

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

Minutes of the Regular Meeting held February 28, 2011

The meeting was called to order at 9:07 a.m.

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

Board Members Not Present: William C. Carey (excused)
 Ron Walter

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

Others Present: Elizabeth Cleary and Rudolph Konrad, City Attorney's Office; Jon Granger, PDG Consulting; Jay Patel, S&S Consulting; James Greer, Whyte Hirschboeck Dudek; Donald Barmore, Citizen; Jean Burnside and Agnes Stearns, Milwaukee Retirees Association; and Ken Wischer, DC 48.

Appointment of Committees for 2011. Mr. Morics stated that there are only two operational committees: Administration and Operations Committee and Investment, which is a committee of the whole. He indicated that if any Board member has a particular interest in the Administration and Operations Committee, please volunteer. He also noted that he has the authority to appoint the Chairs of both the Investment Committee and the Administration and Operations Committee, and the Committees elect the Vice-Chair.

Investment Committee. Mr. Morics noted this is a committee of the whole and re-appointed Mr. Murphy as the Chair for this committee.

Administration and Operations Committee. Mr. Morics re-appointed Mr. Barmore for this committee. Mr. Carey and Mr. Holland will continue on this Committee.

Mr. Morics stated that the Litigation Committee and Legislative Committee will be appointed as needed.

Approval of Minutes. Mr. Allen presented the minutes of the Annual Meeting held January 24, 2011. It was moved by Mr. Barmore, seconded by Mr. Ellenberger, and unanimously carried, to approve the Minutes of the Annual Meeting held January 24, 2011.

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 through January the Fund's value was \$4.35 billion, while matching the 1.5 percent return of its benchmark. Over the one-year time frame the Fund outperformed the benchmark, while underperforming over the longer time frames. He indicated the drivers for January's performance came from the domestic equity and fixed income portfolios, matching or outperforming the benchmark while the international equity portfolio underperformed. Mr. Thomas stated that both active fixed income managers outperformed their benchmark; domestic equity manager, Allianz, outperformed their benchmark by 490 basis points, while international equity manager, William Blair, underperformed by 200 basis points.

Mr. Thomas said that February, month-to-date, the Fund is up approximately 2.1 percent with a year-to-date approximate return of 3.7 percent. As of February 25, 2011, the Fund's approximate value is \$4.4 billion. He reported that the Fund will be withdrawing \$20 million in February: \$8 million from Blair; \$7 million from Northern Trust; and \$5 million from Earnest to pay monthly benefits and expenses. Mr. Thomas stated that as of February 25, 2011 the Fund had: capital market gains of \$151.8 million; paid out \$47.9 million in expenses; and received contributions of \$5.0 million. He also reported that from January 24, through February 22, 2011, ERS transitioned \$220 million in cash from our fixed income managers and some from our domestic equity managers to fund the Global Fixed Income mandate with Wellington, and the mandate is now fully funded.

Mr. Rick briefly talked about the equity markets and the volatility in the market, which he expects to continue for some time. He also indicated that in the Friday mailing packets will be a list of due diligence trips and if any Board member would be interested in attending any of these, please let him know.

Investment Committee Report. Mr. Murphy reported that at the February 10, 2011 meeting, the Investment Committee heard presentations from our International All-Cap Growth Equity Manager William Blair and our real estate consultant The Townsend Group. In addition, Staff and Callan provided a 4th Quarter Fund performance update. Lastly, ERS' new investment consultant, Callan, provided a discussion on their approach as well issues pertinent to the ERS Fund.

Administration and Operations Committee Report. Mr. Barmore reported that the committee met in closed session for the first two items: Baker Tilly Financial Audit and the IT Risk Assessment. He also updated the Board on the organization study stating that DER continues to hold documentation, and it is unclear whether their review will be completed in 2011. Staff will report back next month. Mr. Barmore also talked about MERITS status; and the remote server site and remote office. He noted that to close out 2010, the ERS will make a final payment to the City of \$2.3 million.

Approval of Symphony Contract. As a matter of information, Board members received a copy of the Symphony Contract. Mr. Barmore stated the Committee approved this request last month to provide assistance with virtualization of servers and network engineering. Work will begin in March and conclude in August, in an amount not to exceed \$113,400. Mr. Barmore noted that staff indicated the monies were budgeted for in the 2011 budget. It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to approve the Symphony Contract.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity, as well as Service Credits for the month of February 2011.

Active Death Benefits reported	\$65,359.12
Retired Death Benefits reported	\$10,374.22
Refund of Member Contributions paid	\$146,594.22

It was moved by Mr. Holland, seconded by Mr. Barmore, 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:

Jerry Allen, Tom Rick, Michael Murphy, & Wally Morics

Callan Associates Visit
 Location: Chicago, IL
 Date(s): March 7, 2011
 Estimated Cost: \$100 per person

Jerry Allen
 Sponsor: Investors Meeting
 Council of Institutional Investors
 Location: Washington, DC
 Date (s): April 1 – 3, 2011
 Estimated Cost: \$1,500

Tom Rick
 Sponsor: Client Conference
 UBS Global Asset Management
 Location: Newport Beach, CA
 Date(s): April 9 - 13, 2011
 Estimated Cost: \$1,500

Kelly Reid &
 Martin Matson
 Sponsor: PRISM Conference
 Location: Jacksonville, FL
 Date(s): April 10 – 13, 2011
 Estimated Cost: \$1,500 each

Martin Matson Annual Global Pension Admin. Peer Conference
Sponsor: CEM
Location: Toronto, Canada
Date(s): May 9 – 12, 2011
Estimated Cost: \$1,500

Mr. Barmore requested to attend the meeting with Callan Associates on March 7, 2011. It was moved by Mr. Murphy, seconded by Mr. Petropoulos, and unanimously carried, to approve the conference requests submitted by Messrs. Allen, Rick, Murphy, Morics, Barmore, Matson and Ms. Reid.

Medical Council Replacement for Dr. Marvin Wagner. As a matter of information, Board members received a copy of an inter-office memo, dated February 14, 2011. Mr. Allen reported that Dr. Wagner is retiring as he is now in his 90s. Commencing this March, Dr. Michael Lischak will replace Dr. Wagner as a regular member of the Medical Council.

Approval of a Resolution for Dr. Marvin Wagner. Mr. Allen presented the following resolution:

WHEREAS, Dr. Marvin Wagner was appointed to the City of Milwaukee, Employees' Retirement System, Medical Council February 26, 1999 and served continuously on the Medical Council from February 26, 1999 to March 4, 2011, and

WHEREAS, Dr. Wagner diligently and professionally evaluated applications for Ordinary Disability and Duty Disability for the Employees' Retirement System, and

WHEREAS, Dr. Wagner brought a significant balance of knowledge and experience to the Medical Council, and

WHEREAS, Dr. Wagner devoted considerable time to reviewing medical files in preparation for each Medical Council meeting, be it

Resolved, By the Annuity and Pension Board that it hereby expresses its' sincere appreciation for the valuable and conscientious service of Dr. Wagner, and be it

FURTHER RESOLVED, that this resolution be spread upon the permanent records of this Board and a suitably engrossed copy be presented to Dr. Wagner.

It was moved by Mr. Holland, seconded by Mr. Barmore, and unanimously carried, to approve the Resolution for Dr. Wagner.

Acceptance of Amendment to Indemnification Agreement between the City of Milwaukee and the Employees' Retirement System. As a matter of information, Board members received a copy of the Amendment. Mr. Konrad briefly talked about the Amendment. After brief discussion, it was moved by Mr. Holland, seconded by Mr.

Murphy, and unanimously carried, to accept the Amendment to the Indemnification Agreement.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations. Mr. Allen presented certifications of the Fire and Police Medical Panel Physicians and the Medical Council relative to Duty & Ordinary Disability Retirement benefits as follows:

<u>Police – New Applications - Duty</u>	<u>Recommendation</u>
William Gorman Effective 2/20/11	Approval
Nichole Lutz Effective 9/1/10	Approval
<u>Fire – New Applications – Duty</u>	<u>Recommendation</u>
Thomas Balistreri Effective 11/26/10	Approval
Scott Klockow Effective 3/1/11	Approval
Leonard Kosier Effective 10/22/10	Approval
<u>Police – Re-examinations</u>	<u>Recommendation</u>
Michael Salomone	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Michael Rachow	Approval
Larry Smith	Approval
Mark Ashworth	Approval
Kenneth Berget	Approval
Thomas Repaci	Approval
Robert Smith	Approval
<u>GC New Applications – Duty</u>	<u>Recommendation</u>
Mary Uriegas	Denial
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Angela Rivera Effective 2/4/11	Approval

<u>GC New Applications – Ordinary (cont'd)</u>	<u>Recommendation</u>
James Braatz Effective 2/9/11	Approval
Duane Rondorf Effective 1/19/11	Approval
Hope Dismuke Effective 2/13/11	Approval
Claire Bark Effective 2/21/11	Approval
Dawn Neils Effective 2/3/11	Approval
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Valerie Matthews	Approval
Steven Beres	Approval
Mary Anderson	Approval
Daniel Higgins	Approval
David Scheller	Approval
Juanita Figueroa	Approval
James Hobbs	Approval
<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Jeffrey Friedrich	Approval
Daniel O'Donnell	Approval

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

Disability Findings – Stephan Huber. Mr. Allen presented the findings submitted by Hearing Examiner Hogan, whose decision states “As a result, I recommend to the board that Mr. Huber’s application for duty disability be denied”. Correspondence was also received from the City Attorney’s Office, dated January 6, 2011, indicating it did not intend to file a brief. It was moved by Mr. Murphy and seconded by Mr. Ellenberger, and unanimously carried, to accept Hearing Examiner Hogan’s report as submitted. After discussion, the motion unanimously carried.

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:

Opinion Regarding Unlawful Impairment of ERS Benefits. Requested from Whyte Hirschboeck Dudek November 18, 2010, received February 8, 2011. Mr. Morics briefly talked about the Governor's budget-repair bill. Mr. Greer said he was asked to opine on what would be the obligation of the Board if there was a possible impairment of ERS member rights. He indicated that his opinion states whether a particular piece of legislation impairs members' benefits is a question of law. Mr. Greer said the first step is get a legal opinion from the Board's statutory counsel; if statutory counsel declines to render an opinion then the Board would get outside counsel to render an opinion. Once the Board obtains a legal opinion in good faith, that opinion provides protection to the Fiduciary. He said if the opinion states the law is valid and enforceable, then the Board can go ahead and enforce the law. If the legal opinion says the law is not valid or it is unclear, then the Board would get instructions through the Courts. Discussion ensued. Mr. Konrad indicated that the City Attorney's Office has been asked by City Officials to render an opinion. He expects this to get so involved that he thinks conflicts will arise and there will be litigation over this, so it would be wise to have Mr. Greer represent the Board on this issue from the beginning so that he can keep pace with all the developments. Mr. Morics stated his purpose in asking Mr. Greer to get on this right away is we as a Board meet monthly, and like Mr. Konrad said, he did not want Mr. Greer to get behind the eight ball. Right now there is nothing enacted, but if it is enacted and the Board is in between meetings then he can hit the ground running.

Mr. Konrad stated that what is brewing here is a very fundamental issue that can affect the future of the Fund dramatically because in 1947 the City was given Home Rule over its pension plan. This means the City would make changes to the plan; the City has the responsibility for the plan and to fund the plan so it is all on their shoulders. He indicated that if the Legislature can pass the law changing the plan, they could decrease or increase benefits. Mr. Konrad said the danger is if the State has this authority, you are separating the responsibility for the Fund from the authority to change it, which is not a safe place to be as far as the future of the Fund goes. Discussion ensued with respect to Fiduciary exposure. Mr. Barmore read into the record Chapter 36-14 Home Rule.

January 27, 2011 Letter to ERS Director. Requested January 27, 2011, received February 15, 2011. Mr. Konrad briefly talked about the letter to a retired member of the System.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. Brief discussion ensued regarding files #100876 and H. R. 6484.

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. As a matter of information, Board members received a copy of the Stipulation and Order for Dismissal on the MPSO lawsuit. 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 February 28, 2011, which gives the status of litigation involving the ERS, as prepared by staff of the ERS and City Attorney's office.
- 2) List of Client Conferences and Trustee Education for 2011.
- 3) Class Action Lawsuit Report.
- 4) Minutes of the Administration and Operations Committee Meeting held January 19, 2011.
- 5) Minutes of the Special Investment Committee Meeting held January 25, 2011.

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. Barmore, 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 10:05 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.)