

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

Minutes of the Regular Meeting held September 26, 2011

The meeting was called to order at 9:02 a.m.

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

Board Members Not Present: Larry Holland (excused)
 Ron Walter (arrived at 9:04 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; Jean Burnside, Milwaukee Retirees Association; and Dan Kwilcinski and Debbie Sweeney, Hayes Companies.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held July 12, 2011. It was moved by Mr. Carey, seconded by Mr. Barmore, and unanimously carried, to approve the Minutes of the Regular Meeting held July 12, 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 as of August 31, 2011 the Fund was at \$4.1 billion, and underperformed its benchmark by 50 basis points. He indicated the Fund was also underperforming year-to-date and over the five-year time periods, but has outperformed over the one-year and three-year timeframes. Mr. Thomas noted that Allianz and Loomis Sayles were the main driver for the August underperformance. Through September 23, 2011 the Fund is down approximately 6.6 percent; with a year-to-date return of -7.0 percent. He reported that four of the 14 active managers are currently outperforming and international equity composite is outperforming. Mr. Thomas stated that as of September 23, 2011 the Fund's approximate value is \$3.86 billion.

Mr. Thomas reported that the Fund will be withdrawing about \$32 million in September: \$10 million from Loomis; \$8 million from Reams; \$8.5 million from BlackRock; and \$5 million from the Barclays Alpha Tilts to pay monthly benefits and expenses later in the month. He also reported that through September 23, 2011 the Fund had: capital market losses of \$261.6 million; paid out \$206.1 million in benefits and expenses; and received contributions of \$23.9 million. Discussion ensued.

Mr. Rick informed the Board that Mr. Thomas is resigning and has accepted a position with the Virgin Islands Retirement System and will be leaving mid-October. Further discussion.

Investment Committee Report. Mr. Murphy reported that the Investment Committee heard presentations from ERS' mid-cap core US equity manager, Earnest Partners. Staff presented due diligence reports on Earnest Partners and Reams Asset Management. He noted that Callan and staff provided a review of the Fund's 2nd Quarter 2011 performance.

Callan also discussed the status of their review of our US Large Cap equity portfolio. They are expected to provide additional analysis on specific long-only concentrated US large cap equity managers at our November Investment Committee meeting.

Approval of R. W. Baird Contract and Due Diligence Report. As a matter of information, Board members received a copy of the Baird contract and due diligence report. Mr. Murphy reported that staff, with Callan's concurrence, recommended approval of an investment management agreement with RW Baird to manage assets of the City's Employer Reserve Fund in a short term fixed income strategy. The committee also reviewed investment guidelines, fees and a due diligence report prepared by staff.

Mr. Murphy reported that the committee also discussed the assignment of ERS' Townsend contracts to Aligned Capital, a private equity fund purchasing a 70% ownership in Townsend. Staff was scheduled for a due diligence visit with Townsend last week and expected to provide a recommendation to the Board at today's meeting. After discussion, Mr. Morics directed this be held over until the next meeting for action.

Approval of Reams Asset Management Due Diligence Report. As a matter of information, Board members received a copy of a memorandum from Mr. Silber, dated September 8, 2011.

Approval of Earnest Partners Due Diligence Report. As a matter of information, Board members received a copy of a memorandum from Mr. Thomas, dated September 8, 2011.

It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to approve the Investment Committee Report, including approval of item A. and acceptance of items B. and C.

Administration and Operations Committee Report. Mr. Barmore reported that the Committee met in July and received an update on the Special Projects Report, including MERITS Product Lifecycle management; current projects; and business continuity. The committee opted to hold awarding the optimization contract to S&S Consulting and requested staff to produce an RFI to get multiple vendors to bid on the optimization work. The committee authorized staff to review bids and come back to the September A & O Committee meeting with that review, a recommendation and a vendor contract, so as not to hold up the optimization project.

Approval to Amend Wells Fargo Contract, Exhibit A. Services Provided. Mr. Barmore stated this amendment was for Exhibit A. Services provided. He noted that Wells Fargo met with ERS managers and staff to discuss additional banking services. The Committee was informed that there is no dollar change to the Wells Fargo contract, as the additional fees (approximately \$400/year)

will be more than offset by the earnings credit (approximately \$5,000-\$10,000 per year). The committee asked that management review the earnings credit on a regular basis with Wells Fargo to be sure it was still beneficial versus an interest bearing account. The Committee is recommending approval.

A discussion was also held on the possibility of having Experis, the internal auditor, do some consulting work for the ERS in regards to procedural documentation, which would be used as part of any future internal audit. The committee recommended that staff not contract with the internal auditor to avoid any perception of a conflict of interest, even if none existed.

Mr. Barmore indicated he would like to take action on the July Committee recommendations prior to reporting on the September meeting.

Approval to Extend the Symphony Contract. Mr. Barmore reported that Symphony provided a resource for 6 months to work through virtualization of the ERS network. The request was to extend that resource for another six months to finish up the remainder of the virtualization work in regards to disaster recovery, backup and replication. The committee approved the request, and the contract is before the board for approval. It was moved by Mr. Barmore, and seconded by Mr. Petropoulos, to approve the Symphony contract with a not to exceed amount of \$113,400. The motion carried, with Mr. Murphy being recorded as opposing.

Mr. Barmore reported that in September, the A & O Committee received the Experis internal audit reports for Benefit Calculations, Investments and Workstation and Remote access. He noted that Investment audit had a few minor issues that were resolved (see letter from Northern Trust, dated September 32, 2011). The Committee also received an update on the ERS Special Projects, and website redesign. Items for approval were as follows:

Approval of Wells Fargo Contract Amendment. As a matter of information, Board members received a copy of the Wells Fargo contract amendment. Mr. Barmore stated the Committee was informed that there is no dollar change to the Wells Fargo contract, but overall would provide a reduction in fees. The amendment is before the Board for your approval today.

Approval of Baker Tilly Contract Amendment. As a matter of information, Board members received a copy of the Baker Tilly contract amendment. Mr. Barmore indicated this amendment would be for one additional year of financial audits, to coordinate with the actuary for the five-year experience study in 2012. The committee is recommending approval and this contract is before the Board today for a not to exceed amount of \$59,500.

It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to approve the amendments to the Wells Fargo and Baker Tilly contracts.

Award of Optimization Contract. Mr. Morics advised that the 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, seconded by Mr. Carey, and unanimously carried, to convene in open session on this item.

The Board convened in closed session at 9:25 a.m. and reconvened in open session at 9:30 a.m.

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 2011.

Active Death Benefits reported	\$189,327.63 (August) \$136,740.83 (September)
Retired Death Benefits reported	\$15,530.63 (August) \$33,156.81 (September)
Refund of Member Contributions paid	\$46,083.32 (August) \$84,654.89 (September)

It was moved by Mr. Carey, 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:

Tom Rick & Jerry Allen	Client Conference
Sponsor:	Robert W. Baird
Location:	Sheboygan, WI
Date(s):	September 12, 2011
Estimated Cost:	\$15 each
Jerry Allen	Executive Forum
Sponsor:	Northern Trust
Location:	Chicago, IL
Date(s):	October 5, 2011
Estimated Cost:	\$75
Jerry Allen	Public Safety Employees Pension & Benefits Conference
Sponsor:	NCPERS
Location:	Rancho Mirage, CA
Date(s):	October 9 – 13, 2011
Estimated Cost:	\$2,000
David Silber	Hedge Fund Institutional Forum
Sponsor:	Institutional Investor Institute
Location:	Chicago, IL
Date(s):	October 17, 2011
Estimated Cost:	\$80.00
Tom Rick & Jerry Allen	2011 Private Equity Conference
Sponsor:	Mesirow Financial
Location:	Chicago, IL
Date(s):	October 20, 2011
Estimated Cost:	\$85 each

considered totally and permanently disabled. He indicated that staff needs Board approval to close out these files. It was moved by Mr. Petropoulos, seconded by Mr. Walter, and unanimously carried, to approve the administrative closure of the aforementioned files.

Mr. Morics indicated that he would take up Item V. I as the last order of business and adjourn the meeting from closed session.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations (August and September). 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>Fire – New Applications – Duty (August)</u>	<u>Recommendation</u>
Gilbert Baltutis	Approval
Effective 8/24/11	
Terry Saugstad	Approval
Effective 8/24/11	
<u>Fire – New Applications – Duty (September)</u>	<u>Recommendation</u>
David Mead	Approval
Effective 9/27/11	
Todd Schultz	Approval
Effective 9/27/11	
Brent Dewald	Denial
<u>Police – Re-examinations (August & September)</u>	<u>Recommendation</u>
Angel Alderman	Approval
James Lucht	Approval
Edward Prah	Approval
Michael Schuster	Approval
Cindy Warren	Approval
Ron Trotter	Approval
<u>Fire – Re-examinations (August & September)</u>	<u>Recommendation</u>
Jeffrey Beamon	Approval
Teresa Clyse	Approval
David Fass	Approval
Nancy Hutchinson	Approval
Glenn Thompson	Approval
Scott Van Roo	Approval
Hal Boston	Approval
Irving Blackmon	Approval
Ron Trotter	Approval

<u>GC New Applications – Duty (September)</u>	<u>Recommendation</u>
Jerry Conley	Approval
Effective 6/8/11	
Terri Jesko	Approval
Effective 5/13/11	
Rochelle Roundtree	Denial
Debra Schuldt	Denial
Jacqueline Turner	Denial
<u>GC New Applications – Ordinary (Aug. & Sept)</u>	<u>Recommendation</u>
Louise Jones	Approval
Effective 7/3/11	
Iris Walker	Approval
Effective 7/15/11	
Debra Burton	Approval
Effective 7/27/11	
John Stanislawski	Approval
Effective 8/27/11	
Rochelle Roundtree	Approval
Effective 5/6/11	
Drew Wencka	Approval
Effective 9/10/11	
Jacqueline Turner	Approval
Effective 7/29/11	
Glenda Lipson	Approval
Effective 7/19/11	
Ethel Luebbe	Approval
Effective 8/9/11	
<u>GC Re-examinations – Ordinary (Aug. & Sept.)</u>	<u>Recommendation</u>
Andrew Steck	Approval
Antony Budish	Approval
Lawrence Griffin	Approval
Hattie Johnson	Approval
Glen Banks	Approval
Shirley Harley	Approval
Kara Koceja	Approval
Johnathan Saffold	Approval
Bonnie Mauhar Lutz	Approval
Ripton Stewart	Approval
Peter Mouradian	Approval
Matthew Martin	Approval
Wilma Mendez	Approval
Carol Hart	Approval
Raymond Weaver	Approval

<u>GC Re-examinations – Duty (Aug. & Sept.)</u>	<u>Recommendation</u>
Lynette Lowery-Cowser	Approval
Kieran Nash	Approval
Yvette Jones	Approval
Rosa Romo	Approval
John Cunningham	Approval
Gladys Williams	Approval
Dorothy Triplett Kelley	Approval
Enrique Godoy	Approval

It was moved by Mr. Murphy, 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 – Dewreal Ford. Mr. Allen presented the findings submitted by Hearing Examiner Fiorenza, whose decision states “The applicant is not permanently or totally incapacitated for duty as a natural or proximate result of injury he sustained during the incident of May 31, 2007”. Correspondence was also received from the City Attorney’s Office, dated September 6, 2011, indicating it did not intend to file a brief and a letter from Mr. Ford. It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to accept the recommendation of Hearing Examiner Fiorenza, denying duty disability retirement benefits to Mr. Ford.

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 indicated there were no legal opinions at this time.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. Mr. Allen presented File Number 110348 pertaining to a substitute charter ordinance relating to reservation of plan sponsor rights under the employees’ retirement system. After lengthy discussion, it was moved by Mr. Petropoulos, seconded by Mr. Barmore, and unanimously carried, to request a legal opinion from Whyte Hirschboeck Dudek.

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.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated September 26, 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 Investment Committee Meeting held May 19, 2011.
- 5) Minutes of the Administration and Operations Committee Meeting held June 27, 2011.
- 6) Minutes of the Investment Committee Meeting held July 12, 2011.
- 7) Minutes of the Administration and Operations Committee Meeting held July 20, 2011.

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

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

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

ERS Compensation Structure and Staff Issues. 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) (c), Wisconsin State Statutes, for considering employment, promotion, compensation or performance evaluation data of any public employee 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. Walter, seconded by Mr. Murphy, and unanimously carried, to convene in closed session on this item, and adjourn from closed session.

The Board convened in closed session at 10:25 a.m. There being no further business, Mr. Morics adjourned the meeting at 11:20 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.)