

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

Minutes of the Regular Meeting held May 26, 2009

The meeting was called to order at 9:01 a.m.

Board Members Present:           John Barmore  
  William C. Carey  
  Angela Henschel  
  W. Martin Morics, Chair  
  Ron Walter

Board Members Not Present:       Thomas Fischer (excused)  
  Larry Holland (arrived at 9:02 a.m.)  
  Michael J. Murphy (arrived at 9:45 a.m.)

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

Others Present: Elizabeth Conradson Cleary and Rudolph Konrad, City Attorney's Office; Jon Granger, Sagetic; Jay Patel, S & S Consulting; Carol Graham, Retirees Assn.; Mark Nicolini, Dennis Yaccarino and Jacob Miller, Budget Office; Larry Langer and Marco Ruffini, Buck Consultants; Jim Greer, Whyte Hirschboeck Dudek; Ben Lott and Peter Cole, L. R. Wechsler; Chris Murphy, McLagan; and Rex Holsapple, Sandy River Investments; and Albert Henry, City Employee.

Mr. Morics indicated that he would like to take up item VIII. A. as the first order of business as Buck Consultants has a time constraint. There were not objections.

**Update on City Contact with Buck Consulting.** As a matter of information, Board members received a booklet, "Update on the Status of the City's Contract with Buck Consultants", dated May 26, 2009. Mr. Langer stated that Buck Consultants has been working with the City over the last several months discussing the funding policy for ERS. He and Mr. Ruffini went over the background on the consulting project; the asset corridor; the asset smoothing period; amortization payment type; closed versus open amortization; amortization period; and full funding limit. Discussion ensued throughout the presentation.

(During the above presentation, Mr. Murphy arrived at 9:45 a.m.)

(At this time the agenda was taken in order.)

**Approval of Minutes.** Mr. Allen presented the minutes of the Regular Meeting held April 27, 2009. It was moved by Mr. Holland, seconded by Mr. Barmore, and unanimously carried, to approve the Minutes of the Regular Meeting held April 27, 2009.

**Chief Investment Officer Report.** As a matter of information, Board members received a copy of the CIO Report, dated May 20, 2009. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Thomas reported that as of April 30, 2009 the Fund's value was \$3.34 billion and had a return of 8.1 percent, which outperformed the benchmark return of 7.4 percent. The Fund's outperformance was attributed to the fixed income and the domestic equities outperformance. Both Loomis Sayles and Reams outperformed their benchmarks, while DFA, Artisan and Turner have outperformed their benchmarks. He reported that for May, month-to-date, the Fund is up approximately 4 percent, and the Fund is returning 3.2 percent year-to-date. Mr. Thomas indicated that 8 of the 11 active managers are outperforming their benchmarks over the year-to-date time frame. He stated that U.S. Equity, international equity and the fixed income composites are also outperforming. The Fund's approximate value through May 25, 2009 is \$3.46 billion. Mr. Thomas stated that all domestic equity managers are performing within their styles. He reported that for May the Fund will be withdrawing \$25 million: \$11 million from Barclays Alpha Tilts, \$7 million from Reams, and \$7 million from Loomis Sayles. As of May 22, 2009, year-to-date, the Fund had: capital market gains of \$99.5 million; paid out \$85.9 million in payroll and expenses; and received contributions of \$12.5 million.

**Approval of Reams' Request to Hold Downgraded Bonds.** As a matter of information, Board members received a copy of a letter from Reams, dated May 19, 2009. Mr. Silber stated there are two securities that are coming up on 270 days due, Fannie Mae and Freddie Mac and he talked about the securities. After discussion, it was moved by Mr. Carey, seconded by Mr. Holland, and unanimously carried to approve Reams' request to continue holding these securities for an additional 90 days based on staff recommendation.

Mr. Rick stated that primarily due to the fund's performance over the last 2 months, the fund is at or near its minimum asset class policy targets. Staff discussed this with Mercer, and as a result, we have currently put rebalancing activities on hold. He indicated that at our June 18<sup>th</sup> Investment Committee meeting we will plan to provide an update on the custodial environment as well as an update on the fixed income markets. Mr. Rick reported that ERS earned a net \$747,000 in our securities lending activity through May of this year. This is about \$200,000 less than last year for the same time period in 2008. Although ERS is earning the same spread from last year (14.3 basis points vs. 14.2), the average amount available to be loaned is about \$800 million less than last year, due to our lower market value. He updated the Board on upcoming Due Diligence Trips and invited any interested Board members to contact him. Discussion ensued.

Mr. Morics stated that at this time he would like to take up the Administration and Operations Committee Report, along with item VIII. D. L. R. Wechsler Presentation of ERS Organization Study.

**Administration and Operations Committee Report.** Mr. Barmore reported that staff gave an update on the ERS projects. The organization study was completed and will be presented later at today's meeting. Work continues on the items for the Business Continuity Planning and Disaster Recovery. He indicated that the city attorney is doing an in-depth review of the ERS Ethics Policy and its implications and enforcement. The policy will be brought back to the A&O Committee once the city attorney and staff have completed their review. Jefferson Wells presented the Benefits Administration audit and overall the controls are working appropriately. The audit found issues related to reconciliations and staff is now working to correct those issues.

**Approval of ERS Ethics Policy.** Mr. Barmore noted that the Committee voted to hold this item until the review by the city attorney and staff has been completed.

**Approval of Third Amendment to DS Consulting Contract.** Mr. Barmore stated that this amendment allows the ERS to hire Mike Haley as a consultant on an as-needed basis from June 1<sup>st</sup> to December 31<sup>st</sup>, to assist in training his replacement.

It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to approve the Administration and Operations Committee Report, including approval of the Third Amendment to the DS Consulting contract.

**L. R. Wechsler Presentation of ERS Organization Study.** As a matter of information, Board members received a presentation booklet, dated May 26, 2009, and an Extract from Organizational Review: Final Report, dated May 22, 2009. Mr. Lott talked about the project initiation and study components. Mr. Cole talked about the methodology; findings for the business operations, and benchmarking survey. Mr. Murphy jumped ahead to page 9 and talked about the compensation benchmarking survey. Mr. Holsapple talked about the findings in the investments area. Mr. Cole talked about the findings for human resources and the next steps.

Mr. Morics called for a break at 11:15 a.m.

(Mr. Holland and Mr. Walter left the meeting at 11:15 a.m.).

The Board reconvened the meeting at 11:27 a.m.

### **Investment Committee Report.**

**Approval of Global Growth Equity Firm and Global Value Equity Firm.** Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on items (III. A. and B.), 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. Carey and seconded by Mr. Barmore that the Board convene in closed session. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Carey, Murphy, Morics, and Ms. Henschel. NOES: None.

The Board convened in closed session at 11:30 a.m. and reconvened in open session at 11:40 a.m.

### **Legislative Committee Report.**

**Approval to Repeal Board Rule XVII. A. Unemployment Compensation Benefits.** Mr. Matson stated the current law for unemployment compensation is that benefit is offset by the retirement benefit, so this Board Rule is in conflict with current law. He briefly explained the process for unemployment compensation.

**Approval to Amend Board Rule XXI. B. 7. – Appeal – Practice and Procedure.** Mr. Carey stated this would remove the “oral argument” wording in the appeal process. He indicated that the Board does have the option to refer something back to the Medical Panel if there are questions.

**Approval to Amend Board Rule III. G. – Medical Council and Medical Panel.** Mr. Matson stated this Board Rule contained the Pikalek decision, and that lawsuit has now been settled. This is just a technical correction to remove reference to that case.

**Approval to Amend Board Rule XIII. – Membership.** Mr. Matson stated that Whyte Hirschboeck Dudek has been working with the ERS and MPS trying to resolve issues ERS has with MPS. Out of that came this amendment which will help eliminate retro enrollments with MPS. He briefly talked about the procedure MPS has used in the past. Ms. Cleary also discussed the amendment.

**Approval to Amend Board Rule XI. B. – Reimbursement for Conferences and Professional Development Expenses.** Mr. Allen indicated that this would amend an expense account form to permit payment by credit card. Ms. Cleary asked that this be held as it would follow their recommendations with reviewing the actual credit card policy.

It was moved by Mr. Carey, seconded by Mr. Murphy, and unanimously carried, to approve items V. A. through D., and hold item E.

#### **New Business.**

**Retirements, Death Claims, and Refunds.** Mr. Allen presented the following activity, as well as Service Credits for the month of May 2009. As a matter of information, Board members also received a memo, dated May 11, 2009.

Active Death Benefits reported	\$0.00
Retired Death Benefits reported	\$76,870.34
Refund of Member Contributions paid	\$127,093.62

Mr. Allen advised that the retirement date of Maria Gonzalez that was reported at the April Board meeting was erroneously stated at the April 27, 2009 Board meeting. The date was changed from June 12, 2009 to March 26, 2009, which is the date of her death. It was moved by Mr. Barmore, seconded by Mr. Carey, 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:

Jerry Allen & David Silber	Conversation w/Jeffrey Gundlach on the Credit Markets
Sponsor:	TCW Group
Location:	Chicago, IL
Date (s):	May 14, 2009
Estimated Cost:	\$55

Jerry Allen & Tom Rick	Call to Action – Investing in our Entrepreneurial Ecosystem
Sponsor:	State of WI
Location:	Madison, WI
Date (s):	June 8, 2009
Estimated Cost:	\$75 per person

Jerry Allen	Reams Due Diligence Visit
Location:	Columbus, IN
Date (s):	June 15 – 16, 2009
Estimated Cost:	\$650

Mr. Barmore asked to be added for approval for the State of WI conference and the Reams Due Diligence Trip. It was moved by Mr. Murphy, seconded by Mr. Carey, and unanimously carried, to approve the conference requests submitted by Messrs. Allen, Silber, Rick and Barmore.

**Approval of June Resolution.** Mr. Allen presented the following June Resolution:

WHEREAS, the regularly scheduled June 22, 2009 meeting of the Board has been rescheduled for June 18, 2009, and as such, the payroll and Annuity and Pension Board reports will not be complete in time for Board approval at the earlier scheduled meeting, 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 July, 2009. Denials will be held for action by the Board at its next regular meeting.

Mr. Allen indicated that this would allow him to approve the payroll as the June meeting is being held prior to processing the payroll. It was moved by Mr. Barmore, seconded by Ms. Henschel, and unanimously carried, to approve the June Resolution.

**Approval of Draft Resolution – Michael Haley.** Mr. Allen presented the following draft Resolution for Mr. Haley.

WHEREAS, Michael Haley, Financial Officer of the Employees' Retirement System of the City of Milwaukee, is retiring on May 30, 2009, and

WHEREAS, Mr. Haley was employed by the City of Milwaukee since September 19, 1977, and

WHEREAS, Mr. Haley accepted the position of Financial Officer of the Employees' Retirement System on May 28, 2000, and

WHEREAS, Mr. Haley was a most able and dedicated public servant as well as a fair-minded division head who earned the respect of his employees, and

WHEREAS, Mr. Haley oversaw and helped direct the timely implementation of the Global Pension Settlement provisions, oversaw and helped direct numerous projects for the Employees' Retirement System, of which included a major contribution to the successful implementation of a new pension management information system: MERITS (Milwaukee Employees' Retirement Information Technology System), and

WHEREAS, Mr. Haley, conducted himself professionally, with decorum and dignity and treated others with respect; therefore be it

RESOLVED, By the Annuity and Pension Board that it expresses its sincere appreciation for the valuable and conscientious service of Mr. Haley; and be it

FURTHER RESOLVED, that this resolution be spread upon the permanent records of this Board and a suitably engrossed copy be presented to Mr. Haley.

It was moved by Ms. Henschel, seconded by Mr. Barmore, and unanimously carried, to approve the Resolution for Mr. Haley.

**Referral of Fiduciary Liability Insurance Renewal to A & O Committee.** Mr. Morics referred this to the Administration and Operations Committee.

**Referral to Legislative Committee: Amendment to Board Rule XVII. L. 1 and 2 – Retirement and Death Benefits, and Amendment to Board Rule XV. A. 2 – Service Credit – Unpaid Service.** Mr. Morics referred both amendments to the Legislative 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>Police – Re-examinations</u>	<u>Recommendation</u>
Vincent Dawson	Approval
Linda Hilger	Approval
David Niemann	Approval
Lawrence Pierce	Approval
Edward Prah	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Patrice Brusk	Approval
David Fass	Approval
Franklin Gee	Approval
Scott Mantey	Approval
Scott Navarrette	Approval
Ronald Samolinski	Approval
Scott Van Roo	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>
Albert Henry	Denial
Carol Scott	Denial

<u>New Applications – Ordinary</u>	<u>Recommendation</u>
Albert Henry	Approval
Effective 1/23/09	
Carol Scott	Approval
Effective 2/14/09	
Martha Pineda	Approval
Effective 4/26/09	
 <u>Re-examinations – Ordinary</u>	 <u>Recommendation</u>
Cheryl Smidt	Approval
Dale Chapman	Approval
Judith Becker	Approval
Roben Collins	Approval
George Zoric	Approval
Robert Morden	Approval
Gerard Sengbusch	Approval
Dale Robbins	Approval
Arcadio Cruz	Approval
Ulysses Johnson	Approval
 <u>Re-examinations – Duty</u>	 <u>Recommendation</u>
Michael Zabler	Approval
Lynette Lowery-Cowser	Approval
Samuel Gamboa	Approval
Shirley Nation	Approval
Benjamin Stewart	Approval
Tommy Kellogg	Approval

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

**Disability Findings – Roben Collins.** Mr. Allen presented the findings submitted by Hearing Examiner Kessler, whose Decision states “The application of Roben Collins for duty disability is denied. Correspondence was also received from the City Attorney’s Office, dated March 24, 2009, indicating it did not intend to file a brief. Correspondence was also received from Mr. Collins and Gregory Grose. It was moved by Mr. Carey and seconded by Mr. Murphy, to accept the recommendation of Hearing Examiner Kessler denying the application of Mr. Collins. The motion carried, with Mr. Barmore 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:

**County Transfer Provisions.** Requested April 17, 2009, received May 6, 2009. Mr. Konrad briefly discussed the opinion.

**Noncompliance with Annual Re-examination Process.** Requested April 28, 2009, received May 14, 2009. Mr. Konrad briefly discussed the opinion.

**Intrastate Reciprocity Benefits.** Requested May 1, 2009, received May 14, 2009. Mr. Konrad briefly discussed the opinion.

Mr. Konrad indicated the May 12, 2009 letter was written at the request of the Director of Employee Relations and he discussed the opinion. He indicated that most of this opinion does not involve the ERS, except for Question 3. Impact of unpaid time off on creditable service for purposes of retirement. Mr. Konrad discussed that issue.

**ERS Business Process Maps – COLA/Escalator Maps.** Requested August 3, 2007, received May 19, 2009. Mr. Konrad indicated this merely conveys that the City Attorney's Office has reviewed the process maps.

**IRS Pilot Questionnaire.** Requested April 21, 2009, received May 14, 2009. Mr. Konrad stated this informs ERS that Ms. Tangen reviewed the Pilot Questionnaire received from the IRS.

It was moved by Mr. Carey, seconded by Ms. Henschel, and unanimously carried, to accept the legal opinions dated May 5, 2009, 2 opinions dated May 14, 2009, May 12, 2009 and letters of May 14, 2009 and May 15, 2009.

**Legislation Requests Pending and Proposed Legislation.** As a matter of information, Mr. Allen presented a list of pending requests for legislation, and a copy of a New York Times article "Administration is Open to Taxing Health Benefits, dated March 15, 2009". Mr. Carey indicated that Ms. Graham, President of the Retirees Association was present and would like to make a statement regarding retiree health benefits. Ms. Graham stated that the Retirees Association voted to send a letter to every Alderman and WI Representative relating to the tax issue in health benefits. This letter is requesting that the representatives not support any tax increases.

**Update on the Suspension of Disability Benefit Payments for Non-Compliance with Section 36-07-1 – Periodic Medical Examinations – Darcy Raney.** As a matter of information, Board members received a memorandum, dated May 14, 2009. Mr. Allen indicated that Ms. Raney has now complied with the re-examination process and asked the board rescind the request to suspend her benefit.

**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 May 26, 2009, 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 June 2009 through February 2010.
- 3) Class Action Lawsuit Report.
- 4) Minutes of the Investment Committee Meeting held March 26, 2009.
- 5) Minutes of the Administration and Operations Committee Meeting held March 19, 2009.
- 6) Minutes of the Administration and Operations Committee Meeting held April 23, 2009.

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. Barmore, seconded by Ms. Henschel, and unanimously carried, to accept and place on file the aforementioned informational items.

Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on the following items (G. through I.), and other matters, 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. It was his intent to adjourn the meeting from closed session. It was moved by Mr. Murphy and seconded by Ms. Henschel, that the Board convene in closed session on items G. through I. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Carey, Murphy, Morics and Ms. Henschel. NOES: None.

The Board convened in closed session at 12:22 p.m.

There being no further business the meeting was adjourned from closed session at 12:35 p.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.)