

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

Minutes of the Regular Meeting held March 31, 2008

The meeting was called to order at 9:04 a.m.

Board Members Present: John Barmore
 Thomas Fischer
 Larry Holland
 W. Martin Morics, Chair
 Ron Walter

Board Members Not Present: William C. Carey (excused)
 Michael J. Murphy (arrived later in meeting)
 Sebastian Raclaw (arrived later in meeting)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Martin Matson, Deputy Director
 Thomas Rick, Chief Investment Officer
 Alva Owens, Information Systems Manager
 David Silber, Pension Investment Analyst
 Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Cleary, City Attorney's Office; Jon Granger, Sagitec; Jay Patel, Saber; Tony Popanz, Jefferson Wells and Jim Greer, Whyte Hirschboeck Dudek.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held February 25, 2008. It was moved by Mr. Holland, seconded by Mr. Barmore, and unanimously carried, to approve the Minutes of the Regular Meeting held February 25, 2008.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated March 25, 2008. Mr. Rick handed out a copy of the Performance Update Chart. Mr. Silber reported that as the end of February the Fund's value was \$4.9 billion; the Fund had a return of -1.5 percent during February, underperforming its benchmark return of 1.1 percent. The Fund also underperformed over the year-to-date and one year time period, but outperformed its benchmark in both the 3 and 5 year time periods. He said, excluding real estate, the Fund's three composites underperformed their respective benchmarks during February. The domestic equity composite, which had a return of -3.8 percent, underperformed its benchmark by 0.7 percent. He reported that Turner and Artisan underperformed their benchmarks by 2.8 percent and 2.4 percent, respectively, and Bernstein underperformed its benchmark by 1.1 percent. Mr. Silber noted that the domestic equity composite underperformed its benchmark during all time periods except the five year time period.

He indicated the international equity composite had a positive return of 0.4 percent during the month, but still underperformed its benchmark by 1.0 percent. Brandes and DFA, underperformed their benchmarks by 4.9 percent and 2 percent, respectively, and Blair outperformed the benchmark by 0.3 percent. Brief discussion ensued. Mr. Silber reported on

the fixed income composite stating it also had a slightly positive return of 0.1 percent but underperformed its benchmark return. Reams underperformed their benchmark by 1.0 percent and Loomis outperformed its benchmark in February by 0.4 percent. He informed the Committee that month-to-date the Fund is down approximately 1.5 percent; the international and domestic equity composites are down about 2.3 percent and 1.1 percent, respectively, and the fixed income composite is also down about 0.6 percent. The Fund's projected value as of March 28 is about \$4.8 billion.

Mr. Silber reported on the domestic equity manager investment style stating that all managers plot within their respective styles. Over the past five years on a risk/return basis the Fund is realizing above benchmark returns while taking on additional risk. He indicated that ERS will be withdrawing \$18 million in March to cover payroll and expenses: \$8 million from Loomis and \$5 million from both Reams and Barclays. As of March 28, 2008, year-to-date, the Fund had: capital market losses of \$352.7 million; paid out \$58.1 million in payroll and expenses; and received contributions of \$7.1 million.

Mr. Rick mentioned that ERS is working on the RFP for custodial services and he believes the City Attorney should complete their review in the next two weeks. He indicated the current contract expires July 1, 2008, therefore; he will be asking at the April Board meeting for an extension of Northern's contract to provide enough time for the RFP process. Mr. Rick briefly talked about the real estate conference next February in Arizona. He also discussed the Annual Added Value Report, which was not taken up at the Investment Committee Meeting due to lack of time.

(During the above discussion, Mr. Raclaw arrived at 9:15 a.m. and Mr. Murphy arrived at 9:18 a.m.)

Investment Committee Report – Approval of Reams Asset Management Investment Guideline Changes; Approval of GTA Transaction Cost Analysis Contract and Approval of William Blair Guideline Change. Mr. Murphy reported that Mr. Barmore was elected Vice-Chair of the Investment committee. He said the Committee also reviewed and recommends approval of the GTA Transaction Cost Analysis Contract. The Committee recommends for approval that Blair be allowed to increase their investment in emerging markets to the lower of 150% of the ACWI ex US benchmark weighting or 35%. Mr. Murphy indicated that Committee members were presented with a real estate market outlook and an update to our real portfolio by Townsend. Northern Trust provided an educational session on securities lending.

He stated that Reams Asset Management also gave a presentation on Credit Default Swaps and lengthy discussion ensued about what they are and the benefits and risks of holding them in a portfolio. Since a quorum was not present when Reams presented, the 3 proposed guideline changes were not voted on. The three proposed guideline changes are: 1) allow Reams to invest up to 80% of the portfolio in US Agency MBS, while limiting investments in non-agency MBS to 25% of the portfolio; 2) allow Reams to invest up to 3% of the portfolio, at the time of purchase, in the Columbus Extended Market Fund; and 3) allow Reams to invest up to 30% of the portfolio in futures, forwards, options, and swaps (credit default swaps). Mr. Murphy indicated that staff continues to recommend approval of the first two guideline changes. Regarding the use of CDS's by Reams, staff is recommending we

defer action and continue the education process with Mercer on the use of derivatives as part of the Asset Liability and asset allocation process. Mercer began to provide some preliminary findings from the Asset Liability Study; however, due to time constraints the Committee opted to schedule a special Investment Committee meeting in April so more Board members could attend. Staff has scheduled this meeting for April 22nd at 9:00 a.m.

It was moved by Mr. Murphy and seconded by Mr. Fisher, to approve agenda items B. and C., approve items 1 and 2 of the Reams guideline changes and defer item 3 of the Reams guideline changes for the meeting on April 22, 2008. Mr. Rick indicated that he agrees with Mr. Murphy and Mr. Barmore regarding the Credit Default Swaps. He said as the Committee goes through the asset liability process and becomes educated on alternative asset classes, it may bring into play some use of derivatives, including credit default swaps. Mr. Rick stated that he wanted the Committee members to be aware that this is going to be an ongoing process. Brief discussion ensued with respect to the Reams presentation. Mr. Morics restated the motion, which unanimously carried.

Administration and Operations Committee Report. Mr. Barmore reported that the Committee met as a sub-committee and received information on the following items:

Approval of Jefferson Wells Internal Audit Plan and Statement of Work #2. As a matter of information, Board members received copies of a presentation booklet, "Internal Audit Kickoff", dated March 18, 2008 and Statement of Work #2. Mr. Allen indicated that Mr. Popanz was present from Jefferson Wells to make a brief presentation. Mr. Popanz indicated that he was involved in the initial scoping of the internal audit plan, the non-IT piece to be precise. He proceeded to give an overview of the internal audit methodology, audit plan development and 3 year audit plan for business processes and IT. Mr. Morics indicated that number 5 on the statement of work should not identify a specific person that Jefferson Wells would report to within ERS, as this Board is Jefferson Wells' boss, not ERS staff. Mr. Popanz indicated they would change that provision. After discussion it was moved by Mr. Barmore, seconded by Mr. Fischer and unanimously carried, to approve the internal audit plan and statement of work #2 as amended.

Approval of 13th Amendment to the Saber Contract. Mr. Matson reported that the City Attorney is making some minor changes to the 13th amendment. He said this amendment finally accepts Member Self Service and Configuration Maintenance, and he briefly talked about those products. This amendment also updates the amounts in the contract to include the approved amendments missed over time. Mr. Matson reported that several years ago the Board approved additional change orders when Mrs. Bahr was still here, and for whatever reason we have never adjusted the contract amounts to allow for those changes, which comes to about \$1.2 million. He said these dollar amounts in the contract were increased to reflect the changes that were previously approved, and because we extended the contract through the end of 2009 it also includes those amounts ERS would incur for support and maintenance. It was moved by Mr. Barmore, seconded by Mr. Murphy, and unanimously carried, to approve the 13th amendment to the Saber Contract.

Recommendation from ERS Staff to Settle Expenses with the City of Milwaukee. As a matter of information, Board members received a copy of a memorandum from Mr. Haley, dated March 4, 2008. Mr. Matson said Mr. Haley came up with a new method of

settling expenses, which should be referred to the City Attorney or the Legislative Committee. Essentially, Mr. Haley is proposing forwarding the City 1/12 of the budget in January of any given year, and then forwarding actual expenditures after that. He said in 2007 ERS paid ahead almost \$4 million for several months, and the Fund would have been better off having that money in-house rather than in the City coffers. Mr. Matson indicated that in order to change this process the intergovernmental agreement would need to be amended. Mr. Morics directed this be forwarded to the Administration and Operations Committee as well as the City Attorney for their review.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity from the month of March 2008, as well as Service Credits for the month of March 2008.

Active Death Benefits reported	
March 2008	\$78,762.21
Retired Death Benefits reported	
March 2008	\$9,270.82
Refund of Member Contributions paid	
March 2008	\$76,932.78

It was moved by Mr. Fischer, 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 & Bruce Thomas	Due Diligence
Sponsor:	William Blair
Location:	Chicago, IL
Date (s):	April 21, 2008
Estimated Cost:	\$75 per person
 Bruce Thomas	 Zephyr Training
Sponsor:	Zephyr
Location:	Chicago, IL
Date (s):	April 3, 2008
Estimated Cost:	\$75
 Jerry Allen	 Global Investments
Sponsor:	Council of Institutional Investors
Location:	Washington, DC
Date (s):	April 9 – 11, 2008
Estimated Cost:	\$2,000

David Silber	Public Funds Roundtable Hedge Fund Institutional Forum
Sponsor:	Institutional Investor Institute
Location:	New Orleans, LA
Date (s):	April 22 – 25, 2008
Estimated Cost:	\$1,150
Alva Owens	20 th Annual PRISM Conference
Sponsor:	Public Retirement Information Systems Mgmt.
Location:	Miami, FL
Date (s):	April 27 – 30, 2008
Estimated Cost:	\$1,250
John Barmore	VIP Real Estate Conference
Sponsor:	Institutional Real Estate
Location:	Paradise Valley, AZ
Date (s):	February 2 – 5, 2009
Estimated Cost:	\$1,500
Beth Cleary	2008 Legal Education Conference
Sponsor:	National Assn. of Public Pension Attorneys
Location:	Boston, MA
Date (s):	June 24 – 27, 2008
Estimated Cost:	\$2,170

Mr. Allen noted Ms. Owens request should have an estimated cost of \$1,800. He also handed out a request from the City Attorney's Office for Ms. Cleary to attend the NAPPA, which was received by ERS after the Board packet was sent out, and asked for approval on that request also. It was moved by Mr. Murphy, seconded by Mr. Walter, and unanimously carried, to approve the conference requests submitted.

Approval of Milwaukee District Council 48 Request to Contact the System's Actuary. As a matter of information, Board members received a copy of a letter from Milwaukee District Council 48, dated March 14, 2008. It was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to approve the request by DC 48 to contact the System's Actuary, with the understanding that all costs would be borne by DC 48.

Referral of 2009 Budget to Administration and Operations Committee, Referral of Organization Study to the Administration and Operations Committee, Referral of Fiduciary Liability Insurance Review to Administration and Operations Committee, and Referral of Whyte Hirschboeck Dudek Contract to Administration and Operations Committee. Mr. Morics directed these items be referred to the Administration and Operations Committee for discussion and recommendation to the full Board.

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:

Fire – New Applications – Duty

Jeffery Beamon (90%)
 Gary Sweet (90%)
 Effective 3/4/1982

Recommendation

Denial
 Approval

Police – Re-examinations

Brenda Del Valle
 James Devcich
 Edward Prah
 John Thiel
 Craig Wachowiak

Recommendation

Approval
 Approval
 Approval
 Approval
 Approval

Fire – Re-examinations

John Allen
 Jeffrey Beamon
 Jon Bromaghim
 Nancy Hutchinson

Recommendation

Approval
 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

Steven Lemery

Recommendation

Denial

New Applications – Ordinary

Melva Jasper

Recommendation

Denial

Re-examinations – Ordinary

Ellis Beason
 Vicky Ruege

Approval
 Approval

Re-examinations – Ordinary (continued)Recommendation

Eduardo Perez
 Mary Anderson
 Rita Coker
 Thomas Barczewski
 James Ganzlin
 Felipe Maldonado
 Joseph Glover
 Debra Wilson

Approval
 Approval
 Approval
 Approval
 Approval
 Approval
 Approval
 Denial

<u>Re-examinations – Duty</u>	<u>Recommendation</u>
Allen Cook	Approval
Robert Heather	Approval
Rodney Lemberger	Approval
Gerald Corbett	Approval

It was moved by Mr. Holland, seconded by Mr. Raclaw, 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.

Legal Opinions Obtained. Mr. Allen presented a legal opinion obtained from the City Attorney as follows:

Waiving or Disclaiming Retirement Benefits. Ms. Cleary handed out the legal opinion, dated March 19, 2008 and briefly discussed the opinion. It was moved by Mr. Holland, seconded by Mr. Barmore, and unanimously carried, to accept the opinion 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. Ms. Cleary briefly talked about the file regarding amending 36-05-3-c-1-d.

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.

Mr. Morics indicated he would like to take items. VII. A. through J. out of order and then the Board would convene in closed session.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated March 31, 2008, 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 April 2008 through February 2009.
- 3) Class Action Lawsuit Report.
- 4) Minutes of the Administration and Operations Committee Meeting held January 28, 2008.
- 5) Minutes of the Investment Committee meeting held February 15, 2008.

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

Milwaukee Police Supervisor's Organization vs. ERS, et al. Case No. 05-CV-006697. Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on the following item (VII. D.), as provided in Section 19.85 (1)(g), Wisconsin State Statutes, to confer with legal counsel concerning strategy the Board may adopt with respect to litigation in which it is or is likely to become involved. The Board may then reconvene in open session following the closed session. Mr. Morics indicated it was his intent to adjourn the meeting from closed session. It was moved by Mr. Barmore and seconded by Mr. Fischer, that the Board convene in closed session on this item. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Fischer, Holland, Murphy, Raclaw, and Morics. NOES: None.

The Board convened in closed session at 10:10 a.m.

There being no further business the meeting was adjourned from closed session at 10:30 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.)