

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

Minutes of the Regular Meeting held February 25, 2009

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

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

Board Members Not Present: William C. Carey (excused)
 Larry Holland (excused)
 Michael J. Murphy (arrived at 9:35 a.m.)

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

Others Present: Elizabeth Conradson Cleary, Rudolph Konrad and Maurita Houren, City Attorney's Office; Jon Granger, Sagitec, Jay Patel, S & S Consulting, and James Greer, Whyte Hirschboeck Dudek.

Appointment of Committees for 2009. Administration and Operations Committee, Investment Committee, Litigation Committee and Legislative Committee. Mr. Allen handed out a list of the Committees. Mr. Morics stated these are the Committee assignments for 2009. He indicated that the Chair of each Committee is appointed by him, and each Committee will then elect a Vice-Chair. He also indicated that any Board member can be added to a Committee at any time. Discussion ensued with respect to quorum issues.

Approval of Minutes. Mr. Allen presented the minutes of the Annual Meeting held January 26, 2009. It was moved by Mr. Walter, seconded by Mr. Fischer, and unanimously carried, to approve the Minutes of the Annual Meeting held January 26, 2009.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated February 19, 2009. Mr. Silber indicated that due to technical problems he did not have an updated performance chart to hand out. He reported that January 2009 was the worst January return of the S & P 500 in history. The Fund's return for January was down about 5.1 percent, but ERS did beat our blended benchmark. Mr. Silber reported that Bernstein and Earnest both outperformed their benchmarks, while Artisan and DFA – US small cap value underperformed. On the international side both Brandes and Blair outperformed their benchmarks. For fixed income Loomis had a return of 1.1 percent, outperforming their Lehman benchmark of -0.9 percent, and Reams underperformed during

January. Mr. Silber stated the Fund's value is currently \$3.1 billion, and the Fund is down an additional 5 percent for February, which puts the 2009 year-to-date return at about -9.3 percent.

He reported the Fund had: capital market losses of \$360 million* as of February 23, 2009; paid out \$24.6 million in payroll and expenses; and received contributions of \$5.4 million.

*See updated amount at the end of the CIO report.

Approval of Reams' Request to Hold Downgraded Bonds past 90 days. As a matter of information, Board members received copies of three letters from Reams, dated February 19, 2009. Mr. Silber talked about the downgraded bonds for Fannie Mae and Freddie Mac; Ford Motor Credit Corporation, and Chrysler Automotive. After discussion, it was moved by Mr. Barmore, seconded by Mr. Fischer, and unanimously carried, to approve Reams' request to hold the aforementioned downgraded bonds for an additional 90 days per staff recommendation.

Mr. Silber talked about a downgraded GMAC bond held by Loomis indicating that Loomis participated in an exchange. He said this is interesting because Reams held the exact same security, but did not participate in the exchange and he gave an overview on this bond.

Mr. Silber handed out a memo from Mercer, dated February 23, 2009. He stated that Mercer has announced their intent to merge their operations with Callan Associates, which is another major consulting firm. The combined entities will probably make up close to 20 percent of the institutional consulting market. He said the team at Mercer who work on ERS' account will not change based on the merger as most of the change is expected to be behind the scenes. Mr. Silber indicated that by combining the two research departments Mercer hopes to offer superior manager research availability. Mr. Morics asked that this be referred to the City Attorney's Office for review of possible contractual implications in our current contract.

Mr. Silber reported that the next Investment Committee meeting is March 26, 2009, and Mercer will be presenting their narrowed list of global equity managers for the two searches. The plan is to narrow down the long lists presented several weeks ago, to three managers on the global growth side, and three managers on the global value side. He said if the Investment Committee is comfortable at that time with the managers on the short lists, we would try to schedule one or two days for interviews and selection. Discussion ensued.

Mr. Silber briefly talked about up coming due diligence trips and invited any interested Board members. He reported that there was some positive news in Securities Lending in January. The Northern Trust S & P 500 Fund outperformed its benchmark by about 12 basis points. Mr. Silber stated that ERS gets a valuation on the core collateral pool for the Securities Lending, which reached its highest level that it has been since the middle of November 2008. The deficiency has not changed, but the fact that it is getting closer to a dollar is only good news. In January, ERS did receive \$161,000 in Securities Lending net income, and while it is slightly less than January 2008, it is off to a nice pace for the year.

Mr. Silber briefly updated the Board on the discussion the Committee had with Townsend about a separately managed account.

*Mr. Thomas handed out an updated performance chart, which indicates as of February 24, 2009 the capital market losses were \$264.1 million.

Investment Committee Report. Mr. Barmore reported that the Committee met and Townsend presented 3rd quarter real estate performance and talked about their plan to refinance the Fund's last separately managed property, One Oakbrook. Barclays Global Investors also presented to the Committee and provided an update on the two strategies they manage for ERS.

Mr. Barmore indicated that Mercer presented the managers that passed their initial screens for the two Global Equity searches the Fund has initiated. Mercer also provided education on Private Equity and Infrastructure.

He stated that staff provided an update on downgraded holdings and presented the Fund value added report, which compared the Fund's equity and fixed income composite returns versus their passive benchmarks. Staff also presented 4th quarter performance.

Approval of Reams' Request to Hold Downgraded Bond past 90 days. Mr. Silber indicated this was approved at the February 12, 2009 Committee meeting. Mr. Morics asked this be held so staff can provide the Board members with a copy of the Reams letter, dated February 4, 2009.

(At this point, the agenda was taken out of order.)

Administration and Operations Committee Report. Mr. Barmore reported the Committee received a brief review of the organization study progress. On MERITS, he reported that the PIR/CCR counts are up slightly for the 2009. Mr. Barmore indicated that the HVAC unit that came with the building (789 N Water) may have to be replaced as it was installed incorrectly, and staff is waiting for quotes. DPW conversations regarding the Henneman findings on the 809 building are still pending. He said the Disaster recovery work continues on communications, a remote office and a remote site.

Approval of Jefferson Wells Statement of Work #4. Mr. Barmore indicated this is for work to be done for next 12 months.

He reported that Jefferson Wells presented their audit findings for Ethics & Governance and IT Governance. Overall the audits were clean. Management responded to several concerns mentioned in both audits. Please refer to your A&O packets for more detail.

Approval to Close out 2008 Budget. Mr. Barmore stated that there was discussion on how the ERS reimburses the city for its expenses and that a change to the intergovernmental cooperation agreement is in the works. Under the current policy the City was overpaid \$5.2 million during 2008, which will be returned to the ERS with approval of the close out.

Approval of Automated External Defibrillator Policy. The City’s AED policy was amended to include the ERS. Equipment and training will be forthcoming with approval of the policy.

Approval of Virchow Krause Contract Amendment. Mr. Barmore reported that the amendment is only for fees. Increases in fees were due to changes in the federal laws related to audit requirements, and more work is now necessary to conduct the annual financial audit.

Financial Audit – Virchow Krause. Mr. Barmore indicated it was not necessary to convene in closed session on this item. He stated that the discussion involved an overview from Mr. Morgan on how the process would work if there were any substantial concerns that were found in the audit, and how ERS could move forward with that.

It was moved by Mr. Barmore, seconded by Mr. Murphy, and unanimously carried, to approve the A & O Committee report, including items V. A. through D.

Mr. Morics went back to item IV. A.

Approval of Reams’ Request to Hold Downgraded Bond past 90 days. Mr. Silber handed out a copy of the Reams letter, dated February 4, 2009 and discussed Reams’ request regarding the Harrah’s security. After discussion, it was moved by Mr. Murphy, seconded by Mr. Fischer, and unanimously carried, to approve Reams’ request to hold the bond for an additional 90 days.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity, as well as Service Credits for the month of February 2009.

Active Death Benefits reported	\$	55,706.39
Retired Death Benefits reported	\$	17,749.43
Refund of Member Contributions paid	\$	85,888.90

Board members also received a memo, dated February 12, 2009, indicating that Mr. Gregory Gracz was incorrectly listed as retired on the December 2008 Retirement Report. It was moved by Mr. Murphy, 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:

IS Manager & Martin Matson	PRISM Conference
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Sponsor: Public Retirement Information Systems Managers
 Location: Portland, OR
 Date (s): April 25 – 28, 2009
 Estimated Cost: \$1,500 per person

John Barmore PRISA Information Session
 Sponsor: Prudential Financial
 Location: Chicago, IL
 Date (s): February 24, 2009
 Estimated Cost: \$94.00

Jerry Allen &
 Martin Matson Investors Conference
 Sponsor: Council of Institutional Investors
 Location: Washington, DC
 Date (s): April 5 – 7, 2009
 Estimated Cost: \$2,000 per person

Mr. Murphy indicated he may be interested in attending the Investors Conference in Washington, DC in April 2009. Mr. Barmore noted that he actually attended the PRISA conference yesterday and his cost totaled \$59. Mr. Morics reiterated that he is authorized as Chair to approve any conference request between Board meetings if a Board member finds a conference they would be interested in attending. It was moved by Mr. Murphy, seconded by Mr. Walter, and unanimously carried, to approve the conference requests submitted by Messrs. Matson, Barmore, Allen and Murphy.

ERS Funding Policy. Mr. Morics indicated this was on here as a place holder. As the Board would recall we did approve the City to use ERS' actuary in terms of doing planning work. He said as things filter in to the City there may be items that come up from time to time that potentially can impact some of the issues before this Board. Mr. Morics stated that if things do come up he would be contacting Board members and keep everyone up to speed on the funding policy, etc.

Referral to A & O Committee – Request for Increase in Hourly Rate of Pay for Medical Council Physicians. As a matter of information, Board members received a copy of a memorandum, dated February 3, 2009. Mr. Morics directed this be referred to the A & O Committee.

Referral to A & O Committee – Amendment to the Intergovernmental Cooperation Agreement between the City of Milwaukee and ERS. Mr. Morics said this is for the matter that refers the method of compensation for ERS expenses. Mr. Konrad said this is regarding the new method Mr. Haley suggested for the ERS to reimburse the City for expenses. He indicated he has not heard back from the Budget Office as yet, so he thinks he will write up the change and forward it to the Common Council. Mr. Allen stated that ERS has heard from the Budget Office. Mr. Barmore stated that Mr. Matson commented to him that this process is moving forward. Mr. Morics referred this to the A & O Committee. Mr.

Matson stated he would forward a response to the City Attorney’s Office to draft the changes.

City Attorney Presentation on Disability Retirement Process. As a matter of information, Board members received a memorandum, dated February 3, 2009, with an attached Summary of Disability Retirement Process. Ms. Houren proceeded to discuss the duty disability retirement process. Discussion ensued throughout her presentation.

Mr. Morics stated that Mr. Greer was present and directed that items VI. H. and VIII. D. be taken out of order at this time.

Discussion with Whyte Hirschboeck Dudek re: Chap. 35-03-4 Report of City Officials and Milwaukee Police Supervisors’ Organization vs. ERS, et al, Case No. 05-CV-006697. Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on the following items (VI. H. and VIII. D.), 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. The Board will then reconvene in open session following the closed session. It was moved by Mr. Barmore and seconded by Mr. Walter, that the Board convene in closed session on items VI. H. and VIII. D. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Fischer, Murphy, Walter and Morics. NOES: None.

The Board convened in closed session at 10:32 a.m. and reconvened in open session at 11:08 a.m.

Mr. Morics indicated that it was his intent to take item VI. G. at the end of the meeting and adjourn the meeting from closed session.

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>Police – New Applications - Duty</u>	<u>Recommendation</u>
Alejandro Arce	Approval
Effective 2/24/09	
Patrick Patterson	Denial
<u>Police – Re-examinations</u>	<u>Recommendation</u>
Keith Baines	Approval
Michael Schuster	Approval

Fire – Re-examinationsRecommendation

Daniel Dombrowski	Approval
Tim Franken	Approval
Warren Hornik	Approval
Alton Taylor	Approval
Michael Ziems	Approval

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

New Applications – DutyRecommendation

David Scheller	Denial
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New Applications – OrdinaryRecommendation

David Scheller	Approval
Effective 12/6/08	
Diana Morgan	Approval
Effective 1/11/09	
Myriam Valentin	Approval
Effective 1/15/09	

Re-examinations – OrdinaryRecommendation

Ronald Thelaner	Approval
Curtis Nealey	Approval
Daniel Higgins	Approval
Mary Anderson	Approval
Craig Winstead	Approval
Grover Hicks	Approval
Prim Rose Davis	Approval

Re-examinations – DutyRecommendation

Arthurman Curry	Approval
Vince Maniscalco	Approval
John Schmitz	Approval
Hubbard Riley	Approval
Daniel Ellis	Approval
Roger Jasinski	Approval
Frank Seibel	Approval
Isaac Watson	Approval
Kenneth Gotz	Approval

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

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:

Settlement of Employment Law Cases; ERS Member Contribution (9/8/04); Settlement of Employment Law Cases; Repayment of Withdrawn Member Account (6/8/04). Requested June 8, 2004, received February 17, 2009. Mr. Konrad discussed the opinion.

First Amendment to Virchow, Krause & Company LLP Agreement.

It was moved by Mr. Fischer, seconded by Mr. Murphy, and unanimously carried, to accept the legal opinion, dated February 11, 2009, and the Virchow Krause contract amendment 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 and noted there was nothing to report at this time.

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.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated February 25, 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 March 2009 through September 2009.
- 3) Class Action Lawsuit Report.
- 4) Minutes of the Administration and Operations Committee Meeting held November 18, 2008.
- 5) Minutes of the Administration and Operations Committee Meeting held December 16, 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. Barmore, seconded by Mr. Murphy, and unanimously carried, to accept and place on file the aforementioned informational items.

Executive Director Performance Evaluation. Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on the following item (VI. G.), 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. He stated it was his intent to adjourn from closed session. It was moved by Mr. Murphy and seconded by Mr. Fischer, that the Board convene in closed session on this item. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Fischer, Murphy, and Morics. NOES: None.

The Board convened in closed session at 11:30 a.m.

There being no further business, Mr. Morics adjourned the meeting at 11:42 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.)