

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

Minutes of the Regular Meeting held October 25, 2010

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

Board Members Present: John Barmore
 William C. Carey
 Konrad Ellenberger
 W. Martin Morics, Chair
 Gust Petropoulos

Board Members Not Present: Larry Holland (excused)
 Michael J. Murphy (arrived at 9:22 a.m.)
 Ron Walter (arrived at 9:06 a.m.)

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
 Bruce Thomas, 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; Doug Kryscio, Mercer Investment Consulting; Keith Johnson, Reinhart; and Jan Hartford CEM Benchmarking.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held September 27, 2010. Mr. Morics asked if there were any corrections or changes to the minutes. Ms. Fortier noted that Mr. Ellenberger was listed twice and she would make that correction. It was moved by Mr. Barmore, seconded by Mr. Walter, and unanimously carried, to approve the Minutes of the Regular Meeting held September 27, 2010 as amended.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Thomas reported that as of September 30, 2010 the Fund's value was \$4.09 billion, and outperformed its benchmark by 80 basis points. He reported that international equity is outperforming over all time frames measured as well as the fixed income portfolio, which has positive absolute returns over all time frames shown. Mr. Thomas stated equity managers T. Rowe Price and DFA – domestic both outperformed their benchmarks by 210 basis points, respectively. Loomis Sayles outperformed its benchmark by 260 basis points. He reported that October month-to-date the Fund is up approximately 2.8 percent, with a

year-to-date return of approximately 9.7 percent. Mr. Thomas indicated that seven of the portfolios 13 active equity managers are outperforming year-to-date with domestic equity, international equity and fixed income outperforming their respective benchmarks. He reported that through October 22, 2010 the Fund's value is about \$4.2 billion. Mr. Thomas reported that the Fund will be withdrawing \$27 million in October: \$8 million from Turner; \$7 million from Earnest; \$5 million from DFA (US); \$4 million from Blair and \$3 million from Bernstein to pay monthly benefits and expenses. He indicated that as of October 22, 2010 year-to-date, the Fund had: capital market gains of \$365.8 million; paid out \$215.3 million in expenses; and received contributions of \$87.4 million. Discussion ensued.

Mr. Rick stated the withdrawal is a little higher this month primarily due to real estate capital calls. Discussion ensued.

Correspondence from Mercer re: Mercer Contract. As a matter of information, Board members received a copy of a letter from Mercer, dated October 18, 2010. Mr. Kryscio talked to the Board members about Mercer refocusing their public sector services away from the public fund defined benefit retainer business. On behalf of the Board, Mr. Morics thanked Mr. Kryscio for his services. It was moved by Mr. Petropoulos, seconded by Mr. Carey, and unanimously carried, to approve an additional 90 day extension through March 31, 2011 to the Mercer Contract.

Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on this item (A.), 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. Carey, 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, Carey, Ellenberger, Petropoulos, Walter and Morics. NOES: None. The Board convened in closed session at 9:16 a.m.

(Mr. Murphy arrived during closed session at 9:22 a.m.)

It was moved by Mr. Carey, and seconded by Mr. Barmore, that the Board reconvene in open session. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Carey, Ellenberger, Murphy, Petropoulos, Walter and Morics. NOES: None. The Board reconvened in open session at 9:45 a.m.

Investment Committee Report. Mr. Barmore reported that at the October 7, 2010 meeting, a sub-committee of the Investment Committee heard presentations from Alliance Bernstein and Brandes Investment Partners. The Townsend Group was also present to provide an update to the real estate portfolio. He noted that the sub-committee also received reports on and discussed the following items:

Acceptance of Alliance Bernstein Due Diligence Report. As a matter of information, Board members received a copy of a memorandum from Mr. Silber, dated

October 1, 2010. Mr. Barmore noted that a due diligence report for Alliance Bernstein was discussed.

Acceptance of Turner Investment Partners Due Diligence Report. As a matter of information, Board members received a copy of a memorandum from Mr. Thomas, dated October 1, 2010. Mr. Barmore noted that a due diligence report for Turner Investment Partners was discussed.

Approval of Changes to ERS Transition Panel. As a matter of information, Board members received a copy of Mercer's Transition Manager Capabilities and Control Benchmark, dated October 1, 2010. Mr. Barmore stated that a report prepared by the Mercer Sentinel Group which recommends changes to ERS' transition panel - a total of 5 transition managers for ERS are recommended, which include Blackrock, Russell, JP Morgan, State Street, and Northern Trust. Lastly, Mercer discussed their firm's decision to discontinue providing retainer based investment consulting services to public sector defined benefit.

Mr. Barmore also stated that a commodities educational session was scheduled but deferred to a later date. It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to accept the Investment Committee Report, including the approval of the changes to the ERS Transition Panel.

Administration and Operations Committee Report. Mr. Barmore reported that the committee received and accepted two audit reports: the Accounting and Financial Reporting Audit, and the Benefits Calculation Audit from Jefferson Wells. Both audits came back clean; recommendations were related to cross-training opportunities and updates to policies and procedures. He updated the Board on the ERS Special Projects Report, including the organizational study, MERITS status, Virtualization; the remote office and disaster recovery server services.

Approval of Revised Board Rule II. C. 4. As a matter of information, Board members received a copy of the Board Rule Amendment from the City Attorney's Office, dated June 21, 2010. Mr. Barmore stated this revision, already approved by the city attorney, provides additional language identifying electronic records and formally declaring the Executive Director as the legal custodian of ERS records. This rule is before you today for your approval.

Approval of First Amendment to Saber Contract (Name Change Only). As a matter of information, Board members received a copy of the 1st Amendment to the Saber Contract. Mr. Barmore reported that Saber Software has officially changed its name to Hewlett Packard Staten and Local Enterprise Services, Inc. This amendment reflects the name change and is before you today for your approval.

He also reported on a discussion the Committee had on Board Rule XI. B. regarding the use of a ProCard for travel expenses.

It was moved by Mr. Barmore, and seconded by Mr. Carey, to approve items A. and B. 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 October 2010.

Active Death Benefits reported	\$61,978.54
Retired Death Benefits reported	\$86,479.06
Refund of Member Contributions paid	\$104,156.95

Mr. Allen reported that James Thompson who is listed on the retirements report is requesting a review of the calculation of his deferred retirement because he disagrees with the calculation as he thinks he should get credit for military service. He indicated that staff has advised Mr. Thompson that he is not entitled to count his military service as a deferred retiree. Only people retiring under a service retirement get that benefit. Mr. Allen stated that staff is exploring with the City Attorney exactly what the protocol will be for that process. After discussion, it was moved by Mr. Walter, 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 & Marty Matson	Management Seminar
Sponsor:	Wellington Investment Management
Location:	Chicago, IL
Date (s):	October 26, 2010
Estimated Cost:	\$85 each

Tom Rick	Client Conference
Sponsor:	Northern Trust Company
Location:	Chicago, IL
Date (s):	October 28 – 29, 2010
Estimated Cost:	\$170

Tom Rick & Bruce Thomas	Market Outlook
Sponsor:	William Blair
Location:	Chicago, IL
Date (s):	November 9, 2010
Estimated Cost:	\$85 each

Mr. Allen indicated he would also like to attend the Client Conference at Northern Trust on October 28, 2010. It was moved by Mr. Petropoulos, seconded by Mr. Barmore, and unanimously carried, to approve the conference requests submitted by Messrs. Rick, Matson, Thomas and Allen.

CEM Benchmarking Survey. As a matter of information, Board members received a copy of the Defined Benefit Administration Benchmarking Analysis FY 2009 Executive Summary. Mr. Matson handed out a presentation booklet. Ms. Hartford proceeded to discuss the benchmarking results for year 2009. Lengthy discussion ensued throughout the presentation. Ms. Hartford did note that Milwaukee's retirement system is one of the most complex systems she has seen, with the possible exception of the California Public Employee's Retirement System that allows extensive customization. This is the primary reason why you are higher cost, in her opinion. It was moved by Mr. Barmore, seconded by Mr. Walter, and unanimously carried, to hold this report pending revision. Mr. Morics referred this to the A & O Committee for further review of the report with the requested amendments.

(Mr. Walter left the meeting at 10:43 a.m.)

Approval of Request from Housing Authority to Contact System's Actuary. As a matter of information, Board members received a letter from the Housing Authority, dated September 24, 2010. It was moved by Mr. Petropoulos, seconded by Mr. Murphy, and unanimously carried, to approve the request of the Housing Authority to contact Buck Consultants, with the understanding that they are responsible for all costs.

Approval of Request to Obtain Outside Legal Opinion. As a matter of information, Board members received a copy of a letter from Mr. Carey, dated October 6, 2010. Mr. Morics asked that this be held until after the Fiduciary Training. Mr. Carey had no objection.

Approval to Suspend Disability Benefits for Non-Response to Outside Earnings Request. As a matter of information, Board members received a list of retirees who have not complied with the outside earnings requirements. It was moved by Mr. Ellenberger, seconded by Mr. Murphy, and unanimously carried, to approve the suspension of disability benefits.

Fiduciary Training – Mercer and Reinhart Van Deuren. As a matter of information, Board members received presentations from both Reinhart and Mercer. Mr. Johnson and Mr. Kryscio both gave presentations on the fiduciary responsibilities and Board governance. Ms. Cleary handed out information on the City of Milwaukee's Ethics Code. Discussion ensued throughout the presentations.

Mr. Morics stated he would take up item V. E. Approval of Request to Obtain Outside Legal Opinion. Mr. Carey moved that the Board obtain a legal opinion opining if in the event the Mayor and Common Council unilaterally adopted legislation negatively impacting benefits of City of Milwaukee actives and/or retirees as set forth in the Court approved (2001) Global

Settlement, would we as trustees have the duty to refrain from implementing such City action without a court determination. Mr. Morics passed the gavel and offered a friendly amendment to Mr. Carey's motion that in the event the City of Milwaukee or State of Wisconsin adopt legislation negatively impacting benefits of City of Milwaukee actives and/or retirees as set forth in the Court approved (2001) Global Settlement, and/or Chapter 36 of the Milwaukee City Charter would we as trustees have the duty to refrain from implementing action without a court determination. Mr. Carey accepted the amendment, and Mr. Barmore seconded the amended motion. After discussion the motion prevailed with the following roll call vote: Messrs. Barmore, Carey, Ellenberger, Petropoulos and Morics. NOES: Mr. Murphy.

Chief Investment Officer Review. Mr. Morics directed this be held until the end of the meeting.

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 as follows:

Fire – New Applications - Duty

Michael Buran
Effective 7/1/10
James Mikecz
Effective 4/16/10
Christopher Underwood
Effective 10/26/10
Tracy Martinez

Recommendation

Approval
Exempt from Re-Exam
Approval
Approval
Denial

Police – Re-examinations

John Burke
Cheryl Ferrill
Jane Jacobson
Christopher Lehner
Timothy Sanger
James Strohmayer

Recommendation

Approval
Approval
Approval
Approval
Approval
Approval

Fire – Re-examinations

Denise Bekeris
Monica Blazekovic
Paul Hull
Shawn Joannes

Recommendation

Approval
Approval
Approval
Approval

Fire – Re-examinations (cont'd)Recommendation

Martin Kozlowski	Approval
Steven Laabs	Approval
Michael Matthaeus	Approval
Paul Mente	Approval
Charles Smalley	Approval
Aldwin Taylor	Approval
Guy Vallier	Approval
Gregory Ptak	Approval
Nathaniel Roberson	Approval
Anthony Wichman	Approval

GC New Applications – DutyRecommendation

Daniel Willer	Denial
Patrick Klinger	Denial

GC New Applications – OrdinaryRecommendation

Russell Grice	Approval
Effective 7/24/10	
Roger Wilks	Approval
Effective 9/3/10	
Debra Snyder	Approval
Effective 10/15/10	

GC Re-examinations – OrdinaryRecommendation

Carol Hart	Approval
Ronald Werner	Approval
Michael Montana	Approval
Phillip Holiday	Approval
Chris Krzynski	Approval
Teofilo Maldonado	Approval
Claudia Krolikowski	Approval
Carol Tollefson	Approval
Gerald Hudnall	Approval
Jean Walker	Approval

GC Re-examinations – DutyRecommendation

William Bagin	Approval
Eugenia Tate Hutchins	Approval
Quedell Braylock	Approval

Mr. Allen also presented copies of memos regarding the disability retirement applications for William Gorman and Daniel Willer, dated October 14, 2010 and October 18, 2010, respectively. It was moved by Mr. Petropoulos, seconded by Mr. Carey, and unanimously carried, to accept the aforementioned recommendations of the Fire and Police Panel Physicians and the Medical Council.

(Mr. Petropoulos left the meeting.)

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:

Technical Amendment to sec. 36-13-4-d, MCC. Requested August 30, 2010. Ms. Cleary briefly discussed the amendment.

Senate Bill 429 – Infectious Disease Presumption. Requested July 29, 2010, received October 11, 2010. Mr. Konrad discussed the opinion.

It was moved by Mr. Carey, seconded by Mr. Ellenberger, 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 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 October 25, 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) Adjusted Quarterly Cost Basis of Equity – September 30, 2010.
- 5) Minutes of the Administration and Operations Committee Meeting held September 15, 2010.

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

Chief Investment Officer Review. Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on the following item (H), 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. He stated it was his intent to adjourn the meeting from closed session. It was moved by Mr. Barmore, and seconded by Mr. Carey, that the Board convene in closed session of this item. The motion prevailed by the following roll call vote: Messrs. Barmore, Carey, Ellenberger, Murphy and Morics. NOES: None.

The Board convened in closed session at 12:26 p.m. There being no further business, Mr. Morics adjourned the meeting at 12:45 p.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.)