

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

Minutes of the Regular Meeting held December 2, 2009

The meeting was called to order at 9:05 a.m.

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

Board Members Not Present: Thomas Fischer (arrived at 9:10 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
 Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Conradson Cleary, Rudolph Konrad and Melanie Swank, City Attorney's Office; Jon Granger, PDG Consulting; Jay Patel S & S Consulting; Carol Graham, Retirees Association; and James Field, DC 48 Local 33.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held October 26, 2009. It was moved by Mr. Murphy, seconded by Mr. Carey, and unanimously carried, to approve the Minutes of the Regular Meeting held October 26, 2009.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated November 24, 2009. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Silber reported that the Fund's return in October was -1.7 percent, underperforming its benchmark return of -1.3 percent; the Fund is still outperforming year-to-date and during the one-year time period. As of October 31, 2009 the Fund's value was \$3.82 billion. He stated the drivers for underperformance in October were that both the US and international equity composites underperformed their respective benchmarks by about 60 basis points. Mr. Silber indicated there were also a few more write-downs in the real estate portfolio that were reflected in October. He reported the bright spot during October was the fixed income composite as both Loomis and Reams outperformed their respective benchmarks. Mr. Silber reported the preliminary estimate of performance for November was a 3.1 percent return, putting the Fund's year-to-date return through November at 21.4 percent. He reported that as of December 1, 2009 the Fund's value was \$3.96 billion.

Mr. Silber reported that the Fund withdrew \$23 million in November: \$9 million from Loomis Sayles, \$7 million from Reams and \$7 million from the Barclays Alpha Tilt strategy to pay monthly benefits and expenses. As of November 30, 2009, year-to-date, the Fund had: capital market gains of \$696.7 million; paid out \$240.9 million in payroll and expenses; and received contributions of \$29.3 million.

Approval of Reams' Request to Hold Downgraded Bond(s) Past 90 Days. As a matter of information, Board members received a copy of a letter from Reams, dated November 23, 2009. Mr. Silber talked about the downgraded bond for the Chrysler Term Loan. It was moved by Mr. Murphy, seconded by Ms. Henschel, and unanimously carried, to approve Reams' request to hold the downgraded bond an additional 90 days.

Mr. Rick handed out an update on the Northern Trust Securities Lending Supplemental Statement and updated the Board on the reverse collateral deficiency. Brief discussion ensued. Mr. Rick also reported that the purchase of Barclays by Blackrock was officially completed on December 1, 2009, which creates the biggest investment manager firm in the market. ERS was told this merger would not impact ERS' account, and staff will follow up on that issue and continue to monitor this merger.

Investment Committee Report. Mr. Murphy reported that Mercer and staff provided Q3 2009 performance reviews; Alliance Bernstein, ERS' domestic large cap value investment manager, provided a strategy and performance update; and the Townsend Group provided a real estate performance and program update.

Approval of Downgraded Bonds. Mr. Murphy reported that the Committee approved Reams' request to continue to hold downgraded Fannie Mae and Freddie Mac bonds.

Approval of Northern Trust Custody Extension. As a matter of information, Board members received a copy of the Fifth Amendment to the Restated and Extended Agreement. Mr. Murphy reported that the Committee approved a 3-year extension to the custodial contract with Northern Trust which lowered the fees by \$5,000 and added the compliance monitoring analyst module to ERS' suite of services provided by Northern.

Approval of Due Diligence Reports: Dimensional Fund Advisors and Brandes Investment Partners. Mr. Murphy noted the Committee recommended to place on file due diligence reports from staff regarding Dimensional Fund Advisors and Brandes Investment Partners.

Approval of Small Cap Manager Finalists. Mr. Murphy stated the Committee approved three domestic small cap growth manager finalists with presentations to be held December 17, 2009.

Approval of Global Equity Investment Manager Contracts. Mr. Murphy noted that the global equity manager contracts are still being finalized by the City Attorney and their recommended outside legal expert with the expectation they will be ready for review and consideration at the next Investment Committee meeting.

Approval of Private Equity Manager Finalists. Mr. Murphy reported that the Committee approved five Private Equity Fund of Funds Investment Manager finalists with presentations likely to be held during the first half of 2010.

He stated that Mercer also provided the Committee with an updated Asset Liability Study implementation plan or road map reflecting progress to date and an updated schedule for the next 18 months. The Committee also discussed the effects of the market on ERS' targeted asset

allocation and will prepare interim allocation targets for consideration at the next Investment Committee meeting.

It was moved by Mr. Murphy, seconded by Mr. Fischer, and unanimously carried, to accept the Investment Committee report and approval of items A. through F., and item C. being placed on file.

Administration and Operations Committee Report. Mr. Barmore reported that Mr. Morics appointed himself to the Committee to provide for a quorum.

Approval of Saber Contract. Mr. Barmore noted the Committee approved the contract pending City Attorney approval, and provided there were no substantial changes from the existing support and maintenance contract.

Approval of the S & S Consulting Group Contract. Mr. Barmore noted the Committee approved a five year contract for IT support and technical services.

Mr. Barmore updated the Board on the ERS Special Projects: organizational study; the RFI for updating the MERITS system; MERITS status; Business Continuity Planning; the remote office and disaster recovery.

It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to accept the A & O Committee report and approve items A. and B.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity, as well as Service Credits for the month of November 2009.

Active Death Benefits reported	\$126,263.57
Retired Death Benefits reported	\$36,415.75
Refund of Member Contributions paid	\$106,270.74

It was moved by Mr. Carey, seconded by Ms. Henschel, 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	2010 Investment Symposium
Sponsor:	DFA
Location:	Austin, TX
Date(s):	February 1 – 3, 2010
Estimated Cost:	\$1,200

It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to approve the conference requests submitted by Mr. Rick.

Active and Retiree Member Election Results. As a matter of information, Board members received copies of the letters from the Election Commission, dated November 6, 2009, certifying the results of the primary elections held November 6, 2009 for both an active and retiree member. It was moved by Mr. Carey, seconded by Mr. Murphy and unanimously carried, to accept and place on file the certification letters submitted by the Election Commission.

Approval of Dr. Andrew Seter to Medical Council. As a matter of information, Board members received a copy of memo from staff, dated November 9, 2009. Brief discussion ensued. It was moved by Ms. Henschel, seconded by Mr. Fischer, and unanimously carried, to approve the appointment of Dr. Seter to the Medical Council.

Approval of Policemen's Annuity and Benefit Fund Actuarial Valuation – January 1, 2009. As a matter of information, Board members received a copy of the Actuarial Valuation. After discussion, it was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to approve the Policemen's Annuity and Benefit Fund Actuarial Valuation.

2010 Annuity and Pension Board Meeting Dates. As a matter of information, Board members received a listing of 2010 meeting dates. Mr. Allen handed out a revised list that also included the Investment Committee meeting dates. Mr. Morics noted this was informational and would be accepted and placed on file. It was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to accept and place on file.

Presentation by the City Attorney on Open/Public Records. Ms. Swank from the City Attorney's Office was present to discuss these issues. She provided two handouts: Overview of Wisconsin's Open Meetings Law and Wisconsin's Public Records and Open Meetings Laws, dated June, 2009. Ms. Swank provided the Board with an overview of the public records and open meetings laws. Brief discussion ensued throughout the presentation.

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 – New Applications - Duty</u>	<u>Recommendation</u>
Deana Martinez Effective 6/17/09	Approval
<u>Police – Re-examinations</u>	<u>Recommendation</u>
Leonard Hardison	Approval
Mark Robinson	Approval

Fire – Re-examinations

Recommendation

Annette Johnson	Approval
Christopher Kallas	Approval
Miguel Machado	Approval
Robert Smith	Approval
Phillip Krawczyk	Approval

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

New Applications – Duty

Recommendation

James Mortensen Effective 10/10/09	Approval
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New Applications – Ordinary

Recommendation

Clarence Pratt Effective 11/13/09	Approval
Martha Austin Effective 11/28/09	Approval

Re-examinations – Ordinary

Recommendation

Teresa Moran	Approval
Shirley Furlough	Approval
Steven Lemery	Approval
Willie Matthews	Approval
Ruby Richardson	Approval
Nicholas Marusic	Approval

Re-examinations – Duty

Recommendation

Daniel Pfeffer	Approval
Linda Schumann	Approval

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

Disability Findings – Carol Scott. Mr. Allen presented the findings submitted by Hearing Examiner Manian, whose decision states “Upon the records, files and proceedings and had herein, and for the reasons stated, the decision of the City of Milwaukee Medical Council and the City of Milwaukee Employees’ Annuity and Pension Board shall be and is hereby affirmed.” It was moved by Ms. Henschel, seconded by Mr. Fischer, and unanimously carried, to accept the recommendation of Hearing Examiner Manian, denying duty disability retirement to Ms. Scott.

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:

DC 48 2007 – 2001 Contract Clarifications Follow-Up Questions (1.6% and 5.5% member Contribution provisions). Requested September 24, 2009, received November 18, 2009. Mr. Konrad briefly discussed the opinion.

DC48 2007-2011 Contract Clarification Retiree Health Care and Retirement Benefits. Requested September 23, 2009. Mr. Konrad briefly discussed the opinion.

It was moved by Mr. Murphy, seconded by Ms. Henschel, and unanimously carried, to accept the legal opinions 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 and briefly talked about the unclaimed property bill (n/k/a 2009 Assembly Bill 52).

Authorization to Execute a Lease for Remote Office Site, Pending City Attorney Approval. Mr. Allen stated that staff is asking for authorization to enter into a lease agreement in connection with the disaster recovery program out at Park Place, pending approval of the City Attorney's Office. There are ongoing negotiations at this time between the attorneys. Mr. Morics asked if there was anything to put on the record in terms of the rate of square footage, etc. Mr. Allen stated he did not have that present today. Mr. Morics asked if the Board could approve this at the December 17 meeting. Mr. Allen answered in the affirmative. Mr. Morics directed this be laid over to December 17.

Authorization to Execute Saber Contract, Pending City Attorney Approval. Mr. Allen indicated that staff is again asking for authorization to approve the Saber contract for the IT staff pending City Attorney approval. Again, this is another item that has gone through the A & O Committee. Mr. Morics asked if this is the same item that was approved under IV. A. Mr. Allen answered in the affirmative. Mr. Matson stated this was approved under IV. A. on the condition there were not substantial differences. In reality there are substantial differences because the original Saber contract included implementation of the pension management system so there was much more to the original contract. He stated the new contract is for support and maintenance and is very minimal and the only items left open is the indemnification problems. After discussion, Mr. Morics directed this be laid over until the meeting on December 17. It was moved by Mr. Barmore, seconded by Mr. Murphy, and unanimously carried, to reconsider the motion to approve the Saber contract under item IV. A. It was moved by Mr. Murphy and seconded by Mr. Holland, to refer item IV. A. to the A & O Committee. After discussion, the motion unanimously carried.

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. He also handed out current copies of the Member Handbook.

Milwaukee Police Supervisors' Organization vs. ERS, et al Case No. 05-CV-006697 and State of Wisconsin vs. Bradley DeBraska, Case No. 2009-CF-000695. Mr. Morics asked if there was any need to convene in closed session. Mr. Allen answered in the negative.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated December 2, 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 November 2009 through October 2010.
- 3) Class Action Lawsuit Report.
- 4) Minutes of the Administration and Operations Committee Meeting held October 15, 2009.

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

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

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

There being no further business, it was moved by Mr. Fischer, seconded by Mr. Murphy, and unanimously carried, to adjourn the meeting at 10:55 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.)