

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

Minutes of the Regular Meeting held November 20, 2008

The meeting was called to order at 9:07 a.m.

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

Board Members Not Present: Thomas Fischer (excused)
 Larry Holland (excused)
 Michael J. Murphy (arrived at 10:00 a.m.)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Martin Matson, Deputy Director
 Thomas Rick, Chief Investment Officer
 David Silber, Pension Investment Analyst
 Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Conradson Cleary and Rudolph Konrad, City Attorney's Office; Jon Granger, Consultant; Richard Lukszyz, Retiree; Fred Hendricks, Citizen; Lynne Layber, Attorney.

Due to the lack of a quorum the meeting convened as a sub-committee.

Mr. Morics stated that the agenda will be taken out of order until a quorum is present. He noted that all Board members should have received Mr. Raclaw's resignation effective November 14, 2008. He asked that a Resolution be prepared for Board adoption at the December meeting. Mr. Carey asked about the possibility of an election to fill this seat. Mr. Morics stated it would be his hope that the Board Rules are specific enough about the election that this would not be discretionary. Mr. Morics asked Ms. Cleary to enlighten the Board. Mr. Barmore stated that Ms. Fortier may be the person to ask to comment on this issue. Ms. Fortier stated that Chapter 36 indicates the vacancy "shall" be filled. Mr. Konrad noted that their office had issued an opinion on this issue, but the question was not whether to have an election, but whether you can delay the election. Ms. Fortier talked about the timing of a Special Election to fill the seat. Mr. Morics said this should be taken up when there is a quorum.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated November 14, 2008. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Thomas updated the Board stating that as of October 31, 2008 the Fund's value was \$3.5 billion and had a -14.6 percent return versus the -12.7 return of the benchmark. He stated that the domestic equity composite also underperformed its

benchmark over all time frames and had a -19.1 percent return in October, which underperformed the -17.7 percent return of the benchmark.

Mr. Thomas reported on the international equity composite stating it managed to outperform over the five year time frame, but underperformed over all other time periods. He reported the composite had a -22.4 percent return in October versus the -20.2 percent return of the benchmark. Mr. Thomas said the fixed income composite had a -7.8 percent return in October, underperforming the benchmark return of -2.4 percent. He reported that November month-to-date the Fund is down approximately 10.5 percent. He stated the domestic and international equity composites are down about 18.7 and 10.5 percent, respectively. November month-to-date, the fixed income composite is down about 0.9 percent while the Fund's projected value is \$3.2 billion.

Mr. Thomas talked about the returns based style analysis, which shows all domestic equity managers are within their expected styles. He reported that for November the Fund will be withdrawing \$18.5 million: \$10 million from Barclays fixed income, \$6.5 million from Reams and \$2 million from Loomis Sayles. As of November 19, 2008, year-to-date, the Fund had: capital market losses of \$1.8 billion; paid out \$215.5 million in payroll and expenses; and received contributions of \$26.5 million.

Mr. Rick said the Fund's value is about \$3.2 billion, which is where we were at the end of 2002. He updated the Board on the custodial search. Staff will be talking with Mercer in the beginning of December on the fixed income structure review, and Mr. Rick invited any Board members to participate. He mentioned there is an Investment Committee meeting scheduled for December 12, 2009. Also, he said the last remaining due diligence trip scheduled for 2008 is Townsend, and with the Board's permission he would like to add that to the 2009 schedule so staff can work on some dates and times.

Investment Committee Report. Mr. Barmore reported that at the November 12th Investment Committee meeting, members reviewed an equity structure presentation prepared by Mercer. Two investment managers, Alliance Bernstein and Artisan Investment Partners, provided strategy and performance updates. Mercer provided their comments on Bernstein in closed session.

He stated that the Townsend Group provided a real estate portfolio review and recommended two changes to our real estate guidelines. The Committee received a due diligence report concerning Barclays Global Investors. Mr. Barmore noted that Mercer discussed the impact of the market on ERS' current policy allocations and rebalancing activity. The Committee requested Mercer to provide a formal recommendation. Also, staff provided Q3 performance and securities lending updates. Mr. Rick stated that Mercer's formal recommendation, along with The Townsend Group's recommendation, with regard to rebalancing will be heard today when items II. A and B. are taken up when a quorum is present.

Administration and Operations Committee Report. Mr. Barmore reported that staff provided an update on MERITS stating that in October, there was a reduction in new tickets being generated, but could not point to a specific reason why this occurred. New charts were

provided to compare the monthly ticket totals from year-to-year, but no discernable pattern emerged. He noted that Jefferson Wells did an external penetration of the network, and were not able to exploit any vulnerabilities. Staff continues to visit and research disaster recovery sites and presented their findings to date. The committee approved staff to conduct a request for quote to obtain pricing from the facilities reviewed.

Mr. Barmore said that Jefferson Wells presented their findings for Enrollment & Contributions, and Human Resources and Payroll. Overall, controls in place are adequate. Enrollment & Contributions: it was noted that MPS reporting still requires a lot of manual intervention by staff. He advised that the committee ask staff to write MPS and include a copy of the audit to get a response in writing. The committee also asked for outside legal counsel review, which is on today's agenda for approval.

Mr. Barmore mentioned that one item noted was that management appears to have too much access to the processes in MERITS. There are controls in place within MERITS which keeps the person doing the work from also approving the work. However, in order to provide better oversight, the committee asked management to review the MERITS logs twice a year to ensure the access by managers is appropriate. He said the committee also asked staff to report back on updating documented procedures.

Jefferson Wells stated that under Human Resources and Payroll, the auditors noted 3 staff members missed their annual review. Those reviews are to be completed before year-end. The auditors also noted some minor improvements in filing of personnel documents.

(Mr. Walter arrived at 9:20 a.m.)

The meeting convened as a Regular Meeting at 9:20 a.m.

Approval of Northern Trust Contract Extension. Mr. Barmore reported that the committee approved a one year extension, which is before the Board today.

Approval of the Wechsler Contract. Mr. Barmore noted that negotiations were not complete as of the A & O meeting, but the contract should be available today. Ms. Cleary handed out a copy of the contract.

Approval for Retention of Outside Legal Counsel. Mr. Barmore said this was discussed as part of the Jefferson Wells report on MPS. Mr. Morics said the request for outside legal counsel is a broader issue than just MPS; it is a matter of this Fund's ability to quality assure data it receives now and in the future for any one of its organizations.

It was moved by Mr. Barmore and seconded by Mr. Carey, to approve items A. and B. Mr. Barmore asked that item C. be approved separately as the A & O Committee did not get a presentation on that contract. Mr. Morics stated he would take that presentation on the motion. Mr. Carey also asked that the motion include that the legal counsel appear at the December meeting. Discussion ensued with respect to the Wechsler contract and Ms. Cleary noted, as a point of information, that there are a few minor things that need to be clarified on

Wechsler's side before it is finally accepted. She recommended that the Board accept the contract pending final approval by the City Attorney's Office. Mr. Barmore and Mr. Carey accepted the amendment to the motion, which unanimously carried.

Mr. Morics stated there was now a quorum present and directed the Board back to item A.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held October 27, 2008. It was moved by Mr. Barmore, seconded by Mr. Walter, and unanimously carried, to approve the Minutes of the Regular Meeting held October 27, 2008.

Chief Investment Officer Report.

Approval of Recommendation from Mercer and Townsend Concerning Allocation Targets and Rebalancing. As a matter of information, Board members received correspondence from the Townsend Group, dated November 14, 2008. Mr. Rick handed out a memo from Mercer, dated November 18, 2008. Mr. Rick talked about both Townsend and Mercer's recommendations. He stated that staff agrees with the recommendations from both firms. It was moved by Mr. Carey, seconded by Mr. Barmore, and unanimously carried, to approve the recommendations from Mercer and Townsend regarding the allocation targets and rebalancing.

Request by Reams to Continue Holding Downgraded Securities. As a matter of information, Board members received a copy of the request from Reams, dated November 14, 2008. Mr. Rick stated that Reams is coming up on their 90 day window, and as per the guidelines, they have to come back to the Board for approval to continue holding the security. Mr. Silber said Reams request is to continue to hold two preferred stocks, one Fannie Mae and one Freddie Mac, beyond the 90 days. They currently make up .06 percent of the portfolio or \$167,000 market value as of November 19, 2008. He said when these securities were first downgraded several months ago they were worth \$568,000. Reams stated in the letter that the downside risk is very low. If things turn around and the government makes a large enough commitment to these two entities, there is the possibility of some up side on them. Mr. Morics asked if the investment staff was in concurrence with the request. Mr. Rick stated they are comfortable with the request, plus the government has made the intervention to support Fannie Mae and Freddie Mac. It was moved by Mr. Barmore, seconded by Mr. Walter, and unanimously carried, to allow Reams to hold these securities for an additional 90 days.

Investment Committee Report.

Acceptance of Barclays Global Investors Due Diligence Report. Mr. Silber said this was discussed at the Investment Meeting and indicated he would answer any questions since then. It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to accept the Barclays due diligence report.

New Business.

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

Active Death Benefits reported November 2008	\$122,167.56
Retired Death Benefits reported November 2008	\$10,723.33
Refund of Member Contributions paid November 2008	\$96,180.01

It was moved by Mr. Carey, seconded by Mr. Barmore, 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:

Beth Cleary	2008 Fall Meeting
Sponsor:	Council of Institutional Investors
Location:	Chicago, IL
Date (s):	October 5 - 7, 2008
Estimated Cost:	\$100

Jerry Allen & David Silber	DFA Conference
Sponsor:	Dimensional Fund Advisors
Location:	Austin, TX
Date (s):	January 20 – 22, 2009
Estimated cost:	\$1,500 per person

Mr. Allen asked for approval for Mr. Silber and him to attend a meeting at Northern Trust on December 2, 2008 for an estimated cost of \$75. Mr. Morics asked Mr. Allen to forward him that information for possible attendance. It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to approve the conference requests submitted by Ms. Cleary, Mr. Allen and Mr. Silber.

Request by City of Milwaukee to Contact System's Actuary. As a matter of information, Board members received a letter from Mr. Nicolini, dated November 13, 2008. It was moved by Mr. Carey, seconded by Mr. Walter, and unanimously carried, to approve the request from the City, with the understanding that all costs will be borne by the City.

Request to Refer Amending Board Rule XI. B. – Reimbursement for Conferences and Professional Development Expenses to Legislative Committee. As a

matter of information, Board members received a copy of the current rule. Mr. Morics directed this be referred to the Legislative Committee for review and recommendation.

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 (90 %)</u>	<u>Recommendation</u>
Oshiyemi Adelabu	Denial
<u>Police – Re-examinations</u>	<u>Recommendation</u>
Jacqueline Hahn	Approval
Leonard Hardison	Approval
Angela July	Approval
Mark Robinson	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Everett Hyde	Approval
Christopher Kallas	Approval
Miguel Machado	Approval
Larry Smith	Approval
Michael Strehlow	Approval
Thomas Timeus	Approval
Mark Ashworth	Approval
Paul Baerwald	Approval
Kyle Dannies	Approval
Thomas Repaci	Approval
Robert Smith	Approval
Willie Spears	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 – Ordinary</u>	<u>Recommendation</u>
Ruby Richardson Effective 10/11/08	Approval
<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
Jennifer Eigner	Approval
Nicholas Marusic	Approval

<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
Katherine Wilson	Approval
Dean Sass	Approval
Steven Gipp	Approval
Shirley Furlough	Approval
Bonnie Lund	Approval
<u>Re-examinations – Duty</u>	<u>Recommendation</u>
Anthony Mercadel	Approval
Joseph Alferi	Approval
Daniel Pfeffer	Approval

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

Disability Findings – John P. Craney. Mr. Allen presented the findings submitted by Hearing Examiner Fiorenza, whose Decision states “The Application of John C. Craney for Duty Disability benefits is denied”. Correspondence was also received from the City Attorney’s Office, dated October 29, 2008, indicating it did not intend to file a brief. It was moved by Mr. Walter, seconded by Mr. Carey, and unanimously carried, to accept the recommendation of Hearing Examiner Fiorenza denying the application of Mr. Craney.

Disability Findings – Richard Lukszys. Mr. Allen presented the findings submitted by Hearing Examiner Manian, whose Decision states “The decision of the Medical Council and Pension and Annuity Board is amply supported by a fair and objective view of the evidence. Upon the records, files and proceedings had herein, the decision of the Independent Examiner Frederick Kessler, the Medical Council and the Annuity and Pension Board is affirmed.” Correspondence was also received from the City Attorney’s Office, dated September 30, 2008, indicating it did not intend to file a brief. A brief was submitted by Mr. Lukszys’ attorney, Lynne Layber, along with a request for oral arguments. Mr. Carey moved to accept the report of the Hearing Examiner, but had a question. Discussion ensued. Mr. Walter seconded Mr. Carey’s motion. Further discussion ensued. As a point of order, Mr. Walter noted that the Board has not voted on the matter yet. Mr. Barmore moved to lay this item over until the next regularly scheduled meeting. Mr. Walter seconded the motion. Further discussion ensued. Mr. Barmore called for the question to vote on the lay over. Mr. Morics asked for a roll call vote. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Carey and Walter. NOES: Mr. Morics.

Mr. Morics directed this item be laid over until December 19, 2008. Further discussion ensued.

(Ms. Layber, Mr. Lukszys and Mr. Hendricks left the meeting.)

Disability Findings – Tracy Martinez. Mr. Allen present the findings submitted by Hearing Examiner Gerlach, whose Decision states “The decision of the Annuity and Pension Board denying applicant, Tracy Martinez, duty disability retirement status is affirmed.” Correspondence was also received from the City Attorney’s Office, date September 30, 2008, indicating it did not intend to file a brief; and Ms. Martinez’s attorney, John Fuchs, dated October 3, 2008. It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to accept the recommendation of Hearing Examiner Gerlach denying duty disability retirement status.

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:

Outside Earnings – Military Pay. Requested August 22, 2008, received November 11, 2008. Mr. Konrad briefly discussed the opinion.

Death Benefits Payable – Notice of Claim pursuant to Wis. Stat. § 766.575(3). Ms. Cleary stated this opinion is being withdrawn at this time.

Charter Ordinance Authorizing the Payment of a 13th Check to Retirees of the City of Milwaukee Employees’ Retirement System. Requested May 23, 2008, received June 24, 2008. Mr. Konrad briefly discussed the opinion.

Travelers Property & Liability Policy Renewal. Requested October 9, 2008, received November 12, 2008. Mr. Konrad briefly talked about the request.

EKC Recruiting, LLC Contract. Requested October 23, 2008, received October 29, 2008. Mr. Konrad briefly talked about the contract.

It was moved by Mr. Walter, seconded by Mr. Barmore, and unanimously carried, to accept the legal opinions 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.

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. Please note the Board did not convene in closed session as noticed. Mr. Allen stated there was nothing to discuss at this time.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated November 20, 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 December 2008 through May 2009.
- 3) Class Action Lawsuit Report.
- 4) Minutes of the Administration and Operations Committee Meeting held October 21, 2008.

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

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

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

There being no further business, Mr. Morics adjourned the meeting at 11:55 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.)