

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

Minutes of the Regular Meeting held March 23, 2009

The meeting was called to order at 9:05 a.m.

Board Members Present: John Barmore
 Thomas Fischer
 Larry Holland
 W. Martin Morics, Chair

Board Members Not Present: William C. Carey (excused)
 Michael J. Murphy (arrived at 9:30 a.m.)
 Ron Walter

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
 Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Cleary, City Attorney's Office; Jay Patel, S & S Consulting and Terry Siddiqui, DS Consulting.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held February 25, 2009. It was moved by Mr. Barmore, seconded by Mr. Fischer, and unanimously carried, to approve the Minutes of the Regular Meeting held March 23, 2009.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated March 18, 2009. Mr. Thomas handed out a copy of the Performance Update Charts and reported that as of February 28, 2009 the Fund's approximate value was \$3.01 billion and had a -6.5 percent return versus the -6.9 percent return of the benchmark. This translated into 40 basis points of outperformance. He noted the domestic equity composite was in line with its benchmark with a -10.4 percent return versus the benchmark return of -10.5 percent. The international equity composite was down -9.1 percent versus -10.3 percent for the benchmark. This translated into 1.2 percent of outperformance, with Blair's outperformance driving much of that. On the fixed income composite, Mr. Thomas stated that the composite was down -2.0 percent versus the -0.4 percent for the benchmark. This translated into 1.6 percent of underperformance, with Reams underperformance driving much of that. Mr. Thomas reported that March month-to-date, the Fund is up about 3.7 percent. The domestic and international equity composites are up about 5.3 percent and 4.6 percent, respectively. The fixed income composite is up about 1.3 percent, and the Fund's projected value is approximately \$3.11 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 March the Fund will be withdrawing \$20.0 million: \$10 million from Barclays fixed income, and \$10 million from Loomis Sayles. As of March 19, 2009, year-to-date, the Fund had: capital market losses of \$288.2 million; paid out \$42.2 million in payroll and expenses; and received contributions of \$7.8 million. He reported that ERS moved \$7 million from fixed income to international equity as part of our rebalancing program. This will continue through April 2009, and at that time ERS and Mercer will re-evaluate the rebalancing program. Discussion ensued.

On the custodial search, Mr. Rick stated he will have a report comparing Northern to their peers on a variety of statistical and financial information for the Investment Committee later this week. He indicated that ERS has earned a net \$380,000 in our securities lending activity so far for 2009, compared against \$477,000 for 2008. As for due diligence trips, Mr. Rick noted that staff has scheduled Earnest Partners in Atlanta for May 12-13, 2009. Also, Townsend is reviewing possible dates in May for a due diligence trip to Cleveland.

Approval of Reams' Request to Hold a Downgraded Bond Past 90 Days. As a matter of information, Board members received a copy of a letter from Reams', dated March 17, 2009. Mr. Silber talked about the Lear Corporation bond that Reams' is requesting to hold past 90 days. After discussion, it was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to approve Reams' request to continue holding this bond.

Mr. Silber reported that at the February Board meeting he talked about a downgraded GMAC bond that both Loomis and Reams held in their portfolios. He stated that after the Board meeting he did receive additional information from Reams that they did, in fact, participate in the exchange. Mr. Silber said Reams did provide detail relating to the exchange, as well as a movement and exposure within GMAC, which was included in the Board's March 13, 2009 mailing. He indicated that Reams will discuss these issues at the Investment Committee on March 26, 2009.* He also talked about a Citigroup downgraded security that Reams sold.

*See minutes of February 25, 2009.

Administration and Operations Committee Report. Mr. Barmore reported that Mr. Fischer was elected as vice-chair. He updated the Board on MERITS and the organizational study. He indicated the A & O Committee may go in to closed session next month to review the interim human resources report, which is coming due. Mr. Barmore reported that it was discovered that the ERS did not file its 1099 information with the IRS last year and the city attorney is working with management to determine the correct method to fix this oversight. He noted that staff continues to work on disaster recovery and business continuity planning. The committee asked that staff contact DPW to move along on the HVAC issues in the 809 building server room.

Approval for Authorization to Replace HVAC in 4th Floor Server Room at 789 N. Water St. Mr. Barmore indicated that staff has asked for approval to expend up to \$50,000 to replace the 5-ton Liebert HVAC unit on the 4th floor of 789 N Water. The unit is 10 years old, was never serviced properly, and is installed incorrectly. Henneman Engineering is the

firm the ERS is using to ensure contractors install a new HVAC unit that meets the server room specifications.

Staff presented an outline for an IT Strategic Plan. They will be filling in the items of the outline and bring back a completed plan later this year.

Jefferson Wells reported on five separate areas: vulnerability assessment, vendor management, IT Operations, Accounting & Financial Reporting and Member Services.

The committee convened in closed session for the vulnerability assessment. It was determined management needed to provide a more detailed response to one of the items in the report. This is being coordinated with Jefferson Wells.

Approval of Contract Amendment for S&S Consulting. As a matter of information, Board members received a copy of the Fifth Amendment to the contract. Mr. Barmore stated that due to the increase of staff, beginning last August, the contract needs to be increased \$435,000 to meet the additional hours of work through the end of 2009.

Approval of the Intergovernmental Cooperation Agreement. As a matter of information, Board members received a copy of the Second Amendment. Mr. Barmore indicated that the budget office, comptroller's office and ERS have agreed to provide expense reimbursement to the city using the following schedule to be cash-neutral for the City: 1/12 of the budgeted expenses will be forwarded in January, and actual expenditures will be forwarded for every other month of the year. A file will be opened for Council approval.

Approval of Hourly Rate Increases for the Medical Council. Mr. Barmore noted that discussion ensued in reviewing the Medical Council rates. The last increase was in 2000, and the committee approved an increase from \$90/hour to \$150/hour.

Approval of Contract with Whyte Hirschboeck Dudek. As a matter of information, Board members received a copy of the contract for legal services. Mr. Barmore said that the city attorney prepared a contract for the ERS to handle any work related to MPS contribution reporting. It is a standard fee for service contract, and may be utilized when the city attorney is conflicted from representing the ERS.

(The Board did not convene in closed session on item III. F. as noticed.)

It was moved by Mr. Barmore and seconded by Mr. Fischer, and unanimously carried, to approve items A. through E. After discussion, the motion unanimously carried.

New Business.

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

Active Death Benefits reported	\$0.00
Retired Death Benefits reported	\$27,314.58
Refund of Member Contributions paid	\$79,971.14

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:

Tom Rick	Sentinel Workshop
Sponsor:	Mercer
Location:	Chicago, IL
Date (s):	April 29, 2009
Estimated Cost:	\$75

Tom Rick and Bruce Thomas	Earnest Partners Due Diligence Trip
Location:	Atlanta, GA
Date (s):	May 12 and 13, 2009
Estimated Cost:	\$700 per person

It was moved by Mr. Murphy, seconded by Mr. Fischer, and unanimously carried, to approve the conference requests submitted by Messrs. Rick and Thomas.

Active Member Special Election Results. As a matter of information, Board members received a copy of the Certification Letter from the Election Commission, dated March 6, 2009. Mr. Allen deferred to Ms. Fortier. Ms. Fortier reported that Angela M. Henschel and Branko Stojisavljevic would be in a run-off election to be held April 10, 2009. Mr. Morics directed the report be received and placed on file.

Approval of Suspension of Disability Benefit Payments for Non-Compliance with Section 36-07-1 – Periodic Medical Examinations – Darcy Raney. As a matter of information, Board members received a copy of a memorandum, dated March 16, 2009. Mr. Allen handed out a letter that was received from Ms. Rainey's doctor, which ERS received on March 19, 2009. Mr. Allen indicated that Ms. Rainey has a past history of not complying with the re-examination requirements. He did state that it was his understanding that this would be the last time she is required to have a re-examination as she will be converted to service retirement. Mr. Allen stated a motion would be in order to authorize continuation of her benefit despite the fact that she was non-compliant. Mr. Barmore asked for what time period would her benefit continue. Mr. Allen stated 60 days as she is in the process of complying. It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to grant Ms. Rainey a 60 day extension to comply with the re-examination process.

Referral of the 2010 Budget to Administration and Operations Committee. Mr. Morics referred this to the A & O Committee.

Referral of the ERS Ethics Policy to Administration and Operations Committee. Mr. Allen indicated that Jefferson Wells stated that ERS should adopt an Ethics Policy specific to ERS. Management's response was that ERS does operate under the City's Ethics Code. He stated that ERS has prepared an online tutorial done in-house to review the City's Ethics Policy and then staff members would be given a score. Mr. Morics asked Ms. Cleary if this would pose any problems. Ms. Cleary stated that the City Attorney's Office is currently looking at this, but she did not think it would pose a problem.

Referral of Board Rules III. G. Medical Council and Medical Panel and Rule XXI.B.7. Appeal – Practice and Procedure to the Legislative Committee. Mr. Allen stated there is a letter under legal opinions, dated February 11, 2009 from the City Attorney's Office, which states there needs to be a technical amendment to the policy, and this is just a housekeeping matter. As for XXI. B. Mr. Allen stated this would remove the oral argument provision from the appeals process. Mr. Morics referred this to the Legislative Committee.

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>
Craig Weiss	Denial
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Lonnie Armon	Approval
George Bonadurer	Approval
Jon Bromaghim	Approval
George Causey	Approval
Lamonte Davis	Approval
Chad Hendricks	Approval
Willie Hyche	Approval
Dwayne Koltermann	Approval
Bruce Parnau	Approval
Jeffrey Pruske	Approval
Jay Quigley	Approval
Gary Sweet	Approval
Glenn Thompson	Approval
Jon Voelz	Approval

<u>Police – Re-examinations</u>	<u>Recommendation</u>
Michael Andrysczyk	Approval
Gary Gelhaar	Approval
Robert Henry	Approval
Dave Orłowski	Approval
Victor Rivera	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>
Victor Perez	Denial

<u>New Applications – Ordinary</u>	<u>Recommendation</u>
March Scovell	Approval
Effective 3/22/09	
Victory Perez	Approval
Effective 1/18/09	
<u>New Applications – Ordinary (cont'd)</u>	<u>Recommendation</u>

John Craney	Approval
Effective 2/23/09	

<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
Lora Corey	Approval
Patrick Endreas	Approval
Vicky Ruege	Approval
Ellis Beason	Approval
Melva Jasper	Approval
Nestor Figueroa	Approval
Felipe Maldonado	Approval
Alan Kleven	Approval

<u>Re-examinations – Duty</u>	<u>Recommendation</u>
Earl Phillips	Approval
Torrence Brunson	Approval
Robert Heather	Approval
Allen Cook	Approval
Rodney Lemberger	Approval
James Kurschke	Approval

It was moved by Mr. Fischer, seconded by Mr. Barmore, and unanimously carried, to accept the aforementioned recommendations 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(s) obtained from the City Attorney as follows:

Taxability of Spousal Extended Life Duty Disability Benefits (§ 36-05-3-c-3-f, MCC). Requested July 18, 2008, received February 20, 2009. Ms. Cleary discussed the opinion.

Service Requests Obtained. Mr. Allen presented the service request(s) obtained from the City Attorney as follows:

Board Rule Amendment – XXI.B.7 (Oral Argument). Received March 11, 2009.

Board Rule Amendment – III. G. Requested January 28, 2009, received February 16, 2009.

It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, that the opinions be received and placed on file, and that a request for a determination letter be sent to the IRS in concurrence of the opinion, dated February 18, 2009.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. Mr. Allen indicated there was nothing new 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.

Milwaukee Police Supervisors' Organization vs. ERS, et al. Case No. 05-CV-006697. Mr. Allen stated there was nothing new to discuss at this time.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated March 23, 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 November 2009.
- 3) Class Action Lawsuit Report.
- 4) Minutes of the Investment Committee Meeting held December 12, 2008.
- 5) Minutes of the Administration and Operations Committee Meeting held January 20, 2009.

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. Murphy, seconded by Mr. Barmore, and unanimously carried, to accept and place on file the aforementioned informational items.

There being no further business, it was moved by Mr. Fischer, seconded by Mr. Holland, and unanimously carried, to adjourn the meeting at 9:50 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.)