

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

Minutes of the Regular Meeting held March 22, 2010

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

Board Members Present: John Barmore
 Larry Holland
 W. Martin Morics, Chair
 Gust Petropoulos

Board Members Not Present: William C. Carey (excused)
 Michael J. Murphy (arrived at 9:09 a.m.)
 Ron Walter (arrived at 9:09 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, Consultant; Jay Patel, S&S Consulting; Carol Graham and Tom Hayes, Retirees Association.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held March 1, 2010. It was moved by Mr. Holland, seconded by Mr. Barmore, and unanimously carried, to approve the Minutes of the Regular Meeting held March 1, 2010.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated March 17, 2010. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Silber reported that as of February 28, 2010 the Fund's value was \$3.96 billion. The Fund outperformed its benchmark in February; is slightly outperforming year-to-date; has outperformed nicely over the one-year time period, and is near its benchmark over the past 5 years. He said the main driver of February outperformance was the domestic equity composite, which had a return of 4.1 percent, and outperformed the Russell 3000 benchmark by 70 basis points. Four of the Fund's six active domestic equity managers did outperform in February. Mr. Silber stated that as of March 19, 2010, the Fund is up 4.3 percent in March, putting the year-to-date performance at approximately 3.8 percent. Eight of the Fund's twelve active managers are outperforming year-to-date; with the U.S. Equity, International Equity and Fixed Income composites all outperforming their respective benchmarks. Mr. Silber stated ERS will be withdrawing \$20 million: \$10 million from Northern Trust and \$10 million from William Blair to pay monthly benefits and expenses. As of March 19, 2010 year-to-date, the Fund had: capital market gains of \$142.0 million; paid out \$46.9 million in expenses; and received contributions of \$67.9 million. Mr. Silber reported that the Fund's market value as of March 19, 2010 was just over \$4.1 billion. Discussion ensued.

Approval of BlackRock (Barclays) Letter of Authorization. As a matter of information, Board members received a copy of the First Amendment to the Agreement; a letter from BlackRock, dated March 10, 2010 relating to transition services, with

attachments. Mr. Rick said the Board approved the First Amendment to the Agreement at the March 1, 2010 meeting, which allows Barclays to be a transition manager for ERS. He said what staff is asking today is approval of a letter of authorization, which outlines the specifics with regard to transitioning assets from Barclays over to GMO, our new global equity manager. Mr. Rick stated the cost of this \$60 million move would be about 33 basis points, or just under \$200,000. He noted that the \$60 million is for the first tranche of a three tranche transition. Mr. Rick indicated that ERS is using Barclays to do this; there is some ability for them to transition some of these assets either through cross-trades within their funds, which saves ERS some transaction costs, as well as there being some overlap between GMO's target portfolio and ERS' portfolio with Barclays. He stated that staff recommends approval of the BlackRock Letter of Authorization. It was moved by Mr. Barmore, seconded by Mr. Murphy, and unanimously carried, to approve the BlackRock Letter of Authorization.

Approval to Hire Outside Legal Counsel. As a matter of information, Board members received a copy of a memorandum from the City Attorney's Office, dated March 16, 2010. Mr. Rick said this is in relation to the recent Investment Committee Meeting for the recommendation of two finalists for private equity fund-of-fund managers. He indicated this requires some outside legal assistance because we are talking about private markets and subscription documents, as well as a partnership. Mr. Rick stated the request is for approximately \$34,000 to \$35,000 for the estimated cost of using the outside counsel. It was moved by Mr. Murphy, seconded by Mr. Walter, and unanimously carried, to approval to hire outside legal counsel.

Approval of William Blair Investment Management Fee Amendment. As a matter of information, Board members received a copy of a Second Amendment to the Agreement. Mr. Rick stated that William Blair will be reducing their investment management fees for our strategy with them, approximately 7 percent. He noted this amendment reflects the fee reduction, which works out to about just under \$120,000 in savings. Mr. Rick recommended approval of the amendment. It was moved by Mr. Petropoulos, seconded by Mr. Barmore, and unanimously carried, to approve the Second Amendment to the Agreement.

Approval of Northern Trust Securities Lending Fee Amendment. Mr. Rick stated this is not available at this time. The City Attorney and Northern Trust are still working on this amendment. Mr. Morics directed this be held over at this time.

Approval of Oppenheimer Capital Agreement. As a matter of information, Board members received copies of the Investment Agreement and a memorandum from the City Attorney's Office, dated March 22, 2010. Mr. Rick stated this agreement is with the replacement manager for Artisan, which reflects the boilerplate agreement that the Board has previously approved, with a few modifications. He stated that attached to the agreement is the fee arrangements of 71 basis points, which is significantly below Artisan's current fee arrangement of 90 basis points. Mr. Rick stated that may create anywhere close to about \$150,000 savings on an annual basis. He briefly talked about one guideline change and recommended approval. Mr. Rick stated once he has approval, ERS will terminate Artisan and begin the transition of the assets over to Oppenheimer. After brief discussion, it was moved by Mr. Holland, seconded by Mr. Petropoulos, and unanimously carried, to approve the Oppenheimer Capital Agreement.

Approval of The Townsend Group Indication of Interest Letter re: Brookfield Investment Program. Mr. Rick indicated this item should be held over. Mr. Morics directed the item be held over at this time.

Mr. Rick handed out a Securities Lending Update – March 2010 and reported that in 2009 ERS earned about \$1.2 million, net, in Securities Lending. He talked about issues that occurred in the last 18 months. Mr. Rick updated the Board on upcoming due diligence trips and invited any Board members interested in attending.

Investment Committee Report.

Approval of BlackRock (Barclays) Transition Agreement. Mr. Rick stated this was approved under the CIO Report.

Administration and Operations Committee Report. Mr. Barmore reported that Mr. Holland was elected Vice Chair of the Committee. The Committee met with Baker Tilly on the Financial Audit in closed session; this is an annual function of the Committee. In open session there was a question presented to staff on the duties of the finance officer related to financial compliance. Management agreed to review with compliance with Baker Tilly.

Approval of Selection of Recruiting Vendor – CTO Position. The committee heard presentations from two vendors, Hudepohl & Associates and CPS Human Resource Services. There was a good discussion on the details related to civil service and rates of pay and possible paths forward. The committee's recommendation is before the Board today for approval. Depending on the outcome of the first 45 days of recruitment, this item may come back to the A&O for discussion if it appears the recruitment may be unsuccessful. The CTO position will be going to the City Service Commission on Tuesday to make it exempt from civil service, which will allow the recruiter to perform a full service recruitment, relieving DER of that responsibility.

Mr. Barmore updated the Committee on the election audit results were presented and no material weaknesses were found in the election process. JW complimented Ms. Fortier on a well run process. He reported that the Committee received a MERITS Refresher presentation from Jon Granger and Jay Patel. All members of the Board should take time to have staff go over the presentation with them. Please contact Jon Granger to set up a meeting. The refresher highlighted the difficulties and responsibilities of running a comprehensive pension administration system, specifically for the ERS. Mr. Barmore reported that the committee received a report from staff on the MERITS RFI, and indicated no current vendor had a solution that exceeded what is currently in place with MERITS. The decision recommended by staff was to continue support and maintenance of MERITS for several more years. He also updated the Board on the organizational study, disaster recovery and business continuity.

It was moved by Mr. Holland, seconded by Mr. Barmore, and unanimously carried, to approve the A & O Committee Report, including the approval of the Selection of Recruiting Vendor for the CTO position.

New Business.

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

Active Death Benefits reported	\$0.00
Retired Death Benefits reported	\$12,346.32
Refund of Member Contributions paid	\$142,608.81

Discussion ensued through the report. It was moved by Mr. Barmore, seconded by Mr. Petropoulos, 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 &
Bruce Thomas Due Diligence Trip
Sponsor: Mesirow Financial
Location: Chicago, IL
Date (s): April 9, 2010
Estimated Cost: \$75 each

David Silber &
Bruce Thomas Due Diligence Trip
Sponsor: Abbott Capital
Location: New York, NY
Date (s): April 13 - 14, 2010
Estimated Cost: \$750 each

Mr. Rick indicated that Mr. Allen would also be going on the Due Diligence trip to Mesirow Financial. It was moved by Mr. Petropoulos, seconded by Mr. Holland, and unanimously carried, to approve the conference requests submitted by Messrs. Rick, Silber, Thomas, and Allen.

Active Member Special Election Results. As a matter of information, Board members received a copy of a letter from the Election Commission, dated March 12, 2010 certifying the results of the Special Election held March 12, 2010. Mr. Morics directed this be accepted and placed on file.

Review of Board Rule VI. F. Communications – Media. As a matter of information, Board members received a copy of the current Board Rule. Mr. Allen indicated that this is an item Mr. Carey requested and he asked this be held over until the April meeting. Mr. Morics directed this be held over to the April meeting.

Referral of 2011 Budget to A & O Committee. Mr. Allen stated this is an annual process handled by the A & O Committee. Mr. Morics directed this be referred to the A & O Committee for review and approval, and then brought back to the full Board.

Compensation Review of ERS Senior Management Staff. Mr. Morics stated this item will be held to the end of the meeting. He indicated it was 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>
Vidal Colon Effective 3/23/10	Approval
<u>Police – Re-examinations</u>	<u>Recommendation</u>
Bruce Duszynski	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Lamonte Davis	Approval
Chad Hendricks	Approval
Bruce Parnau	Approval
Jeffrey Pruske	Approval
Michael Rachow	Approval
Gary Sweet	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>
John Stanislawski	Denial
<u>New Applications – Ordinary</u>	<u>Recommendation</u>
Debbie Purdy Effective 4/1/10	Approval
Lenora Grace Effective 1/19/10	Approval
<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
L. A. Winters	Approval
Curtis Nealey	Approval
Dorothy McLaurin	Approval
Twyla Devine	Approval
Rita Coker	Approval
Vicky Ruege	Approval
Victor Perez	Approval
Mary Scovell	Approval
Robert Heather	Approval
Rodney Lemberger	Approval

<u>Re-examinations – Ordinary (cont'd)</u>	<u>Recommendation</u>
Michele Brown	Approval
Jamie Litza	Approval

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

Disability Findings – Craig C. Weiss. Mr. Allen presented the findings submitted by Hearing Examiner Hogan. Mr. Morics reported that Hearing Examiner Hogan’s Decision states “The decision of the 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 is denied.” It was moved by Mr. Holland, seconded by Mr. Murphy, and unanimously carried, to accept the recommendation of Hearing Examiner Hogan, denying the duty disability application of Craig C. Weiss.

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. Discussion ensued with respect to an item on the pending request list.

Legal Opinions Obtained. Mr. Allen indicated there were no legal opinions.

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.

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 a need to convene in closed session on these items. Mr. Allen answered in the negative.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated March 22, 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 March 2010 through October 2010.
- 3) Class Action Lawsuit Report.
- 4) Minutes of the Administration and Operations Committee Meeting held February 18, 2010.

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

Compensation Review of ERS Senior Management Staff. Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on the following item, (F.), as provided in Section 19.85 (1)(c), Wisconsin State Statutes, for considering employment, promotion, compensation or performance valuation data of any public employee over which the governmental body has jurisdiction or exercises responsibility. He stated it was his intent to adjourn the meeting from closed session. It was moved by Mr. Walter and seconded by Mr. Barmore, that the Board convene in closed session on this item. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Holland, Murphy, Petropoulos, Walter and Morics. NOES: None.

The Board convened in closed session at 9:46 a.m.

There being no further business, Mr. Morics adjourned the meeting at 10:40 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.)