

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

Minutes of the Regular Meeting held October 26, 2009

The meeting was called to order at 9:06 a.m.

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

Board Members Not Present: Thomas Fischer (excused)
 Angela Henschel (arrived at 9:25 a.m.)
 Larry Holland (excused)

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
 Mary Jane Stoffel, Member Services Manager
 Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Cleary and Rudolph Konrad, City Attorney's Office; Jon Granger, Sageitc; Jay Patel, S & S Consulting; Carol Graham, Retirees Assn.; Keith Graham, Lyman Capital Group; and Warren West and John Small, Greentree.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held September 28, 2009. It was moved by Mr. Carey, seconded by Mr. Walter, and unanimously carried, to approve the Minutes of the Regular Meeting held September 28, 2009.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated October 21, 2009. Mr. Rick handed out a copy of the Performance Update Charts, stating that Mr. Silber, CFA, would be updating the Board. Mr. Silber reported that as of September 30, 2009 the Fund's value was \$3.91 billion, and the Fund has a return of 3.7 percent during the month and outperformed its benchmark return of 2.6 percent. He stated that year-to-date the Fund is nicely outperforming, and is now at or near benchmark returns over the one and five year time periods. Mr. Silber stated that September's outperformance is due to all the asset classes as stock, bonds and even real estate outperformed their respective benchmarks; with ten of the eleven active managers outperforming their respective benchmarks. He reported that for October the Fund is up 1.8 percent, which puts the year-to-date return at about 21.8 percent. Year-to-date, eight of the Funds eleven active managers are outperforming, as well as the US equity, international equity, and fixed income composites. Mr. Silber stated the Fund's value as of October 23,

2009 is just under \$4 billion. He indicated that for October the Fund will be withdrawing \$15.5 million: \$7 million from Loomis Sayles, \$4 million from Reams and \$4.5 million from Barclays Alpha Tilts. As of October 23, 2009, year-to-date, the Fund had: capital market gains of \$710.5 million; paid out \$195.6 million in payroll and expenses; and received contributions of \$25.3 million.

Approval of Reams' Request to Hold Downgraded Bond Past 90 Days.

As a matter of information, Board members received a copy of a letter from Reams, dated October 19, 2009. Mr. Silber discussed the downgraded GMAC security left in the portfolio. He reported that Reams had two separate securities, which have recovered significantly since their lows in March 2009, almost up 100 percent during that time, so the Fund did benefit in this case by holding the GMAC bonds in the portfolio. Mr. Silber said Reams took advantage of this rally to sell one of the two securities, which they sold for \$2.1 million. This remaining bond is about \$1.3 million, which reflects about .046 percent of the portfolio. He indicated that Reams still sees more upside in GMAC, especially compared to other high yield securities in this space. Mr. Silber noted that Reams is asking permission to continue to keep this bond in the portfolio with the anticipation that it will go up a little more and they can opportunistically eliminate their position in GMAC. It was moved by Mr. Murphy, seconded by Mr. Carey, and unanimously carried, to approve Reams' request to hold the downgraded bond an additional 90 days.

Approval of Barclays Contract Assignment. As a matter of information, Board members received copies of a memo from Mercer, dated October 13, 2009, a letter from Barclays Global Investors, dated September 22, 2009, and an announcement, dated June 12, 2009. Mr. Rick discussed the offer by BlackRock to buy Barclays Global Investor, which should go through by the end of December 2009. He stated this purchase results in an assignment of ERS' contract with Barclays, which automatically requires the Board to approve that assignment. Mercer has recommended that the Board sign the consent form, and Mr. Rick stated he would be in agreement with that recommendation. Mr. Morics asked if the City Attorney has reviewed the contract assignment. Ms. Cleary indicated they have done a preliminary review; they will do the paperwork and they have no objections to the assignment. It was moved by Mr. Murphy, seconded by Mr. Carey, and unanimously carried, to approve the Barclays contract assignment.

Review of Investment Portfolio. Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on this item, as provided in Section 19.85 (1) (e), Wisconsin State Statutes, to deliberate or negotiate the purchasing of public properties, the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session. The Board may then reconvene in open session following the closed session. It was moved by Mr. Walter and seconded by Mr. Murphy, that the Board convene in closed session on this item. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Carey, Murphy, Walter and Morics. NOES: None.

The Board convened in closed session at 9:15 a.m. Ms. Henschel arrived during closed session at 9:25 a.m.

The Board reconvened in open session at 9:32 a.m.

Mr. Rick updated the Board on the Global Equity manager contracts, which will be brought to the Investment Committee Meeting on November 12, 2009 for consideration, as well as an initial funding plan. He talked about ERS' Strategic Policy stating that in 2008 the Board temporarily adjusted our ranges to reflect the market downturn, as well as to avoid any large rebalancing in a pretty volatile market. Mr. Rick stated because of the recent market improvements, ERS is actually at a point where we are just about in compliance with the ERS approved long term strategic policy. However, he stated that ERS' international equity has a normal target of 20 percent, plus or minus 2 percent, and we are right at the top of that range right now. Mr. Rick stated this is a good thing, but it also coincides with Mercer's recommended allocation in the asset liability study. He said the plan is to work with Mercer and bring in a recommendation concerning that strategic policy target allocations at the November 12 Investment meeting.

Administration and Operations Committee Report. Mr. Barmore reported that due to the lack of a quorum, the meeting convened as a sub-committee. He stated that Jefferson Wells presented the internal audit report on the Change Management Audit, which indicated that ERS has adequate controls in place for Change Management, but is lacking the documentation of the processes. Management has replied that documentation would be in place by year end 2009. Mr. Barmore updated the Board on MERITS Special Projects activities, including the organization study, the MERITS 2.0 project and MERITS activities; Disaster Recovery Site, and contracts for Saber, S & S Consulting Group and PDG Consulting.

Authorization to Proceed with Remote Office Site. Mr. Barmore reported that staff has requested authorization to proceed with the Remote Office Site, which would include lease negotiations at Two Park Plaza, along with a communications contract with AT&T. Start up costs, which have been budgeted are \$179,000 and on-going operating costs are estimated at \$103,000 per year.

Approval of Saber Contract; and Approval of S & S Consulting Group Contract. As a matter of information, Board members received copies of the S & S Consulting Group contract. Mr. Barmore indicated that the contracts for Saber and S & S Consulting are going to be held as staff wants to work on these before finalizing.

Approval of PDG Contract. It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to approve the PDG Consulting contract.

It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to authorize staff to proceed with negotiations for the lease for the Remote Office Site and report back to the A & O Committee.

New Business.

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

Active Death Benefits reported	\$51,435.57
Retired Death Benefits reported	\$149,512.54
Refund of Member Contributions paid	\$4,598.11

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

W. Martin Morics	Consultant and Institutional Investor Roundtable
Sponsor:	Institutional Investor Institute
Location:	Chicago, IL
Date (s):	October 20, 2009
Estimated Cost:	\$100

David Silber	Citi Property Investors 2009 Investor Meeting
Sponsor:	Citi Property Investors
Location:	New York, NY
Date (s):	October 20, 2009
Estimated Cost:	\$250

Jerry Allen, Bruce Thomas, Tom Rick & David Silber	Market Outlook
Sponsor:	William Blair and Mercer Consulting
Location:	Chicago, IL
Date(s):	November 10, 2009
Estimated Cost:	\$85 per person

Bruce Thomas	PRISA Information Session
Sponsor:	Prudential Financial
Location:	Chicago, IL
Date(s):	November 13, 2009
Estimate Cost:	\$75 per person

David Silber	2009 Client Conference
Sponsor:	Barclays Global Investors
Location:	San Francisco, CA
Date (s):	November 16 - 18, 2009
Estimated Cost:	\$1,050

Mr. Morics indicated he would also like to attend the Market Outlook seminar on November 10, 2009. It was moved by Mr. Barmore, seconded by Mr. Murphy, and unanimously carried, to approve the conference requests submitted by Messrs. Morics, Silber, Allen, Thomas, and Rick.

Request from City of Milwaukee to Contact System's Actuary. As a matter of information, Board members received a copy of the letter from the Labor Negotiator, dated October 5, 2009. It was moved by Mr. Murphy, seconded by Mr. Walter, and unanimously

carried, to approve the request from the City to contact the System’s Actuary, with the understanding that all costs would be borne by the City of Milwaukee.

Request for Administrative Closure of File – Nichole Evans (Dudevoire). As a matter of information, Board members received a copy of a memorandum, dated October 20, 2009. Mr. Allen indicated that numerous attempts have been made to Ms. Evans since January 2009 to schedule her appointments with the Medical Panel doctors. As Ms. Evans has been non-compliant, staff is asking this file be administratively closed. It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to approve the request to administratively close Ms. Evans file.

Staff Presentation on City/County Transfer Provisions and State Reciprocity. As a matter of information, Board members received a chart on City-County-State Service, and an ERS pamphlet: Reciprocity Benefits between the City of Milwaukee ERS, Milwaukee County ERS, and the Wisconsin Retirement System. Mrs. Stoffel, Member Services Manager, was present and walked the Board members through these benefits.

Mr. Morics indicated that he would take up item IV. F. Chief Investment Officer Review as the last item 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>Fire – New Applications (Duty)</u>	<u>Recommendation</u>
Paul Mente	Approval
Effective 11/1/09	
Odell Minor	Approval
Effective 10/27/09 (Exempt from Re-exam)	
<u>Police – Re-examinations</u>	<u>Recommendation</u>
Jeffrey Miranda	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Everett Hyde	Approval
Scott Krahn	Approval
Jeffrey Wolf	Approval
Paul Baerwald	Approval
Kenneth Berget	Approval
Richard Hall	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>
Phillip Holiday Effective 8/21/09	Approval
Don Gray Effective 9/1/09	Approval
Michael Montana Effective 10/3/09	Approval
Janet Zastrow Effective 10/15/09	Approval
<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
Jennifer Eigner	Approval
Matthew Martin	Approval
Ronald Werner	Approval
Dean Sass	Approval
Ronald Severson	Approval
<u>Re-examinations – Ordinary (cont'd)</u>	<u>Recommendation</u>
Chris Krzynski	Approval
Claudia Krolikowski	Approval
David Stanley	Approval
Carol Tollefson	Approval
Gerald Hudnall	Approval
Jean Walker	Approval
<u>Re-examinations – Duty</u>	<u>Recommendation</u>
William Bagin	Approval
Eugenia Tate Hutchins	Approval
Quedell Braylock	Approval
Robert Oettinger	Approval
Michael Powalisz	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 – Dorothy McLaurin. Mr. Allen presented the findings submitted by Hearing Examiner Fiorenza, whose Decision states “The Application of Dorothy McLaurin for Duty Disability Retirement is denied”. It was moved by Mr. Murphy, seconded by Ms. Henschel, and unanimously carried, to accept the recommendation of

Hearing Examiner Fiorenza, to deny the application of Dorothy McLaurin for duty disability retirement.

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:

Disability Conversion Rules under Rehrauer. Requested June 24, 2009, received October 15, 2009. Mr. Konrad discussed the opinion.

Police Liaison Pay. Requested September 11, 2009, received October 20, 2009. Mr. Konrad discussed the opinion.

It was moved by Mr. Carey, seconded by Ms. Henschel, 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 and State of Wisconsin vs. Bradley DeBraska, Case No. 2009-CF-000695. Mr. Morics asked if there was any need to convene in closed session of either of the cases. Mr. Allen answered in the negative.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated October 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 November 2009 through May 2010.
- 3) Class Action Lawsuit Report.
- 4) Adjusted Quarterly Cost Basis of Equity – September 30, 2009.
- 5) Minutes of the Administration and Operations Committee Meeting held September 17, 2009.
- 6) Minutes of the Investment Committee Meeting held September 24, 2009.

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

Chief Investment Office Review. Mr. Morics advised that the Annuity and Pension Board would vote to convene in closed session on this item, as provided in Section 19.85 (1) (c), Wisconsin State Statutes, for considering employment, promotion, compensation or performance evaluation data of any public employe over which the governmental body has jurisdiction or exercises responsibility. It was moved by Mr. Carey and seconded by Mr. Barmore, that the Board convene in closed session on this item and adjourn the meeting from closed session. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Carey, Ms. Henschel, Murphy, Walter and Morics. NOES: None.

The Board convened in closed session at 10:19 a.m.

There being no further business, Mr. Morics adjourned the meeting at 10:35 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.)