

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

Minutes of the Regular Meeting held September 28, 2009

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

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

Board Members Not Present: Michael J. Murphy (arrived at 9:18 a.m.)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Martin Matson, Deputy Director
 Thomas Rick, Chief Investment Officer
 Melody Johnson, Financial Officer
 Michael Becker, Pension Accounting Specialist
 Bruce Thomas, Pension Investment Analyst
 Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Conradson Cleary and Rudolph Konrad, City Attorney's Office; Jon Granger, Sagitec; Jay Patel, S&S Consulting; Michael Haley, DS Consulting; Carol Graham, Retirees Association; Lara Minetz, Larry Langer and Marco Ruffini, Buck Consultants; Wayne Morgan, Baker Tilly; Debbie Sweeney and Dan Kwiecinski, Hayes Company.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held June 18, 2009, and the Special Meetings held July 30, 2009 and August 27, 2009. It was moved by Mr. Carey, seconded by Ms. Henschel, and unanimously carried, to approve the Minutes of the Regular Meeting held June 18, 2009, and the Special Meetings held July 30, 2009 and August 27, 2009.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated September 23, 2009. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Thomas reported that as of August 31, 2009 the Fund's value was \$3.79 billion, and underperformed its benchmark during the month. He stated that year-to-date the Fund has managed to outperform, while still underperforming over the longer time periods. Mr. Thomas stated the drivers of underperformance were real estate and international equities. He reported that positives for the month came from Northern Trust, which outperformed by 5 basis points and the fixed income composite, which outperformed by 71 basis points. As of September 25, 2009 the Fund is up approximately 3.3 percent month-to-date; year-to-date approximately 19.2 percent, and the Fund's value is approximately \$3.9 billion. Mr. Thomas indicated that for September the Fund will be withdrawing \$21 million: \$5 million from Barclays Alpha Tilts, \$8 million from Loomis Sayles, and \$8 million from Reams. As of September 25, 2009, year-to-date, the Fund had: capital market gains of \$617.8 million; paid out \$173.4 million in payroll and expenses; and received contributions of \$22.9 million.

Mr. Rick stated the next Investment Committee Meeting is November 12, 2009. He updated the Board on upcoming due diligence trips to Loomis Sayles and Mercer. Mr. Rick indicated that Mercer's contract is coming due mid 2010 and ERS plans to issue an RFP and test the marketplace. He noted that Barclays, who manages about 21 percent of ERS assets, has a client conference November 16 – 18, 2009 in San Francisco which is a very worthwhile conference to attend. Mr. Rick reported to the Board that Mr. Thomas passed his CFA Level 1 exam, and is hard at work for Level 2. He also recognized Mr. Silber who has just earned his CFA Charter, as well as completed four years of work experience. Mr. Fischer commented that he was on a due diligence trip with both Mr. Thomas and Mr. Silber and he was every impressed with both of them, and he felt it was very worthwhile to go on a due diligence trip. Mr. Morics urged Board members to take advantage of the opportunities to attend conferences and due diligence trips. Discussion ensued with respect to real estate.

Investment Committee Report. Mr. Rick reported that as there was no quorum in attendance, so the meeting was held as a sub-committee. He stated that Artisan Investment Partners provided a strategy and performance update. Staff provided an update on our Securities Lending program with Northern Trust.

Approval of Global Equity Investment Management Agreements. Approval to retain outside counsel. Mr. Rick stated that staff and the City Attorney discussed the need for outside legal assistance in reviewing and drafting contract documents with our Global Equity finalists. After discussion, it was moved by Mr. Barmore, seconded by Mr. Fischer, and unanimously carried, to approve retaining outside counsel with a not to exceed amount of \$25,000.

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

Approval of Artisan Investment Partners Contract Amendment. Mr. Rick reported that the amendment is a technical amendment to properly reflect Artisan's change in legal structure. This change has no impact on the investment management of our strategy with Artisan. It was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to approve the contract amendment.

Approval of Private Equity Search. Mr. Rick stated that Mercer presented a summary of private equity strategies and a long list of managers they would like to review with staff and winnow the list down to a manageable number for review at the November Investment Committee meeting. It was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to approve developing a Private Equity finalist list.

Approval of Investment Management Agreement Boilerplate. Mr. Rick said the City Attorney, Mercer and staff reviewed and updated the investment management boilerplate as required by the Board. The boilerplate Investment Manager Agreement is primarily geared to separately managed accounts.

Global Equity Managers Initial Funding. Mr. Rick stated this is a placeholder in the event there was a settlement with the two Global Equity manager contracts. This will be brought back at the November 12, 2009 Investment Committee meeting.

Administration and Operations Committee Report. Mr. Barmore reported that due to the lack of a quorum the meeting was held as a sub-committee. He stated that Jefferson Wells presented three internal audit reports: HR & Payroll, Investments and IT Security. Overall the internal audits were presented as satisfactory. In the IT Security Audit, the committee recommended that ERS staff find an efficient method to accomplish the reporting requirements noted by the audit. In addition, the committee did not want to over-burden IT staff with busy work. Mr. Barmore said that contracted staff presented an IT controls framework that will follow the COBIT (Control Objectives for Information related Technology) format. Of the 215 controls in COBIT, ERS intends to implement 168 of them. This is a dynamic document that will assist IT management both for special projects and regular support and maintenance of the ERS IT infrastructure.

Mr. Barmore updated the Board on MERITS Special Projects activities, including the organization study, the MERITS 2.0 project.

Approval of DMC Contract for Mailing & Printing Services. As a matter of information, Board members received a copy of the contract with DMC. Mr. Barmore indicated the committee authorized staff to contract with DMC as the result of the request for quotes that the committee considered in July. Staff has recommended approval of the contract which covers mailing and printing services for the next 3 years. He noted that DMC is also the current vendor for these services.

Approval of Contract with Symphony. As a matter of information, Board members received a copy of the contract with Symphony. Mr. Barmore reported that staff recommended approval of this contract for the services of a developer that has worked for the ERS for several years. The contract amount represents a 2% increase over the current contract.

It was moved by Mr. Barmore to accept the A & O Committee report and approve the contracts with both DMC and Symphony. After discussion, Mr. Murphy seconded the motion, which unanimously carried.

New Business.

Retirements, Death Claims, and Refunds (July, August and September). Mr. Allen presented the following activity, as well as Service Credits for the months of July, August and September 2009.

Active Death Benefits reported	\$56,718.02 (July) \$215,098.15 (August) \$6,024.79 (September)
Retired Death Benefits reported	\$117,230.51 (July) \$340,179.51 (August) \$58,103.33 (September)
Refund of Member Contributions paid	\$121,696.94 (July) \$60,082.12 (August) \$54,083.00 (September)

It was moved by Mr. Carey, seconded by Mr. Fischer, 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 & David Silber	Due Diligence Visits: MFS and GMO
Location:	Boston, MA
Date(s):	August 5-6, 2009
Estimated Cost:	\$750 per person
Tom Fischer, David Silber & Bruce Thomas	Due Diligence Visits: Brandes and DFA
Location:	San Diego & Santa Monica CA
Date(s):	August 31 – September 2, 2009
Estimated Cost:	\$1,200 per person
Jerry Allen & Bruce Thomas	Due Diligence Visit: Loomis
Location:	Boston, MA
Date(s):	October 1, 2009
Estimate Cost:	\$650 per person
John Barmore, Tom Rick & David Silber	DFA Seminar
Location:	Chicago, IL
Date (s):	September 10, 2009
Estimated Cost:	\$85 per person
Tom Rick	Consultant and Institutional Investor Roundtable
Sponsor:	Institutional Investor Institute
Location:	Chicago, IL
Date (s):	October 19 – 21, 2009
Estimated Cost:	\$300
William Carey	55 th Annual Employee Benefits Conference
Sponsor:	IFEBC
Location:	Orlando, FL
Date (s):	November 8 – 11, 2009
Estimated Cost:	\$2,500

Mr. Allen indicated he would also like to attend the Consultant and Institutional Investor Roundtable with Mr. Rick. It was moved by Mr. Holland, seconded by Mr. Carey, and unanimously carried, to approve the conference requests submitted by Messrs. Rick, Silber, Fischer, Thomas, Allen, Barmore and Carey.

Acceptance of Actuarial Valuation – January 1, 2009. As a matter of information, Board members received copies of the Actuarial Valuation and Board Presentation book, dated September 28, 2009. Mr. Langer, Mr. Ruffini and Ms. Minetz were present. Mr. Langer gave a brief overview of the 2008 plan year. He talked about the new funding policy adopted by ERS, which decreased the contribution by \$52.4 million in the first year. He said this is the immediate impact, but long term the contributions should stay more stable than

what has been happening. Brief discussion ensued. Mr. Langer talked about the actuarial valuation process – reserve funding; universal retirement funding equation; objectives of the actuarial valuation. He reported that the recommended contribution for fiscal 2009, payable January 31, 2010 is \$60,178,000.

Ms. Minetz talked about the membership data as of December 31, 2008, both active and retired. Mr. Ruffini updated the Board on benefit changes since last year. He stated that beginning January 1, 2008 the Fund had a market value of \$5.2 billion, and due to poor investment returns the Fund ended 2008 at \$3.4 billion, which is on a market basis. Mr. Ruffini talked about the smoothing method; description of how the actuarial value of assets are developed; ten-year history of asset values; allocation of assets among funds as of January 1, 2009; and the funding methodology.

Mr. Langer stated ERS had an accrued liability of \$4.1 billion as of January 1, 2009. He talked about the security of promised benefits based on both the actuarial value of assets (99 percent funded) and market value of assets (83 percent funded). Mr. Langer talked about the full funding limit and how it works. Mr. Barmore asked Mr. Langer if it was his professional recommendation that the full funding limit be eliminated. Mr. Langer answered in the affirmative because he thinks it results in contribution volatility, which does not serve anybody. Mr. Langer briefly talked about the contribution requirements for 2009 due January 31, 2010, which is \$60,178,000. He provided an analysis of change in the actuarially determined employer contribution.

Ms. Minetz talked about the Policeman's Annuity and Benefit Fund, which provides benefits to a closed group of retired policemen and their beneficiaries. This is funded by an annual tax levy equal to 10-year level dollar amortization of the unfunded accrued liability. She reported that the 2009 contribution of \$329,672 is due January 31, 2010. Discussion ensued throughout the presentation. It was moved by Ms. Henschel, seconded by Mr. Holland, and unanimously carried, to accept the Actuarial Valuation – January 1, 2009 and forward to the Common Council. It was moved by Mr. Barmore and seconded by Mr. Fischer that the Board send a request to the City, per Buck Consultant's professional recommendation, that the full funding limit be repealed. After discussion, the motion unanimously carried.

Approval of Baker Tilly Audit Report. As a matter of information, Board members received a copy of the Basic Financial Statements and Additional Information for the Year Ended December 31, 2008 and Independent Auditors' Report. Mr. Morgan talked about the management letter stating that there were no significant issues relative to the existing accounting policies, and there were no transactions that were significant or unusual. He said no difficulties were encountered during the audit, and there were no uncorrected misstatements that were material to the level that they would need to be brought to this Board. Mr. Morgan also noted there were no disagreements with management. He stated he is required to inform the Board that, to the best of Baker Tilly's understanding, there were no consultations by management with another accounting firm. Finally, he reported that Baker Tilly is independent with respect to the system and management. Mr. Morgan indicated there were no material adjustments. After further discussion, it was moved by Mr. Carey, seconded by Mr. Barmore, and unanimously carried, to approve the audit report as submitted and refer the management letter to the A & O Committee.

Approval of Fiduciary Liability Insurance Renewal. As a matter of information, Board members received a copy of the Board Summary of the Fiduciary Liability Insurance Program Renewal Proposal from the Hayes Company. Ms. Sweeney handed out a Revised Renewal Proposal. Ms. Sweeney walked the Board through the Board Summary stating the Hayes Company has been able to achieve substantial improvements from both the coverage and cost perspective. From the cost perspective they have been able to reduce the premium overall on all three of the policies by over 15 percent, which in hard dollars is a greater than \$42,000 savings. She and Mr. Kwiecinski talked about the policy and the Hayes Company's process. After discussion, it was moved by Mr. Holland, seconded by Mr. Carey, and unanimously carried, to approve the renewal of the Fiduciary Liability Insurance.

Approval of ERS Annual Report – 71st Edition. As a matter of information, Board members received a copy of the 71st Edition of the Annual Report. Mr. Allen noted that Mr. Holland should have been recorded as retired and that change would be made prior to publication. It was moved by Mr. Murphy, seconded by Ms. Henschel, and unanimously carried, to approve the Annual Report – 71st Edition as amended.

Medical Reports.

Fire and Police Duty Disability and Duty Disability Re-examinations (July, August and September). Mr. Allen presented certifications of the Fire and Police Medical Panel Physicians relative to Duty Disability Retirement Benefit as follows:

<u>Police – New Applications - Duty</u>	<u>Recommendation</u>
Maria Guerra	Denial
Tinathea Baker	Denial
<u>Police – Re-examinations</u>	<u>Recommendation</u>
James Drager	Approval
Rod Gustafson	Approval
Daniel Redman	Approval
Timothy Sanger	Approval
Jon Thiel	Approval
DeRonn Gillum	Approval
Linda Babe	Approval
Jane Jacobson	Approval
Christopher Lehner	Approval
James Strohmayer	Approval
Scott Warren	Approval
Jon Weed	Approval
John Burke	Approval
Cheryl Ferrill	Approval
Janette Mosley	Approval
Brenda Nogalski	Approval
Dean Schubert	Approval
Ron Trotter	Approval
Craig Wachowiak	Approval

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

Disability Findings – Victor M. Perez. Mr. Allen presented the findings submitted by Hearing Examiner Hogan whose Decision states “The decision of Medical Council denying applicant’s duty disability, confirmed by the independent reviewer is affirmed. It is recommended to the Annuity and Pension Board that the application be denied.” It was moved by Mr. Holland, seconded by Mr. Fischer, and unanimously carried, to accept Hearing Examiner Hogan’s recommendation that the application of Mr. Perez be denied.

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:

Injury Leave Requirement. Requested July 6, 2009, received July 16, 2009. Mr. Konrad briefly discussed the opinion.

Service Requests Obtained. Mr. Allen presented a draft of the Investment Management Agreement boilerplate; Amendment to the Investment Management Agreement for Artisan Partners Limited Partnership/Change of Structure; Draft Investment Agreements for GMO and MFS; and the Disaster Recovery Agreement with State of Wisconsin. Ms. Cleary briefly talked about the various contracts and amendments.

It was moved by Mr. Fischer, seconded by Mr. Carey, and unanimously carried, to accept the legal opinion, dated July 15, 2009, and service requests obtained.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation.

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, a copy of the ERS Security Awareness Program, and DC48 Changes Related to the 2007- 2011 Contract Settlements.

Milwaukee Police Supervisors’ Organization vs. ERS, et al. Case No. 05-CV-006697. Mr. Morics asked if there was anything to report that needed closed session. Mr. Konrad answered in the negative, but stated he thought the documents dismissing ALEASP from the case come through last week.

State of Wisconsin vs. Bradley DeBraska, Case No. 2009-CF-000695. Nothing to report at this time.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated July 23, 2009 and September 28, 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 September 2009 through May 2010.
- 3) Class Action Lawsuit Report.
- 4) Adjusted Quarterly Cost Basis of Equity – June 30, 2009.
- 5) Minutes of the Legislative Committee Meeting held May 21, 2009.
- 6) Minutes of the Administration and Operations Committee Meeting held May 21, 2009.
- 7) Minutes of the Legislative Committee Meeting held June 17, 2009.
- 8) Minutes of the Administration and Operations Committee Meeting held June 17, 2009.
- 9) Minutes of the Investment Committee Meeting held June 18, 2009.
- 10) Minutes of the Administration and Operations Committee Meeting held July 22, 2009.
- 11) Minutes of the Investment Committee Meeting held July 30, 2009.

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

- 12) Report on Bills.
- 13) Deployment of Assets.
- 14) Securities Lending Revenue and Budget Reports.
- 15) Preliminary Performance Report/Asset and Manager Allocation Pie Charts.
- 16) 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 11:30 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.)