

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

Minutes of the Regular Meeting held April 26, 2010

The meeting was called to order at 9:03 a.m.

Board Members Present:           John Barmore  
  William C. Carey  
  Konrad Ellenberger  
  Larry Holland  
  W. Martin Morics, Chair  
  Michael J. Murphy  
  Gust Petropoulos  
  Ron Walter

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 Cleary and Rudolph Konrad, City Attorney's Office; Jon Granger, PDG Consulting; Jay Patel, S&S Consulting, Mark Nicolini, Budget Office; and Carol Graham, Retirees Association.

Mr. Morics welcomed Mr. Ellenberger to the Board. Mr. Ellenberger stated he was glad to be part of the Board and looked forward to working with everyone.

**Approval of Minutes.** Mr. Allen presented the minutes of the Regular Meeting held March 22, 2010. It was moved by Mr. Holland, seconded by Mr. Petropoulos, and unanimously carried, to approve the Minutes of the Regular Meeting held March 22, 2010.

Mr. Morics stated he would like to take up all the action items as one of the Board member's would have to leave early. He indicated once all action items were approved, he would then come back to the CIO report.

**Chief Investment Officer Report.**

**Approval of BlackRock (Barclays) Letter of Authorization.** As a matter of information, Board members received copies of the Letter of Authorization, dated April 16, 2010, and a memorandum from Mr. Silber, dated April 21, 2010. Mr. Silber updated the Board on the \$60 million transition that occurred last month. Mr. Rick asked the Board to approve this transition, plus the transition for next month, as long as the conditions are similar and Mercer reviews the transition. He stated that this would be helpful in case the Board meeting date would be changed for some reason. After discussion, it was moved by Mr. Carey, seconded by Mr. Murphy, and unanimously carried, to approve the BlackRock Letter of Authorization, including the transition for next month, per staff recommendation.

**Approval of Reams' Request to Hold Downgraded Bond(s).** As a matter of information, Board members received a copy of the letter from Reams, dated April 21, 2010.

Mr. Silber updated the Board members on the Chrysler Term Loan security. After discussion, it was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to approve Reams' request to hold this bond another 90 days.

**Approval of 6<sup>th</sup> Amendment to Northern Trust Custodial Contract.** As a matter of information, Board members received a draft copy of the contract. Mr. Rick stated what this amendment does is allow Northern to accept derivatives that are approved in the manager guidelines. He indicated this has been approved by the City Attorney's Office, and asked for approval of the Board. Ms. Cleary indicated that the draft copy before the Board is slightly different than the actual amendment. Mr. Morics asked if these were material changes. Ms. Cleary answered in the negative. After discussion, it was moved by Mr. Carey, seconded by Mr. Petropoulos, and unanimously carried, to approve the 6<sup>th</sup> amendment to the Northern Trust Custodial contract.

**Approval of Northern Trust Securities Lending Fee Amendment.** Mr. Rick indicated this was not ready for approval at this time.

**Oppenheimer Transition Update and Due Diligence Report.** As a matter of information, Board members received copies of memorandums from Mr. Rick, dated March 5, 2010, and Mr. Thomas, dated April 21, 2010. Mr. Rick stated that he and Doug Kryscio visited Oppenheimer and reviewed their investment process, trading, compliance and other back office operations. Staff and Mercer were very impressed with the strategy's research analysts, who appear very ardent. He noted that subsequent to our contract, Oppenheimer changed their name to Allianz Global Partners, but there was no change in portfolio management of the strategy. Mr. Thomas provided a brief summary of the transition of assets from Artisan to Oppenheimer. It was moved by Mr. Barmore, seconded by Mr. Petropoulos, and unanimously carried, to approve the due diligence report.

**Approval of Agreement with Abbott Capital; Approval of Agreement with Mesirow Financial; and Approval of Agreement with T. Rowe Price.** Mr. Rick indicated these were not available for approval at this time.

**Administration and Operations Committee Report.** Mr. Barmore reported that the committee heard from Jefferson Wells on the IT Risk Assessment. The assessment found no major reportable issues, and presented a 3-year risk assessment audit plan. The committee went in to closed session to go over the audit findings.

**Approval of ERS 2011 Budget.** As a matter of information, Board members received a copy of the draft 2011 budget request. Mr. Barmore reported that staff presented the 2011 budget. Overall the budget increased \$4.4 million over the 2010 authorized budget. The major changes included an additional \$4.1 million for investment fees, \$250,000 for the Filenet upgrade, and \$100,000 for implementing an election management system for Board elections. The committee approved the budget.

Mr. Barmore updated the Board on the organizational study; MERITS status; and the remote server site and remote office.

It was moved by Mr. Barmore, and seconded by Mr. Holland, to approve the A & O Committee report, including approval of the 2011 budget request. After discussion regarding the 2011 budget, the motion unanimously carried.

### **New Business.**

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

Active Death Benefits reported	\$162,954.14
Retired Death Benefits reported	\$11,957.65
Refund of Member Contributions paid	\$129,948.48

It was moved by Mr. Murphy, seconded by Mr. Holland, 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 & David Silber Sponsor: Location: Date (s): Estimated Cost:	Blair Due Diligence William Blair Chicago, IL April 29, 2010 \$75 each
David Silber Sponsor: Location: Date (s): Estimated Cost:	RREEF Global Opportunities: Annual Investor Meeting RREEF Chicago, IL May 5, 2010 \$75
Tom Rick & David Silber Sponsor: Location: Date (s): Estimated Cost:	GMO Meeting GMO Chicago, IL May 19, 2010 \$75 each
John Barmore Sponsor: Location: Date (s): Estimated Cost:	Skybridge Alternatives Conference Skybridge and Northern Trust Las Vegas, NV May 19 - 21, 2010 \$1,500
Tom Rick & Jerry Allen Sponsor: Location:	Pension Risk Management Conference Pension & Investments Chicago, IL

Date (s): June 15, 2010  
Estimated Cost: \$75 each

Mr. Allen indicated that he would also like to attend the GMO meeting in Chicago on May 19, 2010. Mr. Rick reported that Mesirov has a hedge fund conference in Chicago May 11 and 12, 2010, which he and Mr. Allen would like to also attend, with an estimated cost of \$75 each. It was moved by Mr. Petropoulos, seconded by Mr. Holland, and unanimously carried, to approve the conference requests submitted by Messrs. Thomas, Silber, Rick, Allen, and Barmore, including Mr. Allen to GMO and Mr. Rick and Mr. Allen to Mesirov on May 11 – 12, 2010.

**Active Member Special Run-Off Election Results.** As a matter of information, Board members received a copy of the letter from the Board of Election Commissioners, dated April 16, 2010, certifying the run-off election results. Mr. Allen handed out a letter from the Board of Election Commissioners, dated April 22, 2010, certifying a recount of the special run-off election held April 22, 2010. Mr. Morics directed this be accepted and placed on file.

**Review of Board Rule VI. F. Communications – Media.** Mr. Allen handed out a copy of the current Board Rule. Mr. Morics indicated that this was held over from the March meeting as Mr. Carey was not present to discuss. He stated that if Mr. Carey was not prepared to discuss today, he would hold this over until the May meeting. After discussion, it was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to refer this to the Administration and Operations Committee for consideration of updating the rule and bring it back to the Board.

**Introduction by City Attorney’s Office for Adoption of a Proposed Board Rule XIX. D. – Miscellaneous.** As a matter of information, Board members received a copy of the proposed new rule. Mr. Konrad discussed the proposed new rule and reasoning behind this new rule. After lengthy discussion, it was moved by Mr. Carey that on #2 the Board hold that up until the next meeting at which time the Board ask Buck Consultants to have a representative here for discussion. Mr. Morics indicated the motion to amend the Board rule was inappropriate as there is no motion on the floor regarding the proposed rule. Mr. Carey moved that the Board meet with the actuary at the next regular meeting to discuss the relationship between the City of Milwaukee and the Pension Board regarding the annual certification and other important financial matters. Discussion ensued. Mr. Morics indicated that if there would be a second to Mr. Carey’s motion and ultimately adopted, he suggested that an agenda be developed for the actuary, otherwise the conversation could meander. Mr. Morics asked for a second to Mr. Carey’s motion. There being no second, the motion failed. After further discussion, it was moved by Mr. Barmore, and seconded by Mr. Walter, to approve the proposed Board Rule. It was moved by Mr. Barmore to propose an amendment that the Board request from the City of Milwaukee Budget Office and Buck a copy of the modeling software. Mr. Morics stated that was two different motions. On the motion to approve, the motion prevailed with Mr. Carey being recorded as opposing. Mr. Morics asked Mr. Barmore if he would like to make another motion. Mr. Barmore moved that the Board have staff request a copy of modeling software supplied by Buck Consultants to the City of Milwaukee and Budget Office for their use. Mr. Murphy seconded the motion. Mr. Morics asked Mr. Barmore if he would accept a friendly amendment that staff report back as to whether their needs would be better suited by having their own copy or working out a protocol with the existing model. Mr. Barmore accepted the amendment. After further

discussion, Mr. Carey moved that at the next regular Board meeting ERS invite. Mr. Morics ruled the motion out of order as it died for lack of a second.

**Request for Legal Opinion re: File #091274.** As a matter of information, Board members received a copy of a letter from Mr. Carey, dated April 20, 2010 requesting a legal opinion from the City Attorney regarding File #091274. Lengthy discussion ensued. Mr. Morics asked if there was a motion on the request contained in Mr. Carey's letter. Mr. Carey moved that the Pension Board request that the City Attorney give an opinion regarding File 091274 as to whether or not, in any way, it is or can infringe on the responsibilities of the Board of Trustees as fiduciaries. Mr. Murphy seconded the motion. There being no objections, the motion unanimously carried.

(Mr. Walter left the meeting at 11 a.m.)

### **Medical Reports.**

**Fire and Police Duty Disability and Duty Disability Re-examinations and all Ordinary Disabilities and General City Duty Disability.** Mr. Allen presented certifications of the Fire and Police Medical Panel Physicians and the Medical Council relative to Duty Disability Retirement benefits as follows:

<u>Police – New Applications - Duty</u>	<u>Recommendation</u>
David Grycowski Effective 12/4/09	Approval
<u>Fire – New Applications – Duty</u>	<u>Recommendation</u>
Jeffrey Anderson Effective 4/27/10	Approval
Frank Lenarchich Effective 9/30/09	Approval/ Exempt from Re-exam
<u>Police – Re-examinations</u>	<u>Recommendation</u>
Alejandro Arce	Approval
Michael Andrysczyk	Approval
Marie Hendrikson	Approval
Victory Rivera	Approval/Exempt from Re-exam
Michael Schuster	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
George Causey	Approval/Exempt from Re-exam
David Franecki	Approval/Exempt from Re-exam
Tim Franken	Approval
Willie Hyche	Approval
Alton Taylor	Approval
Glenn Thompson	Approval

<u>Fire – Re-examinations (cont’d)</u>	<u>Recommendation</u>
Jon Voelz	Approval
Michael Ziemis	Approval
<u>GC New Applications – Duty</u>	<u>Recommendation</u>
Laurie Goetzke	Denial
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Judith Larson	Approval
Effective 4/13/10	
Laurie Goetzke	Approval
Effective 3/1/10	
Ruthann Galarza	Approval
Effective 4/17/10	
Robert Rozga	Approval
Effective 4/19/10	
<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
Michele Smyth-Kirkland	Approval
John Crancy	Approval
Joe Wilks	Approval
Dwaine Sanders	Approval
Mary Harris	Approval
Robert Morden	Approval
Gerard Sengbusch	Approval
Evelyn Wilson	Approval
David Brottlund	Approval
Harriet Harrison	Approval
Mary Krzywda	Approval
Susan Huber	Approval
William Berg	Approval
Julie Blosmore	Approval
Lucille Kotecki	Approval
<u>Re-examinations – Duty</u>	<u>Recommendation</u>
Terrence Webster-Austin	Approval
Charles Madison	Approval
Allen Labecki	Approval
Allen Cook	Approval

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

Mr. Morics directed that we go back to item II.

**CIO Report.** Mr. Rick handed out an updated performance chart. Mr. Thomas reported that through March the Fund value was at \$4.13 billion; outperformed its benchmark by 80 basis points, while slightly outperforming over the five-year time period. The drivers for the outperformance came from the domestic, international and fixed income portfolios. He noted that Loomis Sayles outperformed by 240 basis points, and Reams outperformed by 60 basis points. Other positives for the month include DFA's international portfolio outperformed by 144 basis points, and Turners' outperformance of 124 basis points. He reported that through April 23, 2010, the Fund is up approximately 3.5 percent; the Fund's return year-to-date is approximately 7.8 percent, and the Fund's value is approximately \$4.26 billion. Mr. Thomas stated ERS will be withdrawing \$22.5 million: \$10 million from Earnest Partners, \$9 million from William Blair, and \$3.5 million from DFA (U.S.) to pay monthly benefits and expenses. As of April 23, 2010 year-to-date, the Fund had: capital market gains of \$299.3 million; paid out \$71.8 million in expenses; and received contributions of \$70.4 million. Discussion ensued.

Mr. Rick updated the Board on Securities Lending stating we have earned about \$177,000 this year through the first quarter, which compares to about \$375,000 for last years first quarter. He stated the RV Kuhns study is out through the end of 2009, and ERS is in the top quartile for performance; in the top ten in funding, and ERS came in at number 7. Mr. Rick updated the Board on upcoming conferences and due diligence trips, which any Board member is welcome to attend.

#### **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:

**5.5% Member Contribution (clarification of 11/17/209 legal opinion).** Requested January 26, 2010, received March 10, 2010. Mr. Konrad briefly discussed the opinion. It was moved by Mr. Barmore, seconded by Mr. Murphy, and unanimously carried, to accept the legal opinion 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. He reported that the Governor did sign into law Senate Bill 477, which allows ERS to keep any unclaimed benefits in the ERS Fund.

**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 any need to convene in closed session to report any updates other than the email included in the packet. Mr. Allen responded in the negative.

## Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated April 26, 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 May 2010 through December 2010.
- 3) Class Action Lawsuit Report.
- 4) Adjusted Quarterly Cost Basis of Equity – March 31, 2010.
- 5) Minutes of the Investment Committee Meeting held March 4, 2010.

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

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

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

There being no further business, Mr. Morics adjourned the meeting at 11:18 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.)