

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

Minutes of the Regular Meeting held May 24, 2010

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

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

Board Members Not Present: Michael J. Murphy (arrived at 9:17 a.m.)
 Ron Walter (arrived at 9:04 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 Cleary and Rudolph Konrad, City Attorney's Office; Jon Granger, PDG Consulting; and Jay Patel, S&S Consulting.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held April 26, 2010. It was moved by Mr. Mr. Carey, seconded by Mr. Barmore, and unanimously carried, to approve the Minutes of the Regular Meeting held April 26, 2010.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated May 19, 2010. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Silber reported that as of April 30, 2010 the Fund's value was \$4.18 billion; the Fund had a return of 1.7 percent and outperformed its benchmark by 80 basis points. In April, both the equity and fixed income composites outperformed, and the international equities outperformed its benchmark by 180 basis points. He stated that for May the Fund is down approximately 7.1 percent, which puts the year-to-date return about -1.6 percent. Seven of the Fund's twelve active managers are outperforming year-to-date, and the U.S. equity, international equity and fixed income composites are outperforming their respective benchmarks year-to-date. He indicated the Fund's approximate value as of May 21, 2010 is about \$3.9 billion. Mr. Silber stated ERS will be withdrawing \$20 million: \$7 million from Earnest Partners, \$7 million from Loomis Sayles, and \$6 million from DFA (U.S.) to pay monthly benefits and expenses. As of May 21, 2010 year-to-date, the Fund had: capital market losses of \$38.6 million; paid out \$95 million in expenses; and received contributions of \$73.3 million. Discussion ensued.

Approval of Northern Trust Securities Lending Fee Amendment. Mr. Rick indicated this was not available at this time. This is currently with Northern Trust for their review.

Approval of Agreement with Abbott Capital and Due Diligence Report. As a matter of information, Board members received a copy of a memorandum from Mr. Silber, dated May 18, 2010. Mr. Rick handed out a memorandum from the City Attorney's Office, dated May 24, 2010, and a copy of the side letter. Mr. Silber gave a brief overview of the due diligence trip. Ms. Cleary talked about the side letter, which is a complimentary agreement to the partnership agreements that are already established. She indicated this side letter functions similar to the investment management agreement typically seen with ERS' investment managers. Ms. Cleary stated that her office worked with Reinhart to negotiate favorable terms, and they also reviewed all of the necessary partnership agreements. It was moved by Mr. Carey, seconded by Mr. Petropoulos, and unanimously carried, based on staff recommendation, to approve the agreement with Abbott Capital and the due diligence report.

Approval of Agreement with Mesirow Financial and Due Diligence Report. As a matter of information, Board members received a copy of a memorandum from Mr. Thomas, dated May 19, 2010. Mr. Rick handed out a memorandum from the City Attorney's Office, dated May 24, 2010, and a copy of the side letter. Mr. Thomas gave a brief overview of the due diligence trip. Ms. Cleary stated this is the same scenario as with the Abbott Capital contract. After discussion, it was moved by Mr. Petropoulos, seconded by Mr. Barmore, and unanimously carried, to approve the agreement with Mesirow Financial and the due diligence report.

Approval of Agreement with T. Rowe Price and Due Diligence Report. As a matter of information, Board members received a copy of a memorandum from Mr. Rick, dated May 5, 2010. Mr. Rick handed out a copy of the Investment Management Agreement and talked about the search that was done several months ago and the T. Rowe Price due diligence report. After discussion, it was moved by Mr. Murphy, seconded by Mr. Petropoulos, and unanimously carried, to approve the agreement with T. Rowe Price and the due diligence report.

Approval of The Townsend Group Brookfield Agreement. Mr. Rick stated this agreement is close to being done, and there is nothing pending from an investment perspective. Mr. Silber updated the Board on the GMO transition, stating the transition last month cost slightly over \$400,000, with over half of that being opportunity costs, which are outside of the manager's control. He said the rest of the cost is due to the costs that a transition manager tries to minimize, such as commissions and taxes, which are unavoidable, in addition to spread and impact costs. According to the Global Trading Analytics' independent review, BlackRock beat the average institutional manager by 9 basis points that day, which equates to about \$88,000. Mr. Silber indicated ERS will be doing the same process at the end of May for \$60 million with the same account movements and we expect GMO to be pretty close to their 5 percent target. Brief discussion ensued.

Mr. Rick reported that ERS has had some technical difficulties with the Zephyr software with regards to the manager details for Q1 performance and staff hopes to have this fixed and in the Board's weekly mailing soon. He said the investment staff had our initial training on the newly added compliance module to Northern Trust's passport system, which will be an immense benefit to staff and their duties in monitoring compliance functions. Mr. Rick reported that the temporary Investment College intern has been hired full time as an analyst at M&I Bank so he will be leaving ERS. He indicated he would be talking to Mr. Allen and

DER to try and get the replacement process going. Mr. Rick stated that Mr. Dudzik has done an admirable job; staff was very impressed with his work.

Investment Committee Report. Mr. Murphy stated that staff and Mercer provided Q1 2010 fund performance to the Committee. William Blair and Dimensional Fund Advisors provided performance and strategy updates.

Approval of Value Added Report. Mr. Murphy indicated that staff presented the Value Added Report which compares our active managers against their respective passive benchmarks over the past 10 years.

Approval of Fixed Income Manager Search. Mr. Murphy said that Mercer discussed the fixed income search recommended as part of the Asset Liability study completed in late 2008. Based on that discussion, Mercer and staff will be presenting a list of finalists for a global fixed income mandate at the June Investment Committee.

He stated that staff provided a review and recommendation concerning the Investment Consultant Request for Proposal process. Their review indicates that Mercer's response was clearly the best and their present service to ERS has been satisfactory. Due to the unique nature of the services provided, the Review Committee has recommended continuing with Mercer as our Investment Consultant in a service contract similar in type to our investment management agreements. It was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to approve the Investment Committee Report, including items A. and B.

Administration and Operations Committee Report. Mr. Barmore reported that the Chief Technical Officer (CTO) recruitment continues with Hudepohl; so far 28 resumes have been received, but still need to be reviewed. The Investment positions have been upgraded by Civil Service and approved by the F & P Committee. He said the Records Technician had 180 applicants take the test. In addition to the test scores, DER is now going to review the applications more thoroughly, which could add up to 30 days to the process of getting a list of candidates. Mr. Barmore also updated the Board on the MERITS status and the business continuity planning.

Approval to Purchase Remote Office Furniture. Mr. Barmore reported that staff reviewed furniture with five vendors, and has received quotes. The committee approved staff to expend up to \$66,000 for furniture for the remote office. Staff reported that they will get vendors to sharpen their pencil, and will cherry-pick some items to reduce the overall costs.

Approval to First Amendment to S&S Consulting Contract. Mr. Barmore reported that the city attorney did not have their review completed at the time of the Committee meeting, but a copy of the contract amendment was before the Board today for approval. It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to approve the First Amendment to the S&S Consulting contract.

Approval to Conduct an RFP for Financial Audit Services. Mr. Barmore stated that the Baker Tilly Virchow Krause contract expires this year. It has been 10 years since staff went to market; therefore, the committee approved staff to move forward with the RFP. Mr. Barmore stated that if any Board members have specific vendors that you wish to receive the

RFP, please contact Mr. Allen with the information. He stated a list will be generated for the next A&O Committee meeting.

It was moved by Mr. Carey and seconded by Mr. Barmore, to approve the purchase of remote office furniture, not to exceed \$66,000. After brief discussion, 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 May 2010.

Active Death Benefits reported	\$26,255.07
Retired Death Benefits reported	\$41,043.14
Refund of Member Contributions paid	\$191,677.31

It was moved by Mr. Ellenberger, seconded by Mr. Barmore, 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:

John Barmore	Advanced Strategies Conference
Sponsor:	Mesirow Financial
Location:	Chicago, IL
Date (s):	May 11 – 12, 2010
Estimated Cost:	\$400 each
Konrad Ellenberger	GMO Conference
Sponsor:	GMO
Location:	Chicago, IL
Date (s):	May 19, 2010
Estimated Cost:	\$75
David Silber	2010 Annual Investor Meeting
Sponsor:	Walton Street
Location:	Chicago, IL
Date (s):	June 8, 2010
Estimated Cost:	\$75 each
Beth Cleary	2010 Municipal Attorneys Institute
Sponsor:	Municipal Attorneys Institute
Location:	Lake Geneva, WI
Date (s):	June 16 – 18, 2010
Estimated Cost:	\$731.14
Rudy Konrad & Beth Cleary	2010 Legal Education Conference
Sponsor:	National Assn. of Public Pension Attorneys

Location: Asheville, NC
Date (s): June 22 – 25, 2010
Estimated Cost: \$2,546.83 per person

It was moved by Mr. Holland, seconded by Mr. Petropoulos, and unanimously carried, to approve the conference requests submitted by Messrs. Barmore, Ellenberger, Silber and Konrad and Ms. Cleary.

Approval of A Resolution – Ronald Walter. Mr. Allen presented A Resolution for Mr. Walter as follows.

WHEREAS, *Ron Walter, has served as an appointed member of the Annuity and Pension Board of the Employes’ Retirement System of the City of Milwaukee since October 25, 2004, and*

WHEREAS, *Mr. Walter was just recently re-appointed for another two year term as a member of the Annuity and Pension Board*

WHEREAS, *Mr. Walter has performed his duties as a member of the board as a dedicated public servant, and*

WHEREAS, *Mr. Walter has consistently fulfilled his fiduciary obligations as a member of the board, and*

WHEREAS, *Mr. Walter has assisted the board with the direction of the Employes’ Retirement System in both administration and investment policy decisions, and*

WHEREAS, *Mr. Walter, has conducted himself professionally, with decorum and dignity and treated all with respect; therefore be it*

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

FURTHER RESOLVED, *that this resolution be spread upon the permanent records of this Board and a suitably engrossed copy be presented to Mr. Walter,*

Approval of A Resolution – Larry Holland. Mr. Allen presented A Resolution for Mr. Holland as follows:

WHEREAS, *Larry Holland, has served as an appointed member of the Annuity and Pension Board of the Employes’ Retirement System of the City of Milwaukee since January 24, 2005, and*

WHEREAS, *Mr. Holland was just recently re-appointed for another two year term as a member of the Annuity and Pension Board*

WHEREAS, *Mr. Holland has performed his duties as a member of the board as a dedicated public servant, and*

WHEREAS, *Mr. Holland has consistently fulfilled his fiduciary obligations as a member of the board, and*

WHEREAS, *Mr. Holland has assisted the board with the direction of the Employes’ Retirement System in both administration and investment policy decisions, and*

WHEREAS, *Mr. Holland, has conducted himself professionally, with decorum and dignity and treated all with respect; therefore be it*

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

FURTHER RESOLVED, *that this resolution be spread upon the permanent records of this Board and a suitably engrossed copy be presented to Mr. Holland,*

Mr. Morics stated that Mr. Walter and Mr. Holland have been re-appointed to the Board and commended them on their service. He said it is nice to have private sector members who devote the amount of time required, and he felt their service was exemplary. It was moved by Mr. Murphy and seconded by Mr. Petropoulos, to approve the Resolutions for Mr. Walter and Mr. Holland. The motion prevailed with Mr. Walter and Mr. Holland abstaining.

Approval for Suspension of Duty Disability Benefit Payments for Non-compliance with Section 36-07-1 Re-examinations of Disability Beneficiaries – Periodic Medical Examinations – Norma Boyd. As a matter of information, Board members received a copy of a memorandum, dated May 18, 2010. Mr. Allen stated that this is a recurrent issue with Ms. Boyd not complying with the re-examination process. Once her benefit is suspended she usually complies. He noted that numerous attempts to contact Ms. Boyd were made by ERS. It was moved by Mr. Carey, seconded by Mr. Ellenberger, and unanimously carried, to approve the suspension of Ms. Boyd’s disability benefits until such time as she complies.

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 – Re-examinations</u>	<u>Recommendation</u>
Gary Gelhaar	Approval
Christian Hlavinka	Approval
Isaac Sawyer	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Glen Allen	Approval
John Allen	Approval
George Bonadurer	Approval
Jon Bromaghim	Approval
Craig Halpert	Approval
Mitchell Perry	Approval
<u>Fire – Re-examinations (cont’d)</u>	<u>Recommendation</u>
Jay Quigley	Approval
Victor Williams	Approval
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Craig Weiss	Approval
Effective 4/19/10	

GC Re-examinations – OrdinaryRecommendation

Karen Cleveland	Approval
Steven Wesolowski	Approval
Martha Pineda	Approval
Arcadio Cruz	Approval
Xaoyee Yang	Approval
Dale Chapman	Approval
Roben Collins	Approval

GC Re-examinations – DutyRecommendation

Albert Henry	Approval
Lynda Rideout	Approval
Samuel Gamboa	Approval
Michael Zabler	Approval
Lynette Lowery-Cowser	Approval

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

Disability Findings – Curtis Jordan. 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 continuation of Applicant Curtis Jordan’s duty disability retirement status be affirmed.” It was moved by Mr. Ellenberger, seconded by Mr. Carey, and unanimously carried, to accept the recommendation of Hearing Examiner Gerlach affirming the denial of the continuation of duty disability retirement status for Mr. Jordan.

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:

County-City Transfer Benefits (pursuant to § 36-13-5-g, MCC). Requested April 27, 2010, received May 7, 2010. Mr. Konrad briefly discussed the opinion.

It was moved by Mr. Barmore, seconded by Mr. Holland, 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. Mr. Allen noted that Mr. Murphy was re-appointed to the Board and thanked him for all his assistance and advice. Mr. Morics also thanked Mr. Murphy for his service to this Board for the last 18 years.

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. Mr. Allen reported that staff is thinking about doing a CEM Benchmarking Study. This is a firm that is well known in the pension area for both investment and administration benchmarking in both the private and public sector. This would give ERS a quantified ability to compare ourselves to others, both in the public and private sectors. He noted the cost would be \$30,000 and asked if the Board would authorize ERS' participation. Mr. Morics referred this to the A & O Committee, with the understanding that an RFP will be forthcoming and brought back to the Board with a recommendation of a firm.

On the Chief Technology Officer position Mr. Morics stated he was comfortable with the A & O Committee handling the interviewing of the candidates and coming back to the Board, understanding that every Board member who chooses can take part in the interview process is welcome to do so. After discussion, Mr. Morics stated the interviews will be held with the full Board.

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 anything to report that needed 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 May 24, 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 June 2010 through December 2010.
- 3) Class Action Lawsuit Report.
- 4) Minutes of the Administration and Operations Committee Meeting held March 18, 2010.
- 5) Minutes of the Administration and Operations Committee Meeting held April 15, 2010.
- 6) Correspondence from Budget Office re: System Actuary.

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

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

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

5/24/2010

There being no further business, it was moved by Mr. Carey, seconded by Mr. Ellenberger, and unanimously carried, to adjourn the meeting at 10:03 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.)