death Benefits reported	
May 2008	\$101,671.00
Retired Death Benefits reported	
May 2008	\$59,580.18
Refund of Member Contributions paid	
May 2008	\$34,289.16

It was moved by Mr. Murphy, seconded by Mr. Carey, and unanimously carried, that the above-indicated retirements, death claims, and refunds be approved.

Conference Requests. Mr. Allen reported that requests to attend the following conferences had been submitted:

David Silber	130/30 Strategies Conference
Sponsor:	Pension & Investments
Location:	Chicago, IL
Date(s):	May 14, 2008
Estimated Cost:	\$51.00

David Silber &
Bruce Thomas Client Conference 2008
Sponsor: Walton Street
Location: Chicago, IL
Date(s): June 10, 2008
Estimated Cost: \$85.00

Jerry Allen &
Tom Rick Great Lakes Public Pension Fund Forum
Sponsor: Patriot Management
Location: Lake Geneva, WI
Date(s): June 24 – 25, 2008
Estimated Cost: \$200

Jerry Allen Illinois Public Employee Retirement Systems Forum
Sponsor: Illinois PERS
Location: Chicago, IL
Date(s): June 2 – 3, 2008
Estimated Cost: \$200

Mr. Murphy informed the Board he would not be attending the conference he had requested at the April Board meeting. It was moved by Mr. Barmore, seconded by Mr. Fischer, and unanimously carried, to approve the conference requests submitted by Messrs. Silber, Thomas, Allen and Rick.

Approval of Henneman Engineering Contract. As a matter of information, Board members received a copy of the Contract for Services. Mr. Granger discussed the services included in this contract. It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to approve the Contract for Services.

Referral of Deferred Comp Request to Administration and Operations Committee. As a matter of information, Board members received a copy of a letter from Mr. Brazgel, dated May 12, 2008. Mr. Allen asked this be referred to the A & O Committee regarding direct rollover for lump sums from ERS GPS payments into the Deferred Comp plan. Mr. Morics asked if this was something that would require a change in the Board Rules or is this just an administrative matter. Mr. Allen said he thought it was an administrative matter. The question staff has is the effectiveness of this process and what are the details involved. Mr. Morics said if this was something that could be worked out administratively he did not feel it needed to be referred to the committee level. He directed this letter be received and placed on file.

Acceptance of Actuarial Valuation – January 1, 2008. Mr. Allen handed out copies of the Actuarial Valuation – January 1, 2008, along with a presentation booklet, dated May 27, 2008. Ms. Hill introduced Mr. Langer, Mr. Abramic and Mr. Ruffini. She informed the Board that she would be retiring July 1, 2008 so this was the last valuation she would be performing for ERS. Ms. Hill stated she would be continuing on under a contract basis for several months to ensure a smooth transition. She noted that Mr. Langer would be taking over as the supervising actuary, and he has 20 years experience some of which is in the public sector. Mr. Abramic and Mr. Ruffini have worked with her on ERS' account for a long time and are very familiar with ERS. She stated that she feels confident that things will go well. Mr. Morics stated that Ms. Hill will be sorely missed.

Ms. Hill gave a brief overview of the 2007 plan year, stating ERS had an accrued liability of \$4 billion, but the market and actuarial value are both \$5.2 billion. The assets exceed the liability by \$1.2 billion, with a funded ratio between 131 and 132 percent. She noted the rate of return on assets show a market value of 6.83 percent and an actuarial value, smoothed over the last three years is 10.17 percent. Ms. Hill indicated that the rate of return on assets for the PABF was 8.27 percent even though they are pooled with ERS. She reminded the Board that this evaluation reflects the changes in assumptions presented in the Five-Year Experience Study accepted by the Board in January 2008. Mr. Langer walked through the actuarial valuation process – reserve funding; universal retirement funding equation; and the objectives of the actuarial valuation.

Mr. Ruffini reported that the active member statistics as of December 31, 2007 were 11,737, with an average earnings total of \$45,362. Retired member statistics as of December 31, 2007 were 10,957 (Global Combined Fund/Retirement Fund), with average benefits of \$20,148. He briefly talked about the membership broken down between consenters and others. Mr. Ruffini talked about the assumptions made by going on demographics and economics. He also reported there was about a \$26 million decrease in accrued liability. Along with that is a \$1 million decrease in normal costs, which increased the funded ratio from about 130 percent to 131 percent. Mr. Ruffini indicated this does not change the employer contribution requirements because it is zero, and that also improved ERS' situation. He stated that the market value of assets as of January 1, 2007 was \$5 billion; adding in member contributions, subtracting out payments, and adding in investment returns, comes to slightly over \$5.23 billion at the end of the year, with a 6.83% return.

Mr. Abramic proceeded to talk about the market-related value of assets – 3-year smoothed market. Mr. Abramic reported that the actuarial value of assets using the rates of return over the last three years, shows that the losses in 2007 (6.83% return) and 2005 (8.30% return) resulted in a slight deficiency, but in 2006 there was a larger gain of 14.85% return. Taking the full portion of \$286 million gain in 2006, offset by losses in 2005 and 2007, there is a net gain of \$194.4 million, and of that one-third is recognized in the final calculation of the actuarial value, which is the final number of \$64.8 million. The actuarial value of assets as of January 1, 2008 was \$4.8 billion, contributions were \$33 million, benefits payments and refunds were \$229 million, the expected return on the market value (8.5%) was \$424 million, the adjustment to smooth 2005-2007 return was \$65 million, so the actuarial value of assets as of December 31, 2007 was \$5.2 billion. Brief discussion ensued. Mr. Langer briefly talked about the allocation of assets among funds as of January 1, 2008 and the funding methodology. He reported the accrued liability is \$3.95 billion. Mr. Langer stated the funded percent is 131% on an actuarial value of assets. Based on the market value of assets, the Global Combined Fund is 132% funded. After discussion, it was moved by Mr. Walter, seconded by Mr. Fischer, and unanimously carried, to accept the Actuarial Valuation as of January 1, 2008.

Acceptance of PABF Actuarial Valuation – December 31, 2007. Mr. Allen handed out the Policemen's Annuity and Benefit Fund Actuarial Valuation as of January 1, 2008. Mr. Abramic briefly talked about the PABF valuation stating using the 8.5% rate of return increased the life of this Fund. He reported that the annuitants and spouses in payment dropped to 136; the assets decreased slightly; and the liabilities are down due to the drop in the number of people. Mr. Abramic indicated the funded ratio is up slightly at 94.7%.

Looking at the 20 year projection of assets and liabilities, the Fund is not projected to become insolvent until 2023. Ms. Hill briefly talked about requirements in Chapter 35. After discussion, it was moved by Mr. Walter, seconded by Mr. Carey, and unanimously carried, to accept the PABF Actuarial Valuation.

Discussion with City Attorney’s Office regarding Disability Process. Ms. Houren was present to explain the procedure for limited duty for the Police Department to the Board members and answer any questions.

Medical Reports.

Fire and Police Duty Disability and Duty Disability Re-examinations. Mr. Allen presented certifications of the Fire and Police Medical Panel Physicians relative to Duty Disability Retirement Benefit as follows:

<u>Fire – New Applications - Duty</u>	<u>Recommendation</u>
Robert Biskobing Effective 5/28/08	Approval
<u>Police – Re-examinations</u>	<u>Recommendation</u>
Vincent Dawson	Approval
Rod Gustafson	Approval
Linda Hilger	Approval
Jane Jacobson	Approval
Daniel Redman	Approval
Scott Ryan	Approval
Dean Schubert	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Patrice Brusk	Approval
David Fass	Approval
Kenneth Green	Approval
Thomas Hoeft	Approval
Scott Mantey	Approval
Michael Rachow	Approval
Marc Stankiewicz	Approval
Scott Van Roo	Approval

All Ordinary Disabilities and General City Duty Disability. Mr. Allen presented certifications of the Medical Council relative to Duty Disability Retirement as follows:

<u>New Applications – Duty</u>	<u>Recommendation</u>
Steven Nickels	Denial
Ricky Massey	Denial
Kenneth Spahn	Denial

<u>New Applications – Ordinary</u>	<u>Recommendation</u>
Ricky Massey Effective 9/11/07	Approval
Roben Collins Effective 2/27/08	Approval
Judith Becker Effective 5/10/08	Approval
Roxane Crawford Effective 5/18/08	Approval
<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
Donald Brill	Approval
Dale Chapman	Approval
Arcadio Cruz	Approval
Ulysses Johnson	Approval
Ronald Perron	Approval
Xaoyee Yang	Approval
Edward Sturino	Approval
Terry Moore	Approval
<u>Re-examinations – Duty</u>	<u>Recommendation</u>
David Anderson	Approval
Samuel Gamboa	Approval
Lynette Lowery-Cowser	Approval
Ricky Daniels	Approval
Richard Lafford	Approval
Michael Zabler	Approval
Daniel Lentz	Approval

It was moved by Mr. Carey, seconded by Mr. Fischer, and unanimously carried, to accept the aforementioned recommendations of the Fire and Police Panel Physicians and the Medical Council.

Disability Findings – Timothy J. Carson. Mr. Allen presented the findings submitted by Hearing Examiner Gerlach, whose Decision states “The decision of the Annuity and Pension Board denying applicant, Timothy J. Carson duty disability retirement status is affirmed.” Correspondence was also received from the City Attorney’s Office, dated April 3, 2008 indicating it did not intend to file a brief. It was moved by Mr. Carey, seconded by Mr. Fischer, and unanimously carried, to accept the recommendation of Hearing Examiner Gerlach, denying Mr. Carson duty disability retirement status.

Disability Findings – Charles Hays (sic). Mr. Allen presented the findings submitted by Hearing Examiner Fiorenza, whose Decision states “The application of Charles Hayes for Duty Disability Retirement is denied.” Correspondence was also received from the City Attorney’s Office, dated April 3, 2008 indicating it did not intend to file a brief. It was moved by Mr. Carey, seconded by Mr. Fischer, and unanimously carried, to accept the

recommendation of Hearing Examiner Fiorenza, denying the application of Mr. Hayes for duty disability retirement.

Unfinished Business.

Legal Opinion and Service Requests Pending. As a matter of information, Mr. Allen presented a list of pending requests for legal opinions and service requests made to the City Attorney.

Legal Opinions Obtained. Mr. Allen presented a legal opinion obtained from the City Attorney as follows:

Doctors Appointed to the Medical Panel. Requested January 5, 2006, received May 15, 2008. Mr. Konrad talked about the opinion. Mr. Matson indicated this was still before the Legislative Committee as unresolved. After discussion, it was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to receive the opinion and place on file.

Rollover of ERS Lump-Sum Payments to City of Milwaukee Deferred Compensation Plan. Requested February 25, 2008, received May 2, 2008. Mr. Konrad talked about the opinion. Discussion ensued. Mr. Morics directed that staff give the Board an update on the resolution of this matter.

Willie Buford Beneficiary Overpayment. Requested March 4, 2008, received May 6, 2008. Ms. Cleary talked about the opinion. Discussion ensued.

It was moved by Mr. Fischer, seconded by Mr. Barmore, and unanimously carried, to accept the opinions dated April 24, 2008, and May 2, 2008, and place on file.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. Mr. Allen reported there were no new developments.

Executive Director's Report – Inventory of ERS Projects. As a matter of information, Mr. Allen presented a report on the ERS projects and updated the Board on ERS activities.

Milwaukee Police Supervisors' Organization vs. ERS, et al. Case No. 05-CV-006697. Mr. Morics asked if there was anything to report that required closed session. Mr. Allen answered in the negative.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated May 27, 2008, which gives the status of litigation involving the ERS, as prepared by staff of the ERS and City Attorney's office.
- 2) List of conferences from June 2008 through February 2009.
- 3) Class Action Lawsuit Report.

5/27/2008

- 4) Minutes of the Administration and Operations Committee Meeting held March 18, 2008.
- 5) Minutes of the Administration and Operations Committee Meeting held April 15, 2008.

The following is a list of activities since the last Board meeting, copies sent with meeting notice and attached to minutes:

- 6) Report on Bills.
- 7) Deployment of Assets.
- 8) Securities Lending Revenue and Budget Reports.
- 9) Preliminary Performance Report/Asset and Manager Allocation Pie Charts.
- 10) ERS Holdings Report.

It was moved by Mr. Walter, seconded by Mr. Carey, and unanimously carried, to accept and place on file the aforementioned informational items.

There being no further business, it was moved by Mr. Carey, seconded by Mr. Fischer, and unanimously carried, to adjourn the meeting at 11:35 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.)