

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

Minutes of the Annual Meeting held January 25, 2010

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

Board Members Present: William C. Carey
 Larry Holland
 W. Martin Morics, Chair
 Ron Walter

Board Members Not Present: John Barmore (excused)
 Michael J. Murphy (excused)

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
 Melody Johnson, ERS Financial Officer
 Michael Becker, Pension Accounting Specialist
 Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Conradson Cleary, City Attorney's Office; Jon Granger, PDG Consulting; and Jay Patel, S & S Consulting Group.

Introduction of New Board Member. Mr. Morics welcomed Mr. Petropoulos to the Board.

Officers for 2010.

Election of Chair. Mr. Morics asked for a motion for nominations for Chair. It was moved by Mr. Walter and seconded by Mr. Carey to nominate Mr. Morics for Chair. Mr. Morics asked three more times for any further nominations. There being no further nominations, it was moved by Mr. Carey, seconded by Mr. Walter, and unanimously carried, to close nominations and that a unanimous vote be cast for Mr. Morics as Chair of the Annuity and Pension Board.

Election of Vice-Chair. Mr. Morics asked for a motion for nominations for Vice-Chair. It was moved by Mr. Carey and seconded by Mr. Petropoulos to nominate Mr. Barmore for Vice Chair. Mr. Morics asked three more times for any further nominations. There being no further nominations, it was moved by Mr. Carey, seconded by Mr. Petropoulos, and unanimously carried, that nominations be closed and that a unanimous vote be cast for Mr. Barmore as Vice-Chair of the Annuity and Pension Board.

Mr. Morics indicated he would be appointing Committees at the next meeting of the Board. He indicated the Investment Committee would be a Committee of the Whole, unless a Board member does not want to sit on that committee. Mr. Morics stated that Board members let either him or Mr. Allen know if they have an interest in certain committees.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held December 17, 2009. It was moved by Mr. Carey, seconded by Mr. Walter, and unanimously carried, to approve the Minutes of the Regular Meeting held December 17, 2009.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated January 20, 2010. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Silber indicated the numbers are not final, but staff expects Northern Trust to finalize them shortly. He reported that as of December 31, 2009 the Funds value was \$3.96 billion; the Fund's December return of 2.0 percent outperformed its benchmark return of 0.9 percent. Mr. Silber stated that for the full year of 2009 the Fund had a return of 23.6 percent and significantly outperformed its blended benchmark return of 18.9 percent. For December, four of the six active domestic equity managers outperformed their respective benchmarks, and both fixed income managers also outperformed. He stated that with the downturn in the equity markets towards the end of last week, staff estimates the Fund is down about 0.6 percent for the first three weeks in January. Mr. Silber noted that five of the Fund's 11 active managers are outperforming month-to-date and staff is estimating the value as of January 22, 2010 to be \$3.94 billion.

Mr. Silber reported the Fund will be withdrawing \$10 million from the Northern Trust S&P 500 index fund. This is less of a withdrawal than normal because ERS will be receiving approximately \$60 million from the City and agencies at the end of January. He reported that as of January 22, 2010, year-to-date, the Fund had: capital market losses of \$22.8 million; paid out \$2.0 million in expenses; and received contributions of \$2.5 million. Discussion ensued.

Mr. Rick stated that he received notification from William Blair that they are reducing their fee by 7 percent. He also noted that staff will be going on a due diligence trip to T. Rowe Price in early February if any Board member would like to attend.

Investment Committee Report. Mr. Rick reported that Reams Asset Management was present and gave a strategy and performance update. Northern Trust was also present and updated the Committee on the custody services, securities lending and the S&P 500 index. He said the Committee recommended placing on file the Loomis Sayles due diligence report. Mr. Rick noted that the Committee had a review with Mercer of the five selected Private Equity Fund to Fund managers. These presentations will be held at the March 4, 2010 Investment Committee meeting.

Approval of Global Equity Contract with GMO. Ms. Cleary stated the contract should be finalized this afternoon.

Approval of Transition Manager Agreement with BlackRock (Barclays). Ms. Cleary stated this agreement should be completed later this week.

Discussion ensued with respect to the Board's approval of the contracts. Mr. Morics directed these be brought before the Board for approval at the February meeting.

Administration and Operations Committee Report. Mr. Allen stated the meeting was held as a sub-committee due to the lack of a quorum. He reported that JW presented the Accounting and Financial Reporting audit. There was discussion on the criticism that a best practice would be to reconcile accounts quarterly rather than annually. After discussion, JW agreed, given the circumstances with the ERS, that an annual reconciliation would be OK. ERS is not a publicly held company, so there are no required quarterly reports, and Northern Trust already provides monthly audited statements for all the investment related transactions.

He stated that staff is in the final stages of completing the Standard Operating Guidelines, and will have both a soft copy and hard copy book available for the Board and staff to read. This provides an IT insurance policy that continuity of standards will be maintained in the event there is staff turnover.

Mr. Allen updated the Board on the ERS Special Projects Report: Organization study – Civil Service and the Council approved the Chief Technology Officer position. Staff will work with DER, once DER assigns the positions to one of its personnel. The Records Tech position will have candidates, once the test has been scheduled and results tabulated. DER expects hundreds of people to apply. The RFI responses for pension administration software are being compiled, and the results will be presented at a future A&O meeting; 10 vendors did presentations to staff. PIR/CCR's – statistics were presented summarizing 2009. Average ticket counts continue to decline. Operation & Automation – a chart was presented highlighting all the software upgrades and improvements for 2009. On the Business Continuity Planning/Disaster Recovery, staff has rolled out virtual private network (VPN) services for selected staff. The remote office lease negotiations are in their final stages and a lease will most likely be presented for approval at the next A&O Committee meeting. Co-location facilities with the State of Wisconsin are still in negotiations.

Authorization to Contract for Services for FileNet Upgrade. Mr. Allen stated that staff is requesting authority to conduct a RFQ to hire a consultant to assist with the FileNet upgrade, which is necessary for continuance of operations. It was moved by Mr. Walter and seconded by Mr. Holland, to authorize staff to contract for the FileNet upgrade. After discussion, the motion unanimously carried.

Acceptance of Baker Tilly Management Letter. Mr. Allen noted that staff presented the management letter, and the one audit concern has been rectified. It was moved by Mr. Holland, seconded by Mr. Walter, and unanimously carried, to accept the Baker Tilly management letter and place on file.

New Business.

Authorization to Sign Vouchers. The Secretary presented the following resolution in accordance with Section 36.15 (11) of the Retirement Act:

The Secretary presented the following resolution in accordance with Section 36.15 (11) of the Retirement Act:

RESOLVED, That the following persons are hereby designated and authorized to sign vouchers for payments from funds of the Employees' Retirement System or to authorize fund transfers with the custodian bank :

Any two of the following:

Chairman, W. Martin Morics _____
or

Vice Chairman, John Barmore _____
or

City Comptroller, W. Martin Morics _____
or

Special Deputy Comptroller, John Egan _____
or

Deputy Comptroller, Michael J. Daun _____
or

Secretary & Executive Director, Bernard J. Allen _____
or

Deputy Director, Martin Matson _____
or

Chief Investment Officer, Thomas A. Rick _____

And be it

FURTHER RESOLVED, That a duly-attested copy of this resolution, bearing on its face specimen signatures of the above-designated persons, shall be forwarded to the City Treasurer and the Custodian Bank.

It was moved by Mr. Carey, seconded by Mr. Holland, and unanimously carried, to approve the Authorization to Sign Vouchers.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity, as well as Service Credits for the month of January 2010.

Active Death Benefits reported	\$0.00
Retired Death Benefits reported	\$20,518.33
Refund of Member Contributions paid	\$9,280.64

It was moved by Mr. Holland, 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:

Bruce Thomas	JP Morgan Investing Lab
Sponsor:	JP Morgan
Location:	Chicago, IL
Date (s):	February 11 – 12, 2010
Estimated Cost:	\$400.00
Tom Rick & Jerry Allen	T. Rowe Price Due Diligence Trip
Location:	Baltimore, MD
Date (s):	February 7 – 9, 2010
Estimated Cost:	\$700 each
John Barmore	Pension & Health, Parts I & II
Sponsor:	CAPPP
Location:	Chicago, IL
Date (s):	June 22 – 25, 2010
Estimated Cost:	\$3,000
Gust Petropoulos	Certificate in Retirement Plans
Sponsor:	IFEBP
Location:	San Jose, CA
Date (s):	March 15 – 20, 2010
Estimated Cost:	\$5,315

Mr. Rick handed out a conference request for Mr. Petropoulos. It was moved by Mr. Carey, seconded by Mr. Holland, and unanimously carried, to approve the conference requests submitted by Messrs. Thomas, Rick, Allen, Barmore and Petropoulos.

Approval of Resolution of Appreciation – Thomas E. Fischer. Mr. Allen presented the following resolution.

WHEREAS, Thomas E. Fischer, Trustee of the Annuity and Pension Board, conscientiously served in the above capacity from February 26, 2007 to January 1, 2010 and represented this System during his tenure of office; and

WHEREAS, Mr. Fischer's knowledge of pension benefits enabled him to make a valuable contribution to the Annuity and Pension Board and the well-being of the Employees' Retirement System of the City of Milwaukee and its thousands of participants; and

WHEREAS, Mr. Fischer, as a member of the Administration and Operations Committee of the Annuity and Pension Board, oversaw the continued enhancements to the Pension Management Information System, MERITS, and document management system for the Employees' Retirement System; and

WHEREAS, Mr. Fischer served on the Investment Committee of the Annuity and Pension Board throughout his tenure, assisting in the development of the Employees' Retirement System's Asset Allocation Study; and

WHEREAS, Mr. Fischer's departure will be a great loss to the Annuity and Pension Board and the members of the Employees' Retirement System; therefore, be it

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

FURTHER RESOLVED, That this resolution be recorded in the permanent records of this Board and that a suitably engrossed copy be forwarded to Mr. Fischer.

It was moved by Mr. Carey, seconded by Mr. Walter, and unanimously carried, to approve the Resolution of Appreciation for Mr. Fischer.

Approval of Resolution of Appreciation – Angela Henschel. Mr. Allen presented the following resolution.

WHEREAS, Angela Henschel, Trustee of the Annuity and Pension Board, conscientiously served in the above capacity from April 27, 2009 to December 14, 2009 and represented this System during her tenure of office; and

WHEREAS, Ms. Henschel's knowledge of pension benefits enabled her to make a valuable contribution to the Annuity and Pension Board and the well-being of the Employees' Retirement System of the City of Milwaukee and its thousands of participants; and

WHEREAS, Ms. Henschel, as a member of the Administration and Operations Committee of the Annuity and Pension Board, oversaw the continued enhancements to the Pension Management Information System, MERITS, and document management system for the Employees' Retirement System; and

WHEREAS, Ms. Henschel served on the Investment Committee of the Annuity and Pension Board throughout her tenure, assisting in the development of the Employees' Retirement System's Asset Allocation Study; and

WHEREAS, Ms. Henschel's departure will be a great loss to the Annuity and Pension Board and the members of the Employees' Retirement System; therefore, be it

RESOLVED, By the Annuity and Pension Board that it hereby expresses its sincere appreciation for the valuable and conscientious service of Ms. Henschel, and be it

FURTHER RESOLVED, That this resolution be recorded in the permanent records of this Board and that a suitably engrossed copy be forwarded to Ms. Henschel.

It was moved by Mr. Walter, seconded by Mr. Holland, and unanimously carried, to approve the Resolution of Appreciation for Ms. Henschel.

Approval of Request from Kersten & McKinnon, S.C. to Contact System's Actuary. As a matter of information, Board members received a copy of the request, dated December 11, 2009. After discussion, it was moved by Mr. Carey, seconded by Mr. Petropoulos, and unanimously carried, to deny the request to contact the actuary based on staff recommendation.

Approval of Request from MMSD to Contact System's Actuary. As a matter of information, Board members received a copy of the request, dated January 18, 2010. It was moved by Mr. Carey, seconded by Mr. Petropoulos, to approve the request of MMSD to contact the System's Actuary, with the understanding that all costs would be borne by MMSD.

Referral to Administration and Operations Committee – Close Out 2009 Budget. Mr. Allen stated that each year staff likes to close out the budget and reconcile the amounts that were spent. The normal practice is to refer this to the A & O Committee. Mr. Morics directed this be referred to the A & O Committee.

Performance Evaluation of Executive Director. Mr. Morics indicated he would like to take this up as the last item as it requires closed session. He stated it would be his intent to adjourn the meeting from closed session.

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>
Kimberlee Foster Effective 8/18/2009	Approval
Virgil Cotton Effective 9/11/2009	Approval
Jean Docter Effective 8/7/2009	Approval
Dexter Love Effective 1/26/2010	Approval
<u>Police – Re-examinations</u>	<u>Recommendation</u>
Sharon Felber	Approval
Angela July	Approval
Aman Khatib	Approval
Cindy Warren	Approval
Robert Winters	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Charles Burton III	Approval
Marshall Gradinjan	Approval
<u>Fire – Re-examinations (cont'd)</u>	<u>Recommendation</u>
William Soderbeck	Approval
John Nencka	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 – Ordinary</u>	<u>Recommendation</u>
Kathleen Polewski Effective 1/1/2010	Approval
Jill Loing Effective 12/31/2009	Approval
Elizabeth Shannon Effective 1/10/2010	Approval
<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
James Martel	Approval
James Carroll	Approval
Lawrence Ivory	Approval
Ricky Eisbrenner	Approval
Leon Kendricks	Approval
Linda Huerta	Approval
<u>Re-examinations – Duty</u>	<u>Recommendation</u>
Tomislav Matic	Approval
Jonathan DeCora	Approval

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

Disability Findings – Albert E. Henry. Mr. Allen presented the findings submitted by Independent Hearing Examiner Gerlach, whose decision states “It is recommended that the decision of the Annuity and Pension Board denying Applicant Albert E. Henry duty disability retirement status be reversed.” Correspondence was received from the City Attorney’s Office, dated January 14, 2010 and Mr. Henry’s attorney, Steven Tilton, dated January 8, 2010, indicating they did not intend to file any briefs. It was moved by Mr. Holland, seconded by Mr. Walter, and unanimously carried, to accept the recommendation of Hearing Examiner Gerlach reversing the denial of the duty disability retirement for Mr. Henry.

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:

Board Member Fiduciary Duties and Conflicts of Interest. Requested September 29, 2009, received December 17, 2009 from Whyte Hirschboeck Dudek. Mr. Carey read a statement and submitted the letter for the record, dated January 25, 2010.

Delinquent Contributions to the Policemen's Annuity and Benefit Fund. Requested November 9, 2009, received December 17, 2009 from Whyte Hirschboeck Dudek. Mr. Allen provided some background information with respect to this opinion.

Confidentiality Agreements. Requested December 29, 2008, received January 19, 2010. Ms. Cleary briefly talked about the service request.

It was moved by Mr. Walter, seconded by Mr. Petropoulos, and unanimously carried, to accept the legal opinions submitted by Whyte Hirschboeck Dudek and the service request from the City Attorney's Office, 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.

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. Lengthy discussion ensued.

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 on these cases. Mr. Allen answered in the negative.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated January 25, 2010, 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 January 2010 through October 2010.
- 3) Class Action Lawsuit Report.
- 4) Adjusted Quarterly Cost Basis of Equity – December 30, 2009.
- 5) Minutes of the Investment Committee Meeting held November 12, 2009.
- 6) Minutes of the Administration and Operations Committee Meeting held November 19, 2009.
- 7) Minutes of the Administration and Operations Committee Meeting held December 16, 2009.
- 8) Minutes of the Investment Committee Meeting held December 17, 2009.

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

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

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

Performance Evaluation of Executive Director. Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on this item, as provided in Section 19.85 (1) (c), Wisconsin State Statutes, for considering employment, promotion, compensation or performance valuation data of any public employe over which the governmental body has jurisdiction or exercises responsibility. He stated he would adjourn the meeting from closed session. It was moved by Mr. Holland and seconded by Mr. Carey, to convene in closed session. The motion prevailed by the following roll call vote: AYES: Messrs. Carey, Holland, Petropoulos, Walter and Morics. NOES: None.

The Board convened in closed session at 10:24 a.m. 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.)