

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

Minutes of the Regular Meeting held October 27, 2008

The meeting was called to order at 9:20 a.m.

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

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

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

Others Present: Elizabeth Conradson Cleary and Rudolph Konrad, City Attorney's Office; Jon Granger, Consultant; and Danita Cole Medved and Steve Reyes, Willis of WI.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held September 22, 2008. It was moved by Mr. Fischer, seconded by Mr. Walter, and unanimously carried, to approve the Minutes of the Regular Meeting held September 22, 2008.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated October 22, 2008. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Silber reported that as of September 30, 2008 the Fund's value was \$4.17 billion and he talked about the market environment. The Fund had a -8.8 percent return in September, which underperformed the benchmark return of -7.5 percent. He mentioned the Fund is now underperforming in all time periods with the exception of the five year time frame. Mr. Silber stated that the domestic equity composite had a -10.6 percent return in September, which underperformed the -9.4 percent return of the benchmark. Bernstein and Turner underperformed their benchmark by 5.4 percent 2.2 percent, respectively. He stated that even the Fund's S & P 500 index fund managed by Northern Trust declined by about 60 basis points due to issues relating to its Securities Lending collateral pools. Mr. Silber reported that Artisan and Earnest outperformed their benchmarks by 1.1 percent and 0.3 percent, respectively.

On the international equity composite, Mr. Silber reported they had a -14.8 percent return in September, underperforming the benchmark by about 30 basis points. Blair underperformed its benchmark by about 2.5 percent, and DFA and Brandes outperformed their respective benchmarks by 3.2 percent and 2.8 percent, respectively. He said the fixed income

composite had a -4.5 percent return in September, underperforming the benchmark return of -1.3 percent. Mr. Silber noted that both Loomis and Reams underperformed by 5.4 percent and 3.3 percent, respectively. October month-to-date, the Fund is down approximately 21 percent. He stated the domestic and international equity composites are down about 28 percent, October month-to-date, and the fixed income composite is down about 8 percent month-to-date. Mr. Silber reported the Fund's projected value as of October 24, 2008 is \$3.37 billion.

Mr. Silber talked about the returns based style analysis, which shows Earnest has been creeping up in the large cap growth style based on their characteristics, but if we looked at their fundamental holdings they would still be in the mid-cap core space. All domestic equity managers are closer within their expected styles. He reported that for October the Fund will be withdrawing \$20 million: \$10 million from Barclays fixed income, \$7 million from Reams and \$3 million from Loomis Sayles. As of October 24, 2008, year-to-date, the Fund had: capital market losses of \$1.68 billion; paid out \$193.3 million in payroll and expenses; and received contributions of \$24.2 million.

Mr. Rick said ERS has talked to Mercer with regard to movements in our portfolio, and they are recommending no major type of transitions or rebalancing. Mercer did recommend some small movements of about \$5 million increments. He stated that as the equity markets are down significantly, ERS' strategic policy allocations are definitely being impacted, so we are underweighted in domestic and international equity, and overweighted in real estate and fixed income. Mr. Rick stated he can have Mercer discuss this at the November Investment Committee meeting. Lengthy discussion ensued.

Mr. Morics directed that item VII. A. be taken up at this time.

Approval of Fiduciary Liability Insurance Renewal. Ms. Cole Medved and Mr. Reyes passed out the Renewal Quotation-Update, dated October 27, 2008, and discussed the updated renewal quotation. After discussion, it was moved by Mr. Walter, seconded by Mr. Holland, and unanimously carried, to approve Option 1 for the Fiduciary Liability Insurance coverage.

Administration and Operations Committee Report. Approval of Recommendation regarding Custodial RFP and Approval of Wells Fargo Contract. Mr. Barmore reported the Committee had the Organizational Review Presentations in closed session and the recommendation will be presented in closed session today with the Board. Also, the Board previously approved contracting with Wells Fargo for banking services and the final contract is before the Board today for approval. He updated the board on the ERS Special Projects report stating that annual processing jobs are being revised and tested. There is a new health care plan to be implemented in MERITS. Also, staff put together a new process for ARIS map access for the city attorney and LegalDocs has been updated and runs more efficiently. A request was made from the committee to have a month-to-month chart for PIR's and CCR's to compare yearly statistics. The counts have remained the same for 2008.

Mr. Barmore reported on Disaster Recovery indicating that staff continues to review the options selected by the Board. Currently the City has no recovery site for the ERS to use. The county government uses IBM for their main frame recovery, and is currently in the

planning stages to co-locate a recovery site for the file servers with MMSD. He indicated that the State does have a facility that the ERS may be able to use and a site visit is planned within the next couple of weeks. He noted that nothing has been found with respect to a private rental facility within city limits. As for a private rental facility outside of city limits, site visits are still being conducted. Staff has visited Berbee, TW Telecom, and Sungard, and a visit to AT&T is next. Staff should have a recommendation for the Board's consideration at the next A&O meeting.

Mr. Barmore said that staff also noted that work will begin on taking a health care deduction for MMSD. An intergovernmental cooperation agreement between the ERS and MMSD was signed in 2003. MMSD will pay for changes to MERITS per the agreement. As for the Update on the Custodial RFP, he stated that staff is recommending a one year continuation of the Northern Trust contract due to the market's volatility. It was moved by Mr. Barmore, seconded by Mr. Fischer, and unanimously carried, to approve the one-year contract extension with Northern Trust on the Custodial Agreement and the Wells Fargo Contract.

Approval of Vendor Selection for Organizational Study. Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on the following item (C.), 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 and seconded by Mr. Fischer, to convene in closed session. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Fischer, Holland, Murphy, Raclaw, Walter and Morics. NOES: None.

The Board convened in closed session at 10:03 a.m. and reconvened in open session at 10:13 a.m. Mr. Morics reported that staff has been instructed to negotiate a contract with L. R. Weschler for purposes of conducting the organizational review. The contract will be brought back to the Board at the November meeting.

Legislative Committee Report.

Approval of Amendment to Board Rule II. B. 2. and 3. – Selection Process and Elections. Mr. Morics said this amendment covers both the active and retiree elections and states that “In the event that only one eligible candidate files, no election shall take place and the candidate shall be declared elected to the office.”

Approval to Repeal Board Rule XIII. B. – Membership. Mr. Morics indicated this is to repeal the rule that required a paper transfer of certain information, which is now done electronically or can be easily obtained at the time the member retires.

Approval of Amendment to Board Rule II. C. 1 – Membership on the Board – Duties and Responsibilities of Officers and Employees and IV. – Committees of the Board. Mr. Morics stated this will enable the Chair to appoint Board members throughout the year to enable us to solve the quorum problem that has been arising from time to time. He said the most noteworthy thing to note is that the language “shall appoint” is mandatory and not permissive so future Chairs' cannot be lax about appointing committee members.

It was moved by Mr. Morics, seconded by Mr. Fischer, and unanimously carried, to approve items A., B. and C. of the Legislative Committee Report.

New Business.

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

Active Death Benefits reported	
October 2008	\$31,088.58
Retired Death Benefits reported	
October 2008	\$150,313.10
Refund of Member Contributions paid	
October 2008	\$165,087.11

It was moved by Mr. Barmore, seconded by Mr. Murphy, 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, David Silber & Bruce Thomas	
Sponsor:	Mercer Consulting Meeting
Location:	Chicago, IL
Date (s):	October 23, 2008
Estimated Cost:	\$75.00 per person
Bruce Thomas	Client Compliance Conference
Sponsor:	Loomis Sayles
Location:	Boston, MA
Date (s):	October 28 – 29, 2008
Estimated Cost:	\$650

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

Request for Authorization to obtain Purchasing Cards. As a matter of information, Board members received a copy of a letter from Mr. Allen, dated October 27, 2008. Mr. Allen said staff is requesting authority to obtain bank cards from Wells Fargo, particularly for the purpose of the investment staffs travel on the due diligence trips. He indicated that these will also be used for IT items purchased over the internet, which have been difficult to order using the purchase order method. Mr. Morics asked if this would be something available for Board members who plan trips months in advance in order to get lower airfare. Mr. Allen stated that is correct as both he and Mr. Haley will have cards available for such a purpose. He also stated that cards could also be issued to Board

members if requested. Mr. Barmore asked if there could be one card available for Board members to check out. Mr. Morics asked that this be reviewed by Jefferson Wells next September as to the controls over the program and how it has functioned for the first year. After discussion, it was moved by Mr. Barmore, seconded by Mr. Fischer, to approve the request to obtain purchasing cards with a limit not to exceed \$10,000 per card. Ms. Cleary stated that the City Attorney's Office would be reviewing the agreement.

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>Police – Re-examinations</u>	<u>Recommendation</u>
Jayne Cler	Approval
Ayman Khatib	Approval
Cindy Warren	Approval
Laura Kraemer	Denial
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
David Franecki	Approval
Marshall Gradinjan	Approval
Dwight Ivory	Approval
Ralph Mays	Approval
Lawrence Riley	Approval
Richard Hall	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 – Duty</u>	<u>Recommendation</u>
William Bagin Effective 8/9/08	Approval
Eugenia Tate Hutchins Effective 8/6/08	Approval
Ronald Werner	Denial
<u>New Applications – Ordinary</u>	<u>Recommendation</u>
Carol Tollefson Effective 10/28/08	Approval
Ronald Werner Effective 10/28/08	Approval

<u>New Applications – Ordinary (cont'd)</u>	<u>Recommendation</u>
Jean Walker Effective 10/4/08	Approval
Gerald Hudnall Effective 10/28/08	Approval
Jessie Stephenson Effective 9/12/08	Approval
David Stanley Effective 10/11/08	Approval
<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
Howard Ruppel	Approval
Kim Linwood	Approval
John Goodwin	Approval
Ronald Severson	Approval
Nancy Moore	Approval
Nanette Bartels	Approval
Thomas Martin	Approval
Chris Krzynski	Approval
Teofilo Maldonado	Approval
Claudia Krolikowski	Approval
Charles Grady	Approval
Enrique Villanueva	Approval
<u>Re-examinations – Duty</u>	<u>Recommendation</u>
Kevin Chartier	Approval
James Holzbauer	Approval
Gladys Williams	Approval
Nettie Irby	Approval

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

Unemployment Compensation Benefits – Validity of Board Rule XVII. A. Requested August 22, 2008, received October 20, 2008. Mr. Konrad briefly discussed the

opinion. After discussion, it was moved by Mr. Murphy, seconded by Mr. Fischer, and unanimously carried, to refer this to the Legislative Committee.

Amending Board Rule II. C. 1. Requested September 24, 2008, received October 21, 2008. Ms. Cleary handed out the opinion with respect to the Board Rule changes to II. C. 1. and 2. regarding elections. It was moved by Mr. Murphy, seconded by Mr. Fischer, and unanimously carried, to accept and place on file.

Deloitte & Touche Contract – ARIS Process Maps. Requested September 18, 2008, received October 16, 2008. Ms. Cleary stated this is the contract for the ARIS Process Maps. The City Attorney's Office did make some slight changes to the contract to reflect the previously negotiated provisions regarding indemnification insurance liability and records and reports. It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to accept 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 briefly talked about File #080791 clarifying the management retiree health insurance premiums providing a zero premium option. He also talked about information on legislation submitted by Mr. Fischer about the IRS attempting to prohibit retirement before age 50 for protective service and 55 for everyone else. Mr. Fischer indicated that has been put off until September 2009 or 2010.

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 October 27, 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 November 2008 through April 2009.
- 3) Class Action Lawsuit Report.
- 4) Adjusted Quarterly Cost Basis of Equity – September 30, 2008.
- 5) Minutes of the Investment Committee Meeting held September 4, 2008.
- 6) Minutes of the Administration and Operations Committee Meeting held September 16, 2008.
- 7) Minutes of the Legislative Committee Meeting held September 22, 2008.

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

There being no further business, Mr. Morics adjourned the meeting at 10:35 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.)