

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

Minutes of the Regular Meeting held July 28, 2008

The meeting was called to order at 9:08 a.m.

Board Members Present: John Barmore
 Larry Holland
 Sebastian C.J. Raclaw
 Ron Walter

Board Members Not Present: William C. Carey (excused)
 Thomas Fischer (excused)
 W. Martin Morics (arrived later in meeting)
 Michael J. Murphy (arrived later in meeting)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Martin Matson, Deputy Director
 Michael Haley, Financial Officer
 Alva Owens, Information Services Manager
 David Silber, Pension Investment Analyst
 Bruce Thomas, Pension Investment Analyst
 Kathleen Conway, Board Stenographer

Others Present: Elizabeth Conradson Cleary and Rudolph Konrad, City Attorney's Office; Jon Granger, Sagitec, Jay Patel, S & S Consulting and Terry Siddiqui, DS Consulting.

Mr. Barmore acted as Chair. Due to the lack of a quorum, the meeting convened as a sub-committee.

The agenda was taken out of order.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated July 23, 2008. Mr. Silber handed out a copy of the Performance Update Charts, and provided an update of the Fund stating that as of June 30, 2008 the Fund's value was \$4.71 billion. The Fund's return of -5.6 percent during June underperformed its benchmark return of -5.3 percent. He said the Fund has also underperformed for the year-to-date and one year time periods, but has outperformed over the longer time periods. Mr. Silber reported the Fund's domestic equity composite had a -8.4 percent return during June, slightly underperforming its benchmark return of -8.3 percent. Artisan and Bernstein underperformed their benchmarks by 3.8 percent and 1.4 percent, respectively. He indicated the two managers that had positive relative performance during the month were Barclays and Earnest, who outperformed their benchmarks by 1.1 percent and 0.7 percent, respectively. The domestic equity composite has underperformed in all time periods shown with the exception of the 5 year period.

Mr. Silber reported that the international equity composite had a return of -8.3 percent, and slightly underperformed its benchmark by 0.1 percent. Brandes and DFA underperformed their benchmarks by 1.4 percent and 0.1 percent during the month, while William Blair outperformed its benchmark by 1.0 percent. He noted that the international equity composite has also underperformed year-to-date, but outperformed in all other time periods. Mr. Silber

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reported that the fixed income composite had a return of -0.9 percent during the month and underperformed its benchmark by 0.8 percent. Both Loomis and Reams underperformed their benchmarks by 1.2 percent and 0.8 percent, respectively. He said the fixed income composite has also underperformed for the year-to-date and one year time period, but has outperformed over the three and five year time periods.

Mr. Silber indicated that July, month-to-date, the Fund was down about another 2.0 percent. The international and domestic equity composites are down approximately 4.0 percent and 2.0 percent, while the fixed income composite is down about 1.0 percent. He noted the Fund's projected value as of July 25, 2008, is about \$4.63 billion. Mr. Silber talked about the returns based style analysis, which shows all domestic equity managers are within their expected styles. Over the last five years on a risk return basis, the Fund has achieved an above benchmark return while taking on additional risk. He reported that for the month of July, the Fund will be withdrawing \$22 million: \$10 million from Barclays, \$6 million from Loomis and \$6 million from Reams. As of July 25, 2008, year-to-date, the Fund had: capital market losses of \$482.6 million; paid out \$127 million in payroll and expenses; and received contributions of \$17.6 million. Discussion ensued. Mr. Silber updated the Board on upcoming due diligence trips. He informed the Board of an Investment Committee Meeting on August 20, 2008, that had been added to the schedule to discuss the Implementation Plan for the Asset Liability Study.

Mr. Thomas reported that ERS received four responses for the Custody RFP. The responses will be reviewed by a panel comprised of ERS' investment staff, a member from the accounting team, the Executive team and one Board member. He stated some time after August 20, 2008 we will have an initial review meeting to look over the materials submitted and set up a time frame for the firms to come in and give a presentation of the products they are offering. Mr. Thomas updated the Board on the securities lending stating the stand alone securities lending has gross earnings through June 30, 2008 of \$1.4 million, which is ahead of earnings from 2007. He stated that ERS has followed up with Northern Trust to get the status of the S&P 500 securities lending issue with the Whistlejacket SIV that dragged down the earnings for the first quarter when ERS underperformed by 13 basis. Northern Trust indicated that was still being supported by its sponsor, which has helped the credit rating of that bond, and if anything would happen with that bond, Northern Trust would make ERS whole. As of June 30, 2008 ERS has made up a lot of ground on the S&P 500 where we are now outperforming by 9 basis points for the second quarter.

(During the above presentation, Mr. Murphy arrived at 9:23 a.m.)

The meeting convened as a regular meeting at 9:23 a.m.

Mr. Murphy took over as Chair of the meeting.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held June 23, 2008. It was moved by Mr. Barmore, seconded by Mr. Raclaw, and unanimously carried, to approve the Minutes of the Regular Meeting held June 30, 2008.

Administration and Operations Committee Report. Mr. Allen asked if the Board would like to refer the custody search to the Administration and Operations Committee, but as it is not noticed on the agenda, no action was taken at this time. Mr. Barmore talked about the monthly update on the MERITS project.

Acceptance of 2007 Draft Financial Report. As a matter of information, Board members received a copy of the 2007 Draft Financial Report. Mr. Barmore reported that Virchow Krause presented the draft financials indicating there were no major items to the report. They also indicated there should be no other changes made pending their final review, which will be brought before the full Board at the September meeting. Mr. Allen said ERS has no comments from Virchow Krause at this time as it is a draft report. Mr. Murphy indicated the Draft report would be received at this time. If any Board members have questions or comments they should contact Mr. Allen or Mr. Matson.

Responses to RFP for Banking Services and Vendor Selection. As a matter of information, Board members received a memo from Mr. Haley, dated July 15, 2008. Mr. Barmore indicated that, due to the lack of a quorum, the RFP was not addressed at the Committee level. Mr. Murphy advised 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 will then reconvene in open session following the closed session. It was moved by Mr. Barmore, seconded by Mr. Walter, and unanimously carried, to convene in closed session.

The Board convened in closed session at 9:28 a.m. The Board reconvened in open session at 9:30 a.m.

Mr. Murphy moved on to New Business. Ms. Cleary indicated that the Board should take a roll call vote to reconvene in open session, which Mr. Murphy questioned. Mr. Konrad stated as the Board has always done roll call votes we should go ahead and do it, and his office would check into whether this was something that was required legally. A roll call vote was taken for the Board to convene in open session: AYES: Messrs. Barmore, Holland, Raclaw, Walter and Murphy. NOES: None.

New Business.

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

Active Death Benefits reported	
July 2008	\$29,663.51
Retired Death Benefits reported	
July 2008	\$9,820.19
Refund of Member Contributions paid	
July 2008	\$98,297.83

It was moved by Mr. Raclaw, 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:

David Silber & Bruce Thomas:	Due Diligence Trips: Turner, Bernstein & Northern Trust
Location(s):	Philadelphia, PA & New York, NY
Date(s):	August 10 – 12, 2008
Estimated Cost:	\$1,200

Tom Rick	Brandes Client Conference
Location(s):	San Diego, CA
Date(s):	October 19-21, 2008
Estimated Cost:	\$1,100

It was moved by Mr. Walter, seconded by Mr. Raclaw, and unanimously carried, to approve the conference requests submitted by Messrs. Silber, Thomas and Rick.

Authorization to Extend Current Fiduciary Liability Insurance. As a matter of information, Board members received a copy of a letter from Willis of WI, dated July 16, 2008. Mr. Allen said this request is for a 30 day extension from October 1 – November 1, 2008. As there is no meeting of the Board in August, this extension would give the Board time to address any issues that arise with regard to the liability insurance renewal. It was moved by Mr. Walter, seconded by Mr. Raclaw, and unanimously carried, to authorize a 30 day extension for the fiduciary liability insurance.

Approval of August Resolution. Mr. Allen presented the August resolution as follows:

WHEREAS, No regular meeting of the Board will be held during the month of August, 2008, therefore be it

RESOLVED, By the Annuity and Pension Board that the Secretary is authorized and directed to pay bills, retirement allowances, death claims and refund of contributions, and take whatever action may be necessary to administer the system, including approve disability reports of the Medical Council and Medical Panel applications, and report such action to the Board at the Regular Meeting in September, 2008. Denials will be held for action by the Board at its next regular meeting.

It was moved by Mr. Barmore, seconded by Mr. Raclaw, and unanimously carried, to approve the August Resolution.

Approval to Suspend Disability Benefits for Non-Response to Outside Earnings Request. As a matter of information, Board members received a list of non-responders. Mr. Allen indicated that these are people who have not responded to ERS after numerous attempts have been made to contact them. After brief discussion, it was moved by Mr. Raclaw, seconded by Mr. Barmore, and unanimously carried, to approve the suspension of disability benefits for the individuals listed.

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>
Anthony Wichman	Approval
Effective 7/29/08	
Phillip Krawczyk	Approval
Effective 3/8/08	
<u>Police – Re-examinations</u>	<u>Recommendation</u>
De Ronn Gillum	Approval
Linda Babe	Approval
Cheryl Ferrill	Approval
Christopher Lehner	Approval
Keith Miller	Approval
Jeffrey Miranda	Approval
Robert Winters	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Kerry Anderson	Approval
Diane Brown	Approval
Christine Henderson	Approval
Lynn Hester	Approval
Paul Hull	Approval
Martin Kozlowski	Approval
Scott Krahn	Approval
Cindy Magestro	Approval
Robert Shaw	Approval
Charles Smalley	Approval
Aldwin Taylor	Approval
Jeffrey Wolf	Approval

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

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>
Andrew Steck	Approval
Effective 6/23/08	
Annie Hatcher	Approval
Effective 6/29/08	
<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
Lawrence Griffin	Approval
Lorrie Hamilton	Approval
Laurie Elm	Approval

<u>Re-examinations – Ordinary (cont'd)</u>	<u>Recommendation</u>
Charles Barbour	Approval
Bonnie Olson	Approval
Dwayne Mann	Approval
Guy Grutza	Approval
<u>Re-examinations – Duty</u>	<u>Recommendation</u>
Jerry Lutz	Approval
Cheryl JeanPierre	Approval
Craig Fairbanks	Approval
Kieran Nash	Approval
Gregory Sarozek	Approval
Deborah Barutha	Approval
Yvette Jones	Approval
Rosa Colin	Approval

It was moved by Mr. Holland, seconded by Mr. Walter, and unanimously carried, to accept the aforementioned recommendations of the Medical Council.

Disability Findings – David H. DeBarge. Mr. Allen presented the findings submitted by Hearing Examiner Fiorenza, whose Decision states “The application of David H. DeBarge for duty disability is denied.” Correspondence was also received from the City Attorney’s Office, dated June 9, 2008, indicating it did not intend to file a brief. It was moved by Mr. Holland, seconded by Mr. Walter, and unanimously carried, to approve the recommendation of Hearing Examiner Fiorenza, denying the application of Mr. DeBarge for duty disability.

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:

Retiree Health Insurance for Fire and Police Lifetime Duty Disability. Requested October 11, 2004, received July 9, 2008. Mr. Konrad discussed the opinion.

Waiving or Disclaiming Retirement Benefits – Follow Up Questions. Requested April 17, 2008, received July 16, 2008. Ms. Cleary discussed the opinion. After discussion, it was moved by Mr. Barmore and seconded by Mr. Raclaw, to refer this to the Legislative Committee for consideration. Mr. Matson indicated that to get into the next legislative cycle is August 15, 2008. He did receive paperwork from Ms. Gonda as it was ERS’ intention to begin that legislation based on comments from the City Attorney’s Office. Mr. Matson asked if the Board would like to authorize staff to continue the submission of the paperwork, otherwise this will miss a whole cycle. Mr. Konrad said he does not think there is anything

that would keep staff from submitting the paperwork at this point, and this could be approved later. Mr. Murphy called for the question, which unanimously carried.

(Mr. Morics arrived at 9:43 a.m.)

Employees' Retirement System Web Site Disclaimer. Requested June 26, 2008, received July 16, 2008.

Review of RFP for an Organizational Review of ERS. Requested May 28, 2008.

It was moved by Mr. Morics, seconded by Mr. Raclaw, and unanimously carried, to accept the legal opinions and service requests 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. Mr. Allen talked about files 080491 and 080369. It was moved by Mr. Holland, seconded by Mr. Walter, and unanimously carried, to receive and accept the legislation requests.

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. Allen indicated there was a new retirement booklet, “Your Retirement Planning Guide”, which was available for each Board member to take. After a discussion with respect to the direct transfer of rollover funds survey results, it was moved by Mr. Morics, seconded by Mr. Barmore, and unanimously carried, to send this back to the Administration and Operations Committee regarding the \$50,000 cost to implement this type of direct transfer.

After discussion, it was moved by Mr. Morics, seconded by Mr. Barmore, and unanimously carried, to accept and place on file.

Milwaukee Police Supervisors' Organization vs. ERS, et al. Case No. 05-CV-006697. Mr. Murphy asked if there was any need to convene in closed session on this item. Mr. Konrad answered in the negative.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated July 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 August 2008 through February 2009.
- 3) Class Action Lawsuit Report.
- 4) Adjusted Quarterly Cost Basis of Equity – June 30, 2008.
- 5) Minutes of the Administration and Operations Committee Meeting held May 20, 2008.
- 6) Minutes of the Investment Committee Meeting held June 11, 2008.
- 7) ERS Goals for 2008.
- 8) Employee/Consultant Exit Checklist.
- 9) Professional Development Award Plan – Management Pay Plan Employees.

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

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

There being no further business, it was moved by Mr. Barmore, seconded by Mr. Morics, and unanimously carried, to adjourn the meeting at 10:23 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.)