

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

Minutes of the Annual Meeting held January 26, 2009

The meeting was called to order at 9:03 a.m.

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

Board Members Not Present: Michael J. Murphy (arrived at 9:10 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, Sagetic; Jay Patel, Saber Solutions; John Ledvina, Budget Office; Fred Hendricks, Retiree; and Attorney Lynne Layber.

Officers for 2008.

Election of Chair. Mr. Morics asked for a motion for nominations for Chair. It was moved by Mr. Barmore and seconded by Mr. Carey to nominate Mr. Morics for Chair. Mr. Morics asked three more times for any further nominations. It was moved by Mr. Walter, seconded by Mr. Barmore, and unanimously carried, to close nominations and that a unanimous vote be cast for Mr. Morics as Chair of the Annuity and Pension Board.

Election of Vice-Chair. Mr. Morics asked for a motion for nominations for Vice-Chair. Mr. Morics passed the gavel and moved to nominate Mr. Carey for Vice-Chair. Mr. Barmore seconded the nomination. Mr. Morics asked three more times for any further nominations. It was moved by Mr. Morics, seconded by Mr. Holland, and unanimously carried, that nominations be closed and that a unanimous vote be cast for Mr. Carey as Vice-Chair of the Annuity and Pension Board.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held November 20, 2008. It was moved by Mr. Holland, seconded by Mr. Fischer, and unanimously carried, to approve the Minutes of the Regular Meeting held November 20, 2008.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated January 21, 2009. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Silber reported that as of December 31, 2008 the Fund's projected value was \$3.43 billion and the return in December of 3.1 percent was in line with its blended benchmark return. For 2008 the Fund had a return of -30.7 percent, underperforming its benchmark return of -25.6 percent. He stated that the domestic equity

composite had a return of 2.5 percent for December, outperforming its benchmark return of 1.9 percent. Bernstein and BGI both outperformed their respective benchmarks by 2.2 percent and 0.4 percent; and Turner underperformed its benchmark by 1.4 percent. Mr. Silber indicated that the domestic equity composite has underperformed in all other time periods shown.

He reported on the international equity composite stating it had a return of 7.0 percent during December, outperforming its benchmark by 1.0 percent. Both DFA and Brandes outperformed their benchmarks nicely, while Blair underperformed its benchmark by 0.6 percent. The international equity composite underperformed during 2008, but still outperformed during the other time periods shown. Mr. Silber said the fixed income composite had a 5.4 percent return in December, outperforming the benchmark nicely. He stated the one year number still underperformed significantly returning -7.6 percent versus its benchmark return of 5.2 percent. Mr. Silber indicated the reason the three composites all outperformed in December but the Fund only matched its benchmark is due to real estate, as those returns come in at a quarter lag. He said the NCREIF only went down about 1 percent, but ERS' real estate returns received in December are down more than that.

Mr. Silber stated that, month-to-date through January 23, 2009 the Fund is projected to be down about 5.8 percent, led by the international and domestic equity composites which are down about 11 percent and 7.8 percent, respectively. The fixed income composite is down about 0.7 percent while the Fund's projected value is \$3.25 billion.

He talked about the returns based style analysis, which shows all domestic equity managers are within their expected styles. He reported that for January the Fund will be withdrawing \$17.0 million: \$7 million from Barclays fixed income, \$4 million from Reams and \$6 million from Loomis Sayles. As of January 23, 2009, year-to-date, the Fund had: capital market losses of \$182.4 million; paid out \$2 million in payroll and expenses; and received contributions of \$2.4 million. Discussion ensued.

(During the above discussion, Mr. Murphy arrived at 9:10 a.m.)

Mr. Murphy asked the Chair, if there were no objections, to be recorded as an affirmative vote for the Election of the Chair and Vice-Chair. Hearing no objections, Mr. Morics indicated that the record will reflect that Mr. Murphy supported the votes for Mr. Morics as Chair and Mr. Carey as Vice-Chair.

Approval of Reams Request to Hold Downgraded Bonds past 90 days. Mr. Rick handed out two letters from Reams Asset Management, dated January 22, 2009. Mr. Silber briefly talked about the downgraded bonds and Reams' request. After discussion, it was moved by Mr. Murphy, seconded by Mr. Fischer, and unanimously carried, to approve Reams request to hold downgraded bonds an additional 90 days.

With regard to the custodial search Mr. Rick stated the plan is to provide an update to the custodial environment at our next meeting. Staff is also reviewing the Tier 1 and Tier 2 capital ratios for Northern as well as other custodial banks with a goal of establishing an early warning system related to capital adequacy of the bank. He pointed out that Northern Trust was recently featured in a Wall Street Journal article as one of two banks expected to weather the current crisis better than others.

Mr. Rick reported that Securities Lending earned a net \$2.37 million for 2008. Those proceeds, along with capital proceeds from Northern, will be requested to be transferred to our cash account for normal expense payment in order to avoid close-out to the non-consenter retirement fund. He stated that ERS received \$548,000 from the Enron class action settlement, and Reams held around \$8 million of Enron securities in 2000 and 2001.

Mr. Rick handed out a 2009 Due Diligence schedule. He stated the dates can be adjusted if any Board members are interested in attending.

Investment Committee Report (December and January). Mr. Murphy reported that at the December 12th Investment Committee meeting, members reviewed a fixed income structure presentation prepared by Mercer. Two investment managers, Reams Asset Management and Northern Trust, provided updates to their strategy, account performance and securities lending. He indicated that staff also presented the real estate strategic plan update which incorporated guideline changes to our targeted ranges and our traditional and specialized asset mix.

Mr. Barmore reported that at the January 22nd Investment Committee meeting, Brandes Investment Partners provided a year end strategy and performance review of their account. Also, the Committee reviewed a memorandum from Mercer regarding the Global Equity search criteria. He stated that Committee members discussed scheduling a private equity and infrastructure overview at the February 12, 2009 Investment Committee meeting.

Administration and Operations Committee Report (December and January). Mr. Barmore reported that an update was given on the org study. Progress is being made on process reviews, the compensation study, benchmarking and investment reviews. There was discussion on MERITS processing with a recap of the events that occurred in 2008.

Approval to Move Forward on Disaster Recovery/Approval to Move Forward with Remote Server Site and Remote Office Site. He indicated there was lengthy discussion on disaster recovery and business continuity planning. Staff put together a fairly comprehensive report analyzing the effectiveness of remote site installations. There is a recommendation to have staff move forward on arranging for a separate data communications service as backup to the city service (internet access); develop specifications for a remote office and initiate a search; and negotiate with the State of Wisconsin for a remote server site.

Acceptance of Virchow Krause Management Letter. Mr. Barmore stated that Mr. Morgan and Ms. Middleman presented the final results of the audit with some recommendations, which staff is adequately addressing.

Approval of Deloitte & Touche Contract and Statement of Work. Mr. Barmore said the Committee recommends approval of the contract to continue normal ARIS map updates for 2009.

Approval to Amend Inland Construction Contract. Mr. Barmore stated that the Inland Contract Amendment is due to the work effort taking longer than anticipated for the HVAC work on the 4th floor server room. The amendment extends the time of performance to the end of February.

Approval of Website Privacy Policy. Mr. Barmore stated that staff presented the web site privacy policy for approval. This version was reviewed by the city attorney and will be posted to the ERS website.

Lastly, Mr. Barmore indicated that Jefferson Wells presented their audit findings for the Investment area and controls were found to be adequate. The auditor recommended that staff ensure the investment managers were balancing with Northern Trust, our custodian. This will be done on a quarterly basis going forward.

It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to approve the Administration and Operations Committee report, including approval of the aforementioned items.

New Business.

Authorization to Sign Vouchers. The Secretary presented the following resolution in accordance with Section 36.15 (11) of the Retirement Act:

RESOLVED, That the following persons are hereby designated and authorized to sign vouchers for payments from funds of the Employees' Retirement System or to authorize fund transfers with the custodian bank :

Any two of the following:

Chairman, W. Martin Morics _____
or

Vice Chairman, William C. Carey _____
or

City Comptroller, W. Martin Morics _____
or

Special Deputy Comptroller, John Egan _____
or

Deputy Comptroller, Michael J. Daun _____
or

Secretary & Executive Director, Bernard J. Allen _____
or

Deputy Director, Martin Matson _____
or

Chief Investment Officer, Thomas A. Rick _____

And be it

FURTHER RESOLVED, that a duly-attested copy of this resolution, bearing on its face specimen signatures of the above-designated persons, shall be forwarded to the City Treasurer and the Custodian Bank.

It was moved by Mr. Fischer, seconded by Mr. Holland, and unanimously carried, to approve the Authorization to Sign Vouchers.

Retirements, Death Claims, and Refunds (December and January). Mr. Allen presented the following activity from the month of December 2008 and January 2009, as well as Service Credits for the month of December 2008 and January 2009.

Active Death Benefits reported	
December 2008	\$39,523.42
January 2009	\$191,283.16
Retired Death Benefits reported	
December 2008	\$9,637.34
January 2009	\$9689.95
Refund of Member Contributions paid	
December 2008	\$28,284.68
January 2009	\$136,399.73

It was moved by Mr. Barmore, 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:

Beth Cleary	2009 Winter Seminar Meetings
Sponsor:	National Assn. of Public Pension Attorneys
Location:	Washington, DC
Date (s):	February 4 – 6, 2009
Estimated Cost:	\$1,857
Bruce Thomas	Real Estate and Infrastructure Conference
Sponsor:	JP Morgan
Location:	Palm Beach, FL
Date (s):	April 28 – 30, 2009
Estimated Cost:	\$1,350
Bruce Thomas	Zephyr Training
Sponsor:	Zephyr Associates
Location:	Chicago, IL
Date (s):	February 12, 2009
Estimated Cost:	\$94.00
Bruce Thomas	PRISA Information Session
Sponsor:	Prudential Financial
Location:	Chicago, IL
Date (s):	February 24, 2009
Estimated Cost:	\$94.00

It was moved by Mr. Barmore, seconded by Mr. Murphy, and unanimously carried, to approve the conference requests submitted by Ms. Cleary and Mr. Thomas.

2008 Securities Lending Budget. As a matter of information, Board members received a copy of the Annual Summary Securities Lending Income and Expenses: 2008. Mr. Rick stated there is about a \$2.89 million in Securities Lending. He said the approximate earnings from Securities Lending is more like \$2.37 million; the other amount relates to when Northern Trust infused into ERS' Securities Lending portfolio revenue about \$455,000 as a support. He said that, in accordance with the charter ordinance, that money be transferred out of Securities Lending into ERS' cash account to use for normal operating and maintenance expenses or benefit payments. Mr. Rick said if this money is not transferred it will lapse to the non-consenter fund and be available for non-consenters. It was moved by Mr. Barmore, and seconded by Mr. Fischer, to approve the transfer of the Securities Lending Budget. After discussion, the motion unanimously carried.

Approval of Bulletin 178 – Special Active Member Election. As a matter of information, Board members received a copy of Bulletin 178. Mr. Allen stated the announcement for the special election to fill Mr. Raclaw's unexpired term was included in the December 19, 2008 meeting packet. He indicated that staff did go ahead and send this out with his approval so as not to delay the election further. It was moved by Mr. Fischer, seconded by Mr. Barmore, and unanimously carried, to approve Bulletin 178.

Proposed 2009 Annuity and Pension Board Meeting Dates. As a matter of information, Board members received the listing of proposed meeting date. Mr. Morics indicated this was informational only and did not require approval.

Approval of Resolution of Appreciation – Sebastian Raclaw. Mr. Allen presented a resolution as follows:

WHEREAS, Sebastian C. J. Raclaw, Trustee of the Annuity and Pension Board, conscientiously served in the above capacity for over two years from January 1, 2006 to November 14, 2008 and represented this System during his tenure of office; and

WHEREAS, Mr. Raclaw's knowledge of pension benefits enabled him to make a valuable contribution to the Annuity and Pension Board and the well-being of the Employees' Retirement System of the City of Milwaukee and its thousands of participants; and

WHEREAS, Mr. Raclaw's support and participation helped in the successful relocation of the ERS office and the hiring of the new Executive Director; and

WHEREAS, Mr. Raclaw, as a member of the Administration and Operations Committee of the Annuity and Pension Board, oversaw the development of a new Pension Management Information System, MERITS, and a new document management system for the Employees' Retirement System; and

WHEREAS, Mr. Raclaw served on the Investment Committee of the Annuity and Pension Board throughout his tenure, assisting in the development of the Employees' Retirement System's Real Estate Strategic Plan and Asset Allocation Study; and

WHEREAS, Mr. Raclaw's departure will be a great loss to the Annuity and Pension Board and the members of the Employees' Retirement System; therefore, be it

RESOLVED, By the Annuity and Pension Board that it hereby expresses its sincere appreciation for the valuable and conscientious service of Mr. Raclaw, and be it

FURTHER RESOLVED, That this resolution be recorded in the permanent records of this Board and that a suitably engrossed copy be forwarded to Mr. Raclaw.

It was moved by Mr. Murphy, seconded by Mr. Carey, and unanimously carried, to approve the Resolution for Mr. Raclaw.

Request for Waiver of Medical Panel Re-examination. As a matter of information, Board members received a memorandum from Mr. Allen, dated January 26, 2009. Mr. Allen explained these types of requests come before the Board occasionally as the member is on a 90 percent disability and there is no chance of recovery. He stated that Mr. Sweet would still be required to furnish the Board with a physician report. It was moved by Mr. Carey, seconded by Mr. Fischer, to approve the waiver of medical panel re-examination for discussion purposes. After discussion, the motion unanimously carried.

Performance Evaluation Process for Executive Director Position. Mr. Morics indicated he would like to take this up as the last item as it was his intent to adjourn the meeting from closed session.

Discussion with Whyte Hirschboeck Dudek re: Chap. 36-03-4 Report of City Officials. Mr. Allen stated that Mr. Greer was unable to attend today’s meeting, but he has set up a meeting with MPS and then report back to the Board. Mr. Morics stated this would also be taken up later in closed session.

Medical Reports (December and January).

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>Police – Re-examinations</u>	<u>Recommendation</u>
Sharon Felber	Approval
Margaret Pedersen	Approval
Patrice Bayer	Approval
Marie Hendrickson	Approval
Christian Hlavinka	Approval
Michael Salomone	Approval
 <u>Fire – New Applications (Duty)</u>	 <u>Recommendation</u>
Phillip Quigley	Denial
 <u>Fire – Re-examinations</u>	 <u>Recommendation</u>
Charles Burton III	Approval
Daniel Clay	Approval
Vernon Drew	Approval
Martin Hinsenkamp	Approval
Matthew Kirklewski	Approval
Martin Klicinski	Approval
Patrick Sierra	Approval
William Soderbeck	Approval
John Nencka	Approval
Thomas Haack	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>
Evelyn Hull	Denial
Dorothy McLaurin	Denial
<u>New Applications – Ordinary</u>	<u>Recommendation</u>
Roger Maurer	Approval
Effective 12/31/08	
Evelyn Hull	Approval
Effective 9/4/08	
Twyla Devine	Approval
Effective 11/25/08	
<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
Steven Lemery	Approval
Sandra Pampuch	Approval
Dwayne Edwards	Approval
Gerald Kinnard	Approval
Amoree Pulliam	Approval
Donald Cole	Approval
Gloria Hodges	Approval
Lawrence Ivory	Approval
Steven May	Approval
Samuel Yates	Approval
Ricky Eisbrenner	Approval
Nancy McRae	Approval
Jerome Schillaci	Approval
James Martel	Approval
Raymond Mielke	Approval
Linda Huerta	Approval
Madelyn Barnett	Approval
Leon Kendricks	Approval
Hal Allen	Approval
<u>Re-examinations – Duty</u>	<u>Recommendation</u>
Genevieve Lynk-Burnett	Approval
Eugene Heron	Approval
Quedell Braylock	Approval
Douglas Hafer	Approval
John Timian	Approval
Steven Fleckenstein	Approval
Daniel Gonzales	Approval

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

Unfinished Business.

Disability Findings – Richard Lukszys. Mr. Morics indicated this item was laid over from the November 2008 meeting. He said there is a request from Mr. Lukszys attorney to present oral arguments to the Board, and also the report of the hearing examiner. Mr. Morics asked for a motion to grant the request for oral arguments. Brief discussion ensued. Mr. Morics again asked if there was a motion to hear oral arguments. It was moved by Mr. Murphy, seconded by Mr. Carey, and unanimously carried, to accept the hearing examiner's report.

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:

Retirement Benefits for Laid Off Workers. Requested January 9, 2009, received January 24, 2009. Mr. Konrad briefly discussed the opinion.

Internal Audit of ERS. Requested October 10, 2008, received November 25, 2008. Ms. Cleary briefly discussed the opinion.

Death Benefits Payable – Notice of Claim pursuant to Wis. Stat. § 766.575(3). Requested November 3, 2008, received December 5, 2008. Ms. Cleary briefly discussed the opinion.

Prepayment for services. Ms. Cleary briefly talked about the opinion.

It was moved by Mr. Carey, seconded by Mr. Holland, to accept the opinions of November 20, 2008, December 3, 2008, December 9, 2008, and January 13, 2009.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. Mr. Allen stated there was nothing new to report on since the November 2008 meeting.

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, along with ERS Goals for 2009.

Informational

The following is a list of informational items:

1/26/2009

- 1) Report on Claims and Litigation – Memorandum dated January 26, 2009, 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 January 2009 through September 2009.
- 3) Class Action Lawsuit Report.
- 4) Adjusted Quarterly Cost Basis of Equity – December 31, 2008 (Preliminary).
- 5) Minutes of the Legislative Committee Meeting held October 27, 2008.
- 6) Minutes of the Investment Committee Meeting held November 12, 2008.

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

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

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

Performance Evaluation Process for Executive Director Position. Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on the following item (I), as provided in Section 19.85 (1) (c), Wisconsin State Statutes, for considering employment, promotion, compensation or performance valuation data of any public employe over which the governmental body has jurisdiction or exercises responsibility, and **Discussion with Whyte Hirschboeck Dudek re: Chap. 36-03-4 Report of City Officials.** Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on the following item (J.), as provided in Section 19.85 (1) (g), Wisconsin State Statutes, to confer with legal counsel concerning strategy the Board may adopt with respect to litigation in which it is or is likely to become involved. He stated it was his intent to adjourn the meeting from closed session. It was moved by Mr. Barmore and seconded by Mr. Fischer, to convene in closed session and adjourn from closed session. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Carey, Fischer, Holland, Murphy, Walter and Morics. NOES: None.

The Board convened in closed session at 10:12 p.m. There being no further business, Mr. Morics adjourned the meeting at approximately 10:30 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.)