

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

Minutes of the Regular Meeting held April 28, 2008

The meeting was called to order at 9:06 a.m.

Board Members Present: John Barmore
 Thomas Fischer
 W. Martin Morics, Chair
 Michael J. Murphy
 Sebastian C.J. Raclaw

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

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

Others Present: Elizabeth Conradson Cleary and Rudolph Konrad, City Attorney's Office; Jon Granger, Consultant; Jay Patel, Saber Corp., and Samantha Hernandez, Wispolitics.com.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held March 31, 2008. It was moved by Mr. Murphy, seconded by Mr. Fischer, and unanimously carried, to approve the Minutes of the Regular Meeting held March 31, 2008.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated April 23, 2008. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Thomas reported that as of March 31, 2008 the Fund's value was \$5 billion. The Fund had a return of -0.9 percent, which underperformed the benchmark return of -0.2 percent. The Fund also underperformed over the year-to-date and one year time period, and outperformed its benchmark over the longer time periods. He stated that the domestic equity composite had a return of -0.6 percent, which managed to match the benchmark return. Mr. Thomas said the Fund underperformed the benchmark for the year-to-date and one year time period, and outperformed the benchmark over the longer time periods. He reported on the international equity composite stating month-to-date it had a -2.5 percent return, which underperformed its benchmark return of -1.0 percent. Year-to-date also had underperformance, but the international equity composite outperformed over longer time periods. He noted the fixed income composite had a -0.5 percent return, underperforming the benchmark return of 0.3 percent. The year-to-date and one year numbers show underperformance, but the fixed income composite has outperformed for longer time periods. April month-to-date the Fund is up approximately 4 percent, with the domestic and international equity composites up around 4 percent, respectively; and the fixed income composite is up 0.4 percent. He reported the Fund's projected value is still around \$5 billion.

Mr. Thomas reported on the domestic equity manager investment style stating the managers are within their expected styles. Over the past five years on a risk/return basis the Fund is

realizing above benchmark returns while taking slightly more risk. He stated that ERS will be withdrawing \$20 million in April to cover payroll and expenses: \$8 million from both Loomis and Reams and \$4 from Barclays fixed income. As of April 25, 2008, year-to-date, the Fund had: capital market losses of \$167 million; paid out \$61 million in payroll and expenses; and received contributions of \$9.4 million.

Mr. Barmore asked Mr. Rick to comment about the impact of the Artisan change in leadership and performance. Mr. Rick stated ERS has not had a full discussion with Mercer on this issue. Staff is planning on this being part of the May Investment Committee meeting for discussion with Artisan. He said Mercer's initial reaction is there is some comfort that Artisan's two other portfolio managers have been there for some time, and all three were managing the portfolio together. Mr. Rick said Ms. Zeigler would still be at Artisan. He said there is a due diligence trip scheduled for June or July. In regard to their performance, he stated that small cap growth was probably the worst performing asset class over this last quarter. Artisan was hired because of their ability to hold on to value during declining markets, but the volatility in the market is what impacted them the most. Mr. Rick said this will be talked about at the May investment meeting during the first quarter performance on all the managers.

He noted that Reams notified ERS on April 25 that there was another downgrade in their portfolio, going from a B- to a C in both Moody's and S&P. Reams was initially electing to hold on to the bond, but when they found out that GMAC provided a \$750 million loan senior to what Reams was holding, they decided to sell it at about a \$463,000 loss. Mr. Rick indicated he would send more information in the Board members weekly mail packet. He also talked about an unrealized loss Northern Trust suffered in the Securities Lending portfolio, which impacted ERS' S&P 500 index return by about 12 basis points. Mr. Morics asked if Northern Trust could provide a short summary of what happened structurally. Brief discussion ensued.

Approval of Six Month Extension of Northern Trust Custodial Agreement. As a matter of information, Board members received a copy of the Third Amendment to the Restated and Extended Agreement. Mr. Thomas indicated that the Northern Trust Custodial Agreement will expire prior to completion of the RFP process, due diligence and contract negotiations. He requested the Board to approve a six-month extension with Northern Trust. It was moved by Mr. Murphy, seconded by Mr. Fischer, and unanimously carried, to approve a six-month extension to the Northern Trust Custodial Agreement.

Investment Committee Report. Mr. Murphy reported that the Investment Committee reviewed preliminary results from an Asset Liability Study conducted by Mercer. The study looked at different asset mixes under several different economic and market scenarios. Funded status, potential contribution impacts and risk/return characteristics of the asset mixes were also reviewed. He stated that the Investment Committee requested Mercer provide additional analysis of the asset mixes, as well as other asset mixes suggested for review by Committee members at the May 21, 2008 Investment Committee.

Mr. Murphy stated that staff made a presentation in response to Committee member's questions regarding the relative performance impact of the Barclays Russell 1000 Alpha Tilts strategy as well as our other domestic equity managers on our domestic equity portfolio.

Administration and Operations Committee Report. Mr. Barmore indicated that there was no quorum at the Committee meeting, therefore, these items would be discussed with the full Board.

Approval of 2009 Budget. Mr. Matson handed out a copy of the draft of the 2009 budget. Mr. Haley proceeded to walk the Board members through the budget request. Discussion ensued.

Approval of Whyte Hirschboeck Dudek Contract. As a matter of information, Board members received a copy of a letter from the City Attorney, dated April 16, 2008, with the contract agreement attached. Mr. Matson indicated that historically ERS has written a contract for each specific lawsuit, rather than a blanket or umbrella retainer agreement, so this follows suit. He stated the only lawsuit in which WHD is currently representing the Board is the MPSO/ALEASP suit. Mr. Matson noted the City Attorney did rework the contract with WHD, and both are in agreement, and he asked for the Board to approve this contract. Ms. Cleary stated that the agreement was updated to reflect other standard legal fee agreements. Brief discussion ensued.

Fiduciary Liability Insurance Review. Mr. Matson handed out a letter from the City Attorney's Office, dated April 9, 2008. Mr. Allen said that the Board authorized the Hays Company to do a due diligence review of ERS' contracts and fiduciary liability coverage. He said Hays went beyond their original charter from the Board and delved into the insurance contract more heavily than the other contracts. Mr. Allen noted that when meeting with the Hays Company the people demonstrated their considerable expertise in this matter. They found a number of areas where the language in ERS' coverage is less than ideal, and they have provided an exception report summarizing their findings. Mr. Allen indicated that ERS staff would like to send a copy of this report to Willis of WI and ask them to comment on the exceptions.

It was moved by Mr. Barmore, seconded by Mr. Fischer, and unanimously carried, to accept the Administration and Operations Committee Report, including the approval of the 2009 Budget Request and the Whyte Hirschboeck Dudek contract. Mr. Matson recommended that along with the fiduciary liability insurance review, the Board also consider a timing change related to the insurance, which currently the insurance runs through September 30. He noted that typically the Board approves the insurance at the September Board meeting, which does not give the Board any time for discussion if there would be any issues the Board may have questions about. Mr. Morics said this would be something ERS staff could also bring up to Willis to review and report on.

New Business.

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

Active Death Benefits reported	
April 2008	\$80,799.35

Retired Death Benefits reported April 2008	\$11,148.22
Refund of Member Contributions paid April 2008	\$77,682.96

It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, that the above-indicated retirements, death claims, and refunds be approved.

Conference Requests. Mr. Allen reported that no requests to attend conferences had been submitted. Mr. Murphy indicated, if time permits, he would like to possibly attend the following conference in San Francisco from June 23 – 25.

Michael Murphy	Hedge Funds, Real Estate and Other Alternative Investments
Sponsor:	International Foundation of Employee Benefit Plans
Dates:	June 23 – 25, 2008
Location:	San Francisco, CA

It was moved by Mr. Fischer, seconded by Mr. Barmore, and unanimously carried, to approve the conference requests submitted by Mr. Murphy. Mr. Morics stated that if a Board member finds conferences they would like to attend they can contact him for approval prior to the Board formally approving the request.

Police Relief Association Request to Waive Mailing Cost. As a matter of information, Board members received a copy of a letter from the Police Relief Association, date April 17, 2008. Mr. Allen said he and Mr. Matson have dealt with Mr. Sutter regarding this matter and he apprised the Board about the issue. After discussion, it was moved by Mr. Murphy, seconded by Mr. Fischer, and unanimously carried, to approve the waiver of the mailing costs as requested by the Police Relief Association.

Request by Budget Office to Contact System's Actuary. As a matter of information, Board members received a copy of a letter from the Budget Office, dated April 15, 2008. Mr. Morics indicated this was a routine request made by the unions and city. It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to approve the Budget Office request, with the understanding that all costs associated with this is borne by the City.

Referral of Virchow Krause letter to the Administration and Operations Committee. As a matter of information, Board members received a copy of a letter from Virchow Krause, dated January 28, 2008. Mr. Allen indicated this was received in connection with the 2007 Financial Audit advising ERS there are some new financial accounting standards coming into play for this audit. He asked this be referred to the A & O Committee for further study and response to Virchow Krause. Mr. Morics also asked that Virchow Krause come before the Committee to discuss these matters.

Referral of Privacy Policy to Administration and Operations Committee. Mr. Allen stated that ERS' current privacy policy needs to be amended as it is inaccurate. ERS makes a statement that ERS does not share information with any other city or outside agencies. He said this is not entirely true as we share information with the Department of

Workforce Development regarding child support. ERS is removing this statement from our website and the City Attorney is helping to restate it accurately. Mr. Morics asked if the restatement of this policy would go to the Administration and Operations Committee for review. Mr. Allen answered in the affirmative.

Referral of Board Rule II.C.1 Duties and Responsibilities of Officers and Employees (re: Committee Quorum Requirements) to Legislative Committee. Mr. Morics asked if this was the issue he raised a while back. Mr. Allen answered in the affirmative. Mr. Morics directed this be referred to Mr. Carey’s committee.

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:

<u>Fire – New Applications (Duty)</u>	<u>Recommendation</u>
John Craney	Denial
Shawn Joannes	Approval
Effective 4/29/08	
Hal Boston	Approval
Effective 4/29/08	
 <u>Police – Re-examinations</u>	 <u>Recommendation</u>
Joseph Bauer	Approval
 <u>Fire – Re-examinations</u>	 <u>Recommendation</u>
Glen Allen	Approval
Franklin Gee	Approval
Craig Halpert	Approval
Curtis Jordan	Approval
Jeffrey Landry	Approval
David Moeller	Approval
Scott Navarrette	Approval
Peter Peroutky	Approval
Mitchell Perry	Approval
Ronald Samolinski	Approval
Victor Williams	Approval

All Ordinary Disabilities and General City Duty Disability. Mr. Allen presented certifications of the Medical Council relative to Duty Disability Retirement as follows:

<u>New Applications – Ordinary</u>	<u>Recommendation</u>
Margaret Rau	Approval
Effective 3/29/08	

<u>New Applications – Ordinary (cont’d)</u>	<u>Recommendation</u>
Robert Morden Effective 4/22/08	Approval
<u>New Applications – Ordinary (cont’d)</u>	<u>Recommendation</u>
Steven Nickels Effective 4/3/08	Approval
Evelyn Wilson Effective 4/6/08	Approval
Gerard Sengbusch Effective 3/4/08	Approval
<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
Robert Reamer	Approval
Gregory Kotecki	Approval
Julie Blossmore	Approval
Carol Filtz	Approval
Aaron Morgan	Approval
William Berg	Approval
Lucille Kotecki	Approval
Ronald Watson	Approval
<u>Re-examinations – Duty</u>	<u>Recommendation</u>
Terrence Webster-Austin	Approval
Tommy Kellogg	Approval
Leon Brown	Approval

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

Disability Findings – David Brottlund. Mr. Allen presented the findings submitted by Hearing Examiner Gerlach stating “The decision of the Annuity and Pension Board denying Applicant, David Brottlund, duty disability retirement status is affirmed.” Correspondence was also received from Mr. Brottlund’s attorney, Rachel Pings, dated March 11, 2008, and the City Attorney’s Office, dated March 19, 2008 indicating it did not intend to file briefs. After discussion, it was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to accept the recommendation of Hearing Examiner Gerlach affirming the decision of the Annuity and Pension Board in denying Mr. Brottlund duty disability retirement.

Disability Findings – David J. Grycowski. Mr. Allen presented the findings submitted by Hearing Examiner Fiorenza stating “The Application of David Grycowski for Duty Disability Retirement is denied.” Letters were received from the City Attorney’s Office, dated March 6, 2008, indicating it did not intend to file a brief and a letter from Mr.

Grycowski's attorney, Rachel Pings, dated March 7, 2008, indicating she intended to file a brief, which was received by ERS on April 10, 2008. Mr. Fischer handed out a summary of issues he felt should be discussed by the Board. Lengthy discussion ensued. It was moved by Mr. Murphy to accept the recommendation of Hearing Examiner Fiorenza denying Mr. Grycowski duty disability retirement. Mr. Morics passed the gavel and seconded the motion, which prevailed with Mr. Fischer being recorded as objecting.

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:

Review of Banking services RFP. Requested February 19, 2008, received April 17, 2008. Mr. Allen reported the City Attorney's Office reviewed the RFP and there were some changes made in the insurance provisions. ERS is now ready to proceed with this process. Mr. Matson stated that staff is going to come back at the next A & O Committee to request another extension to the current Wells Fargo contract due to the length of time it took the City's risk manager to get through this RFP. Mr. Morics indicated he would like there to be a record that a committee of the Board has gotten an overview of what ERS is asking for in the RFP. Brief discussion ensued.

Subordination, Non-Disturbance and Attornment Agreement (the "SNDA"). Requested April 1, 2008, received April 9, 2008. Mr. Rudolph stated this happens when a new lender picks up a loan on a building. The lease ERS signed requires you to execute this type of document when there is a change in the lender. He said the only other obligation ERS might have here is if the landlord does something to breach the lease the lender wants to know about it so they can make it good. Ms. Cleary said that along with this refinancing piece, the owners of the buildings are looking for someone to purchase this building, so this process will come up again in the next few weeks or months.

It was moved by Mr. Raclaw, seconded by Mr. Fischer, and unanimously carried, to accept the legal opinion dated April 8, 2008.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. Mr. Allen reported that Assembly Bill 861 died in committee at least for this time around.

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. Discussion ensued with respect to using social security numbers on the Member Self Service program.

Milwaukee Police Supervisor's Organization vs. ERS, et al. Case No. 05-CV-006697. Mr. Morics asked if there was anything to report on this case that would require that the Board convene in closed session. Mr. Matson answered in the negative.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated April 28, 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) Adjusted Quarterly Cost Basis of Equity – March 31, 2008.
- 5) Minutes of the Administration and Operations Committee Meeting held February 25, 2008.
- 6) Minutes of the Investment Committee Meeting held March 20, 2008.

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

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

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

There being no further business, the meeting was adjourned at 10:37 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.)