

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

Minutes of the Regular Meeting held September 27, 2010

The meeting was called to order at 9:18 a.m.

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

Board Members Not Present: John Barmore (arrived at 9:27 a.m.)
 William C. Carey (arrived at 9:54 a.m.)
 Ron Walter (excused)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Martin Matson, Deputy Director
 Thomas Rick, Chief Investment Officer
 Kelly Reid, Chief Technology Officer
 David Silber, Pension Investment Analyst
 Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Cleary and Rudolph Konrad, City Attorney's Office; Jon Granger, PDG Consulting; Jay Patel, S & S Consulting; Debbie Sweeney and Dan Kwiecinski, Hays Company.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held July 20, 2010. It was moved by Mr. Holland, seconded by Mr. Murphy, and unanimously carried, to approve the Minutes of the Regular Meeting held July 20, 2010.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated September 22, 2010. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Silber reported that the Fund finished the end of August with a value of \$3.84 billion. The Fund had a return of -2.9 percent during the month, which underperformed its blended benchmark's return by about 50 basis points.

He reported that all of the active equity managers underperformed during the month except one. The underperformance was across all the major portfolios – US, Global, Non-US Equities and fixed income. Mr. Silber reported that through September 24, 2010 the Fund's value is about \$4.1 billion and is up approximately 7.0 percent month-to-date, which puts the year-to-date return at 6.5 percent. He reported that the Fund will be withdrawing \$20 million in September: \$10 million from Loomis Sayles; \$5 million from Earnest; and \$5 million from DFA (US) to pay monthly benefits and expenses. Mr. Silber indicated that as of September

24, 2010 year-to-date, the Fund had: capital market gains of \$240 million; paid out \$192 million in expenses; and received contributions of \$85 million. Discussion ensued.

Mr. Rick reported that the R. V. Kuhns study shows that ERS is ranked #2 from a funding perspective for public pension plans. The whole report will be posted on ERS' website.

Approval of Mercer Agreement. Mr. Morics asked if the Board needed to convene in closed session to discuss this issue. Mr. Rick answered in the negative. He handed out a copy of another amendment to the contract. Mr. Rick stated the Board approved a three month extension back in June. He said that the City Attorney's office is still negotiating with Mercer, so this amendment would extend the contract an additional three months. Ms. Cleary briefly talked about the outstanding issues. It was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to approve the 90 day extension.

Approval of Reams Contract Assignment. As a matter of information, Board members received copies of a letter from Mercer, dated September 27, 2010, and a letter from Reams, dated September 1, 2010. Mr. Silber stated a few weeks ago Reams announced they were being purchased by UMB Financial Corporation. He indicated it is Mercer's recommendation to sign the contract assignment. There is no change in the investment team, process, or how Reams manages the portfolio. One unique clause Mercer pointed out that ERS will monitor going forward is there is a five-year commitment period for all the key personnel and senior professionals at Reams to stay in place. Mr. Silber stated there was no concern on staff or Mercer's part to sign this assignment and keep Reams as a manager going forward. As the five-year time period approaches, ERS will closely monitor any signs for movement in senior personnel. He stated this will require a contract amendment at some point, but staff is going to wait until this agreement and the purchase takes effect in the fourth quarter. It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to approve the Reams Contract Assignment.

Investment Committee Report. Mr. Murphy reported that the Committee met on July 22, 2010 as a sub-committee and heard presentations from three Global Fixed Income Managers: PIMCO, Rogge and Wellington. The sub-committee asked staff and Mercer to negotiate fees with the number one selected manager and report back at the September meeting. He noted the sub-committee also received reports on and discussed the following: approval of Mercer's Interim Allocation that reflects the 2 percent allocation the ERS committed to Private Equity; received an update on the T. Rowe Price transition; and accepted the due William Blair due diligence report.

He reported the Committee also reviewed the 2nd Quarter Fund performance and heard a presentation from Turner Investment Partners. A sub-committee of the Investment Committee received reports and discussed the following items: the Fund's Asset Allocation and Roadmap for considering Mercer's recommended allocation - the sub-committee directed Mercer to provide Commodities education at the next meeting; the T. Rowe Price Transition; and Northern Trust's Securities Lending.

Approval of Mercer’s Interim Allocation. As a matter of information, Board members received a copy of a memo from Mercer, dated July 22, 2010. It was moved by Mr. Murphy, seconded by Mr. Petropoulos, and unanimously carried, to approve Mercer’s Interim Allocation.

Acceptance of William Blair Due Diligence Report. As a matter of information, Board members received a copy of a memorandum from Mr. Thomas, dated June 30, 2010.

It was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to accept the William Blair due diligence report.

Approval of Global Fixed Income Finalists. Mr. Murphy reported the Committee also met on September 2, 2010 and approved in closed session the Global Fixed Income finalists and directed staff and Mercer to enter negotiations and conduct due diligence with the top finalist. It was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to approve the Global Fixed Income finalists.

Administration and Operations Committee Report. Mr. Barmore reported that the Committee met and had a presentation on special projects. Tickets are still being generated, but are being addressed by staff.

Approval of Contract with State of WI for Co-Location Services. As a matter of information, Board members received a letter from the WI Department of Administration, dated August 26, 2010, with a copy of the contract and attachments. Mr. Barmore stated this is the project that is moving forward in Madison. It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to approve the contract with the State of WI.

New Business.

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

Active Death Benefits reported	\$97,621.82 (August) \$109,763.25 (September)
Retired Death Benefits reported	\$23,473.02 (August) \$10,903.05 (September)
Refund of Member Contributions paid	\$48,562.82 (August) \$155,054.06 (September)

It was moved by Mr. Murphy, seconded by Mr. Ellenberger, 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 & Jerry Allen	Institutional Investors Conference
Sponsor:	Baird Advisors
Location:	Sheboygan, WI
Date (s):	September 13, 2010
Estimated Cost:	\$75 each
David Silber	Investment Forum
Sponsor:	Dimensional Fund Advisors
Location:	Chicago, IL
Date (s):	September 15, 2010
Estimated Cost:	\$55
Gust Petropoulos & Tom Rick	Global Fixed Income Due Diligence
Sponsor:	Wellington Investment Management
Location:	Boston, MA
Date (s):	October 5 – 6, 2010
Estimated Cost:	\$900 each
Jerry Allen	2010 Roundtable for Consultants and Institutional Investors (Hedge Fund Institutional Forum)
Sponsor:	Institutional Investor Institute
Location:	Chicago, IL
Date (s):	October 6, 2010
Estimated Cost:	\$75
Bruce Thomas	2010 Roundtable for Consultants and Institutional Investors (Hedge Fund Institutional Forum)
Sponsor:	Institutional Investor Institute
Location:	Chicago, IL
Date (s):	October 6 & 8, 2010
Estimated Cost:	\$150
Tom Rick, Bruce Thomas & David Silber	Private Equity Conference
Sponsor:	Mesirow Financial
Location:	Chicago, IL
Date (s):	October 15, 2010
Estimated Cost:	\$75 each
John Barmore	Visions Insight & Perspectives 2011
Sponsor:	Institutional Real Estate
Location:	Dana Point, CA
Date (s):	January 31 – February 3, 2011
Estimated Cost:	\$2,000

Bruce Thomas Due Diligence Trip
 Sponsor: Northern Trust
 Location: Chicago, IL
 Date (s): October 14, 2010
 Estimated Cost: \$325

John Barmore Institutional Investing in Infrastructure
 Sponsor: Institutional Real Estate, Inc.
 Location: Washington, DC
 Date (s): October 31 – November 2, 2010
 Estimated Cost: \$1,000

Mr. Rick stated that Mr. Thomas has an additional request for a due diligence trip to Northern Trust. Ms. Fortier stated that Mr. Barmore had an additional request to attend the Institutional Investing in Infrastructure. It was moved by Mr. Holland, seconded by Mr. Ellenberger, and unanimously carried, to approve the requests submitted by Messrs. Allen, Rick, Silber, Petropoulos, Thomas and Barmore, including the additional requests for Mr. Thomas and Mr. Barmore.

Approval of 72nd Edition of the ERS Annual Report – December 31, 2009. As a matter of information, Board members received a copy of the 72nd Edition of the Annual Report. Mr. Allen stated this is an annual report. It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to approve the 72nd Edition of the Annual Report.

Whyte Hirschboeck Dudek Legal Opinion re: Protective Survivorship Option under Section 36-05-7-b and the Application of the 5% Limit. As a matter of information, Board members received a copy of the Whyte Hirschboeck Dudek legal opinion, dated July 30, 2010. Mr. Morics indicated that Mr. Greer had time constraints and with the travel time to the remote office, staff contacted him to let him know his presence was not required. Mr. Konrad volunteered to explain the opinion. It was moved by Mr. Barmore, seconded by Mr. Petropoulos, and unanimously carried, to accept the legal opinion and place on file.

Approval of Fiduciary Liability Insurance Renewal Proposal. As a matter of information, Board members received a copy of the renewal proposal for November 1, 2010 through November 1, 2011. Mr. Kwiecinski and Ms. Sweeney discussed the renewal proposal. After discussion, it was moved by Mr. Holland, seconded by Mr. Murphy, and unanimously carried, to approve the Fiduciary Liability Insurance renewal.

Amendment to Chapter 36 Relating t Employers' Reserve Fund. As a matter of information, Board members received a copy of Substitute Charter Ordinance Number 100502, dated September 13, 2010. Mr. Morics indicated that he asked this be on the agenda for informational purposes. He stated the Mayor and his Executive Budget is recommending \$17.35 million for the Employers' Reserve Fund. Mr. Morics stated that historically, that Fund has been established and run as part of the ERS assets. He said this year the administration feels it is likely to be tapped within three or four years. Mr. Morics stated the

purpose of the charter ordinance is to enable the funds to be invested with the ERS. He indicated the other change, which Alderman Murphy sponsored, is that the funds can only be used for ERS purposes. They cannot be withdrawn as the prior funds were to balance the City's operating budget. Mr. Murphy briefly talked about the substitute charter ordinance. Lengthy discussion ensued.

Medical Reports.

Fire and Police Duty Disability and Duty Disability Re-examinations and all Ordinary Disabilities and General City Duty Disability. Mr. Allen presented certifications of the Fire and Police Medical Panel Physicians and the Medical Council relative to Duty Disability Retirement benefits for August and September as follows:

<u>Fire – New Applications – Duty (August)</u>	<u>Recommendation</u>
James Kopp Effective 8/27/2010	Approval
<u>Fire – New Applications – Duty (September)</u>	<u>Recommendation</u>
Claude Hunter Effective 9/28/2010	Approval
John Karner Effective 9/28/2010	Approval
<u>Fire – Re-examinations (August)</u>	<u>Recommendation</u>
Patrice Brusk	Approval
Scott Navarrette	Approval
Ronald Samolinski	Approval
Jeffrey Wenzel	Approval
Paul Singer	Approval
Peter Lange	Approval
Phillip Quigley	Approval
<u>Fire – Re-examinations (September)</u>	<u>Recommendation</u>
Kerry Anderson	Approval
Kenneth Green	Approval
David Moeller	Approval
Glenn Olson	Approval
Karen White	Approval
Robert Biskobing	Approval

<u>Police – Re-examinations (August)</u>	<u>Recommendation</u>
James Drager	Approval
Robert Enters	Approval
Rod Gustafson	Approval
David Niemann	Approval
Vicki Roche	Approval
<u>Police – Re-examinations (September)</u>	<u>Recommendation</u>
Scott Warren	Approval
<u>GC New Applications – Ordinary (August)</u>	<u>Recommendation</u>
Jonathan Saffold	Approval
Effective 8/31/2010	
Sheila Holt	Approval
Effective 8/3/2010	
<u>GC New Applications – Ordinary (September)</u>	<u>Recommendation</u>
Raymond Weaver	Approval
Effective 8/1/2010	
Michael Terry	Approval
Effective 8/26/2010	
Jean David	Approval
Effective 9/10/2010	
<u>GC Re-examinations – Ordinary (August)</u>	<u>Recommendation</u>
Mary Wenzel	Approval
Lorrie Hamilton	Approval
Bonnie Olson	Approval
Hattie Johnson	Approval
Glen Banks	Approval
Karen Jackson	Approval
<u>GC Re-examinations – Ordinary (September)</u>	<u>Recommendation</u>
Wilma Mendez	Approval
Peter Mouradian	Approval
Matthew Martin	Approval
Linda Tjaaland	Approval
Kara Koceja	Approval
Shirley Harley	Approval
Thomas Martin	Approval

<u>GC Re-examinations – Ordinary (Sept. cont'd)</u>	<u>Recommendation</u>
John Bitzke	Approval
Cleo Alexander	Approval
Craig Urban	Approval
Barbara Berry	Approval
Jennifer Eigner	Approval
Steven Gipp	Approval
<u>GC Re-examinations – Duty (August)</u>	<u>Recommendation</u>
Rosa Romo	Approval
Robert Sullivan	Approval
Jose Gonzalez	Approval
<u>GC Re-examinations – Duty (September)</u>	<u>Recommendation</u>
Dorothy Triplett Kelley	Approval
John Cunningham	Approval
Gladys Williams	Approval

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

Mr. Carey asked to return to New Business and talked about the Global Settlement, and whether those benefits would be protected by law. He moved by the Board take action to get an outside legal opinion regarding protection of benefits. Mr. Morics reluctantly moved this out of order as it is not on the agenda. Action items need to be posted on the agenda prior to the meeting. Mr. Carey wanted the record to show he did bring up the issue to the Board. Mr. Morics stated if Mr. Carey wanted to pursue this to make sure it gets on the agenda for the next Board meeting.

Disability Findings – David S. Scheller. Mr. Allen presented the findings submitted by Hearing Examiner Kessler. Mr. Morics stated that Hearing Examiner Kessler’s Decision states “The application of David Scheller for duty disability is denied”. Correspondence was also received from the City Attorney’s Office, dated August 16, 2010, indicating it did not intend to file a brief. It was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to accept the recommendation of Hearing Examiner Kessler, denying Mr. Scheller duty disability.

Disability Findings – John Stanislowski. Mr. Allen presented the findings submitted by Hearing Examiner Manian. Mr. Morics stated that Hearing Examiner Manian’s Decision states “The decision of the Medical Council, Annuity and Pension Board and the Independent Reviewer is affirmed.” Correspondence was received from the City Attorney’s

Office, dated September 9, 2010, indicating it did not intend to file a brief. It was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to accept the recommendation of Hearing Examiner Manian, denying Mr. Stanislawski duty disability benefits.

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:

Death Benefits Payable – Multiple PSO Survivors. Requested June 22, 2010. Mr. Konrad discussed the opinion and discussion ensued.

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

1st Amendment to the Jefferson Wells, Inc. Contract. Requested June 29, 2010, received August 23, 2010. Ms. Cleary briefly discussed the contract amendment.

It was moved by Mr. Barmore, seconded by Mr. Petropoulos, and unanimously carried, to accept and place on file the legal opinion and service request.

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 anything to report that needed 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 September 27, 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 October 2010 through April 2011.

- 3) Class Action Lawsuit Report.
- 4) Minutes of the Administration and Operations Committee Meeting held July 20, 2010.
- 5) Minutes of the Investment Committee Meeting held June 10, 2010.
- 6) Minutes of the Investment Committee Meeting held July 22, 2010.
- 7) Minutes of the Investment Committee Meeting held September 2, 2010.
- 8) Legal Opinion re: Certain Personal E-Mail Not Subject to Disclosure under Public Records Law.

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

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

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

Mr. Carey briefly talked about retiree health insurance premiums for 2011.

There being no further business, it was moved by Mr. Carey, seconded by Mr. Barmore, and unanimously carried, to adjourn the meeting at 10:26 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.)