

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

Minutes of the Regular Meeting held March 1, 2010

The meeting was called to order at 9:10 a.m.

Board Members Present: John Barmore
 Larry Holland
 W. Martin Morics, Chair
 Michael J. Murphy
 Gust Petropoulos

Board Members Not Present: William C. Carey (excused)
 Ron Walter (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
 Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Conradson Cleary and Rudolph Konrad, City Attorney's Office; Jon Granger, PDG Consulting; Jay Patel; S & S Consulting; Rob Kochis, and Townsend Group.

Appointment of Committees for 2010.

Administration and Operations Committee, Investment Committee, Litigation Committee and Legislative Committee. As a matter of information, Board members received a list of committees and appointed members. Mr. Morics stated that any Board member can attend a committee meeting even though they are not assigned to that committee. He also noted that he would appoint committee members to the Litigation and Legislative Committees on an as needed basis.

Approval of Minutes. Mr. Allen presented the minutes of the Annual Meeting held January 25, 2010. It was moved by Mr. Barmore, seconded by Mr. Murphy, and unanimously carried, to approve the Minutes of the Annual Meeting held January 25, 2010.

Mr. Morics stated he would be taking approval items out of order as we may lose a quorum. He noted that, with the approval of Mr. Allen, he will defer item VIII. F. Executive Director Performance Evaluation until the next meeting. It was moved by Mr. Barmore, seconded by Mr. Petropoulos, and unanimously carried, to hold item VIII. F. over to next month.

Mr. Morics directed the Board's attention to item IV. Investment Committee Report.

Investment Committee Report.

Approval of GMO Global Equity Contract. Mr. Rick indicated that the GMO contract was in the packet. He stated the City Attorney's Office worked diligently with GMO to finalize this contract. Mr. Rick talked about the fee schedule and recommended approval of the contract. It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to approve the GMO contract, guidelines and fee schedule.

Approval of BlackRock (Barclays) Transition Manager Contract. Mr. Rick handed out a copy of the First Amendment to the Agreement, which was received from the City Attorney's Office just prior to the meeting, and he talked about the transition manager contract and upcoming transitions. Ms. Cleary briefly talked about the contract. It was moved by Mr. Barmore, seconded by Mr. Murphy, and unanimously carried, to approve the BlackRock transition manager contract.

Administration and Operations Committee Report. Mr. Barmore reported that Jefferson Wells presented the Enrollment & Contributions audit and the Ethics and Governance audit and there were no audit issues with the enrollment & contributions audit, and follow-up items from prior audits were completed by staff. There was lengthy discussion on the Ethics & Governance audit related to communications with the media. The committee passed a motion to refer the appropriate board rule related to media communications to the Legislative Committee.

Approval of Statement of Work #5 – Jefferson Wells. Mr. Barmore noted that Jefferson Wells presented its annual plan for 2010 and the committee approved Statement of Work #5, which covers the 2010 audit. The committee asked Jefferson Wells to provide a quote for services for the next two to three years, as their contract expires at the close of 2010.

Ms. Johnson, the ERS Financial Officer presented the close-out information for the 2009 budget. With the changes to the intergovernmental cooperation agreement with the City, the ERS is now paying for actual expenses as they are incurred, rather than forwarding 1/12 of the budget. To close out 2009 budget, the ERS will pay the City \$945,713 for the remaining expenditures of 2009.

Mr. Barmore updated the Board on the ERS Special Projects, the organizational study, MERITS, and a summary of Standard Operating Guidelines.

Approval of Remote Office Lease. Mr. Barmore reported that the committee approved the lease with Two Park Plaza for a remote office.

Approval of Memorandum of Understanding with State of WI for Remote Office Site. Mr. Barmore reported that a contract with the State of Wisconsin for a remote server site was approved by the committee.

It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to approve the A & O Committee report, including the Jefferson Wells Statement of Work #5, the remote office lease and the MOU with the State of WI.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated February 26, 2010. Mr. Rick handed out a copy of the Performance Update Charts.

Approval of Northern Trust Securities Lending Contract Amendment. Mr. Rick requested this item be held until the next meeting.

Approval of Northern Trust Compliance Analyst Contract Amendment. Mr. Rick handed out the Compliance Analyst Contract. He stated that late last year the Board approved extending the Northern Trust Custody Agreement for another three years. Mr. Rick reported that ERS negotiated a lower fee schedule, as well as the compliance analyst module. This module allows ERS to monitor our investment guidelines for each of our managers on a daily basis versus monthly. Mr. Rick stated that Ms. Cleary reviewed the contract amendment as Northern requires a separate document related to the module. He noted there is no additional cost associated with this, and staff recommended approval. It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to approve the contract amendment.

Approval of Reams' Request to Hold Downgraded Bonds. As a matter of information, Board members received copies of two letters, dated February 23, 2010. Mr. Silber talked about the three bonds: Chrysler Term Loan, Fannie Mae and Freddie Mac. He noted that these are the only three remaining downgraded securities in Reams' portfolio. After discussion, it was moved by Mr. Murphy and seconded by Mr. Holland, to approve Reams' request to hold the downgraded bonds. The motion carried with Mr. Barmore being recorded as objecting.

Approval of The Townsend Group Indication of Interest Letter re: Brookfield Investment Program. 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, for deliberating or negotiating 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. Barmore and seconded by Mr. Petropoulos, that the Board convene in closed session on this item. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Holland, Murphy, Petropoulos and Morics. NOES: None.

The Board convened in closed session at 9:32 a.m. The Board reconvened in open session at 10:21 a.m.

(Mr. Holland left the meeting at 10:25 a.m.)

Mr. Thomas reported that through January 2010 the Fund's value was \$3.91 billion, and underperformed its benchmark for the month. While the Fund has managed to outperform over the one year time period, we are still underperforming over the three and five year time periods. He stated that drivers for the underperformance came from the domestic equity with the largest underperformers being Turner and BGI with 170 and 110 basis points of underperformance, respectively. Positives for the month were Brandes and Reams outperformance of 154 and 54 basis points, respectively. Mr. Thomas said that February month-to-date the Fund is up approximately 1.8 percent; the year-to-date return is approximately -0.5 percent, while four of our eleven active managers are outperforming year-to-date. He stated the domestic equity, international equity and fixed income portfolios are all outperforming year-to-date. The approximate Fund value through February 2010 is \$3.96 billion. Mr. Thomas stated ERS withdrew \$5 million from Loomis Sayles in February to pay expenses. As of February 26, 2010 year-to-date, the Fund had: capital market losses of \$26.3 million; paid out \$46.4 million in expenses; and received contributions of \$65.2 million. Discussion ensued.

(During the above discussion, Mr. Holland left the meeting at 10:25 a.m. and Mr. Murphy stepped out.)

Mr. Morics called for a brief recess until a quorum was present.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity, as well as Service Credits for the month of February 2010.

Active Death Benefits reported	\$34,078.95
Retired Death Benefits reported	\$18,407.69
Refund of Member Contributions paid	\$59,483.23

It was moved by Mr. Barmore, seconded by Mr. Petropoulos, 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	US Executive Forum
Sponsor:	Northern Trust
Location:	Scottsdale, AZ
Date (s):	March 17 - 18, 2010
Estimated Cost:	\$950

Jerry Allen & Martin Matson	Investor's Conference
Sponsor:	Council of Institutional Investors

Location: Washington DC
 Date (s): April 10 - 14, 2010
 Estimated Cost: \$1,500 per person

Martin Matson PRISM Conference
 Location: Louisville, KY
 Date (s): April 18 – 21, 2010
 Estimated Cost: \$1,500

Mr. Rick noted that the US Executive Forum has been cancelled and withdrew the request. It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to approve the conference requests submitted by Messrs. Allen and Matson.

2009 Securities Lending Budget. As a matter of information, Board members received a copy of the Annual Summary and Projected Expenses from Securities Lending for 2010. Mr. Rick stated this is the year-end annual report which shows revenues earned. It was moved by Mr. Barmore, seconded by Mr. Petropoulos, and unanimously carried, to receive and place on file.

Approval of Request from Milwaukee Professional Fire Fighters Association to Contact System's Actuary. As a matter of information, Board members received a copy of the request, dated February 15, 2010. It was moved by Mr. Petropoulos, seconded by Mr. Barmore, and unanimously carried, to approve the request of the MPFFA, with the understanding all costs will be borne by the MPFFA.

Approval to Appoint Dr. Michael Borkowski as Alternate for Medical Council. As a matter of information, Board members receive a copy of a memorandum, dated February 10, 2010. Mr. Allen stated Dr. Borkowski would serve as an alternate for the Medical Council. It was moved by Mr. Barmore, seconded by Mr. Murphy, and unanimously carried, to approve the appointment of Dr. Borkowski.

Referral of Board Rule VI. F. Communications – Media to Legislative Committee. As a matter of information, Board members received a copy of the current Board Rule. Mr. Morics stated that since we are trying to see if we can have one less committee meeting, and this item is for referral and not action, he requested this be on the agenda for the March meeting.

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:

Police – New Applications - Duty

Recommendation

Corene Wells

Denial

Fire – New Applications – Duty

Elizabeth Hinckley
Effective 3/1/10
Odell Minor
Effective 10/27/09
Thomas Scholz
Effective 3/1/10

Recommendation

Approval
Approval (90 % Exempt from Re-exam)
Approval

Police – Re-examinations

Keith Baines
Stacy Lopez
Dave Orłowski

Recommendation

Approval
Approval
Approval

Fire – Re-examinations

Maureen Aniakudo
Daniel Clay
Daniel Dombrowski

Recommendation

Approval
Approval
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 – Duty

Jeffrey Friedrich
Effective 2/6/10

Recommendation

Approval

New Applications – Ordinary

Richard Dama
Effective 2/2/10
Juanita Figueroa
Effective 2/12/10
James Hobbs
Effective 2/2/10

Recommendation

Approval
Approval
Approval

Re-examinations – Ordinary

Beatrice Williams
Mary Anderson
Richard Espinoza
Daniel Higgins
Myriam Valentin
David Scheller

Recommendation

Approval
Approval
Approval
Approval
Approval
Approval

<u>Re-examinations – Duty</u>	<u>Recommendation</u>
Michael Trabert	Approval
Scott Berres	Approval
John Schmitz	Approval

It was moved by Mr. Barmore, seconded by Mr. Petropoulos, 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.

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. Mr. Allen answered in the negative.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated March 1, 2010, 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 2010 through October 2010.
- 3) Class Action Lawsuit Report.
- 4) Minutes of the Investment Committee Meeting held January 14, 2010.
- 5) Minutes of the Administration and Operations Committee Meeting held January 21, 2010.
- 6) Minutes of the Investment Committee Meeting held January 27, 2010.

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. Petropoulos, and unanimously carried, to accept and place on file the aforementioned informational items.

There being no further business, Mr. Morics adjourned the meeting at 10:41 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.)