

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

Minutes of the Regular Meeting held April 27, 2009

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

Board Members Present:           John Barmore  
  William C. Carey  
  Thomas Fischer  
  Angela Henschel  
  Larry Holland  
  W. Martin Morics, Chair  
  Michael J. Murphy  
  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  
  Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Conradson Cleary and Rudolph Konrad, City Attorney's Office; Jon Granger, Sagetic; Jay Patel, S & S Consulting; and Walter Powers, Milwaukee Retirees Assn.

**Introduction of New Board Member.** Mr. Morics introduced Ms. Henschel and welcomed her to the Board.

**Approval of Minutes.** Mr. Allen presented the minutes of the Regular Meeting held March 23, 2009. It was moved by Mr. Murphy, seconded by Mr. Holland, 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 April 22, 2009. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Silber reported that as of March 31, 2009 the Fund's value was \$3.10 billion; the Fund's return of 3.9 percent underperformed its benchmark return of 5.0 percent. The Fund still outperformed during the first quarter returning -7.8 percent versus the benchmark return of -8.1 percent. He reported the Fund has underperformed its benchmark during the longer time periods shown. Mr. Silber stated that the main driver for the underperformance during March was due to real estate. The Townsend Group's fourth quarter performance report showed ERS' real estate portfolio return of -16.2 percent, which underperformed its NCREIF benchmark return of -8.3 percent. Mr. Silber stated that the underweight to equities was almost fully offset by the outperformance of the Fund's active managers. All five of the Fund's US equity active managers outperformed their benchmarks. There were also good signs from the fixed income composite where both Loomis and Reams outperformed during March.

Mr. Silber stated that as of April 24, 2009 the Fund's approximate value has gone up about 6.5 percent, which puts the Fund's year-to-date return at about -1.8 percent. Eight of the Fund's ten active managers are outperforming their benchmarks year-to-date as of April 24, 2009. Mr. Silber stated the Fund is benefiting from the Board's decision to invest in active

managers. He said the three main composites, U.S. Equity, International Equity and Fixed Income, are all outperforming their respective benchmarks year-to-date. The Fund's approximate value as of April 24, 2009 is \$3.31 billion.

Mr. Silber 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 \$22.0 million: \$5 million from Barclays fixed income, \$7 million from Reams and \$10 million from Loomis Sayles. As of April 24, 2009, year-to-date, the Fund had: capital market losses of \$69.7 million; paid out \$65.4 million in payroll and expenses; and received contributions of \$10.1 million.

Mr. Rick reported that Artisan has informed ERS that they plan to transition to a holding company / operating company structure versus their current structure of a limited partnership. They indicate the new structure would help facilitate future growth. The City Attorney and staff had a teleconference with Artisan to review the change. At this point, we don't view this as a change in control or assignment. However, the City Attorney is in the process of reviewing and will prepare a contract amendment to reflect the new legal structure if needed. Mr. Rick stated that at our June 18<sup>th</sup> Investment Committee meeting we will plan to provide an update on the custodial environment as well as an update on the fixed income markets. He stated that ERS has earned a net \$480,000 in our securities lending activity through April of this year, which compares against \$648,000 for the same time period in 2008. Although we are earning a slightly higher spread than last year (13.5 basis points versus 12.2), the average amount available to be loaned is about \$800 million less than last year, due to our lower market value. The percentage out on loan is also down about 5% compared to last year. Although Mr. Rick did not have specifics from Northern on this, he believed the reduced activity by the major brokerage houses and the failure of Lehman are the primary factors. He indicated that the Mercer Callan merger has been called off, and Mr. Kryscio would discuss that at an upcoming meeting. He talked about the upcoming due diligence trips and invited any Board members who may be interested in attending to contact him.

**Approval of Reams' Request to Hold Downgraded Bonds.** As a matter of information, Committee members received copies of letters from Reams, dated April 21, 2009. Mr. Silber stated that Reams has four downgraded securities that are coming up on 180 days due, which they are requesting Board permission to continue holding these securities for an additional 90 days. He proceeded to talk about the securities: two GMAC securities and two Harrah's Entertainment securities. After discussion, it was moved by Mr. Carey, seconded by Mr. Fischer, and unanimously carried, to approve Reams' request to hold four downgraded securities for an additional 90 days.

**Investment Committee Report.** Mr. Murphy reported that at the March 26th Investment Committee meeting John Barmore was elected Vice-Chair. Mercer provided the list of finalists for the Global Value and Global Growth equity searches. For the value mandate, the finalists are GMO, KBC Asset Management, LSV Asset Management and Mondrian Investment Partners. The growth finalists include T. Rowe Price, MFS Investment Management and McKinley Capital Management. The finalists interviews with the Committee are scheduled for next week May 6 and 7.

He stated that Reams Asset Management provided an educational session on fixed income, including a review of the CDS market, CMBS' and bank loans. Reams also discussed, in

detail, their holdings in the auto and financial sector. William Blair also gave an update on their International All-Cap Growth equity strategy. Mr. Murphy noted that staff distributed a peer analysis of Northern Trust and plans to provide a similar analysis and monitoring of Northern Trust quarterly. Lastly, Mercer provided an update on the Mercer /Callan merger, the Fed's Toxic Asset Programs, and their latest manager research on Bernstein.

**Approval of Global Equity Search Firms – Mercer.** It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to approve the Global Equity Search Firms presented by Mercer.

**Administration and Operations Committee Report.** Mr. Barmore updated the Board on the status of MERITS and the ERS Special Projects.

**Approval of ERS 2010 Budget.** As a matter of information, Board members received a copy of the 2010 budget. Mr. Barmore stated the recommendation of the Committee is to approve the budget.

**Approval of ERS Ethics Policy.** Mr. Barmore indicated that the Committee recommended holding this over for one cycle for City Attorney review and refinement.

It was moved by Mr. Barmore and seconded by Mr. Fischer, to accept the A & O Committee report and approve the 2010 budget. 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 April 2009.

Active Death Benefits reported	\$46,682.27
Retired Death Benefits reported	\$43,898.43
Refund of Member Contributions paid	\$289,982.46

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	2009 Private Equity Seminar
Sponsor:	Wilshire
Location:	Chicago, IL
Date (s):	May 21, 2009
Estimated Cost:	\$75
Tom Rick & David Silber	Townsend Group Due Diligence Visit
Location:	Cleveland, OH
Date (s):	May 27- 28, 2009
Estimated Cost:	\$540 per person

Tom Rick & David Silber	Reams Due Diligence Visit
Location:	Columbus, IN
Date (s):	June 15 – 16, 2009
Estimated Cost:	\$650 per person
Rudy Konrad	2009 Legal Education Conference
Sponsor:	National Assn. of Public Pension Attorneys
Location:	Portland, OR
Date (s):	June 23 – 26, 2009
Estimated Cost:	\$2,211
John Barmore & David Silber	Visions, Insights and Perspectives (VIP) Conference
Sponsor:	Institutional Real Estate, Inc.
Location:	Palos Verdes, CA
Date (s):	February 9 – 11, 2010
Estimated Cost:	\$1,500

It was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to approve the conference requests submitted by Messrs. Rick, Silber, Konrad and Barmore.

**Active Member Special Run-Off Election Results.** As a matter of information, Board members received a copy of the Certification Letter from the Election Commission, dated April 14, 2009. Mr. Morics directed this be received and placed on file.

**Referral of Amendment to Board Rule XIII: Membership to Legislative Committee.** Mr. Allen stated this has to do with the purposed Board Rule amendment will help ERS dispose of the retro-enrollment issue with MPS. This amendment will clarify exactly at what point in service the employees become eligible. 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>
Debra Stoner	Approval
Effective 11/28/08	
Paul Singer	Approval
Effective 4/28/09	
<u>Police – Re-examinations</u>	<u>Recommendation</u>
Angel Alderman	Approval
Richard Bates	Approval
Joseph Bauer	Approval
Brenda Del Valle	Approval

<u>Police – Re-examinations (cont’d)</u>	<u>Recommendation</u>
Bruce Duszynski	Approval
James Lucht	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Glen Allen	Approval
John Allen	Approval
Jeffrey Beamon	Approval
Irving Blackmon	Approval
Teresa Clyse	Approval
Craig Halpert	Approval
Thomas Hoeft	Approval
Nancy Hutchinson	Approval
Khari Merritt	Approval
Mitchell Perry	Approval
Michael Rachow	Approval
Victor Williams	Approval
Brian Zirgibel	Approval
Hal Boston	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>
Gail Gaston	Denial
Charles Madison	Approval
Effective 2/13/09	
<u>New Applications – Ordinary</u>	<u>Recommendation</u>
David Brottlund	Approval
Effective 3/25/09	
Mary Krzywda	Approval
Effective 4/5/09	
Gail Gaston	Approval
Effective 3/9/09	
Maria Gonzalez	Approval
Effective 6/12/09	
Harriet Harrison	Approval
Effective 3/12/09	
<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
William Berg	Approval
Julie Blossmore	Approval
Lucille Kotecki	Approval

<u>Re-examinations – Ordinary (cont'd)</u>	<u>Recommendation</u>
Ronald Watson	Approval
Margaret Rau	Approval
Evelyn Wilson	Approval
Mark Gallaway	Approval
Martin Gilbert	Approval
Mary Harris	Approval
Rita Coker	Approval
<u>Re-examinations – Duty</u>	<u>Recommendation</u>
Terrence Webster-Austin	Approval

It was moved by Mr. Holland, 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 obtained from the City Attorney as follows:

**Limitations on ERS Benefits under IRC Section 415.** Received April 6, 2009. Mr. Konrad briefly discussed the opinion.

**Automatic Rollover Provisions.** Received April 16, 2009. Mr. Konrad briefly discussed the opinion.

**Taxability of Accidental Death Benefit.** Received April 7, 2009. Mr. Konrad briefly discussed the opinion.

**IRS Regulations Affecting Normal Retirement Age (NRA).** Mr. Konrad briefly discussed the opinion.

**8.6% Lump Sum Bonus for Ordinary Disability Retirees.** Requested January 22, 2009, received April 16, 2009. Mr. Konrad briefly discussed the opinion. Brief discussion ensued.

**Spousal Consent/Waiver of Survivorship.** Requested October 13, 2008. Ms. Cleary briefly discussed the opinion.

It was moved by Mr. Holland, seconded by Mr. Fischer, and unanimously carried, to accept the aforementioned 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.

Mr. Morics indicated he would take up item E. lastly and adjourn the meeting from closed session.

**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 April 27, 2009. Mr. Allen stated that at the March meeting there was a 60 day extension granted in connection with this member to comply with the re-examination process. He said that she has not yet complied, and the next Board meeting is past the 60 day extension. Mr. Allen asked for authority to suspend her benefit if she is in non-compliance after the 60 days. After discussion, the Board asked that the City Attorney check into the issue of her inability to travel and any ADA violations ERS could encounter by suspending her benefit.

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

### **Informational**

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated April 27, 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 May 2009 through February 2010.
- 3) Class Action Lawsuit Report.
- 4) Adjusted Quarterly Cost Basis of Equity – March 31, 2009
- 5) Minutes of the Investment Committee Meeting held January 22, 2009.
- 6) Minutes of the Investment Committee Meeting held February 12, 2009.
- 7) Minutes of the Administration and Operations Committee Meeting held February 17, 2009.

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

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

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

**Executive Director Compensation.** Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on the following item (E.), as provided

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in Section 19.85 (1) (e), for considering employment, promotion, compensation or performance evaluation data of any public employe over which the governmental body has jurisdiction or exercises responsibility. Mr. Morics stated it was his intent to adjourn the meeting from closed session. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Carey, Fischer, Holland, Murphy, Walter, Morics and Ms. Henschel. NOES: None.

The Board convened in closed session at and reconvened in open session at 10:02 a.m.

There being no further business, the meeting was adjourned at 10:15 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.)