

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

Minutes of the Regular Meeting held June 28, 2010

The meeting was called to order at 9:07 a.m.

Board Members Present: John Barmore
 William C. Carey
 Larry Holland
 Konrad Ellenberger
 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
 Brian Brophy, Investment Intern
 Melody Johnson, Financial Officer
 Michael Becker, Pension Acct. Specialist
 Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Cleary, City Attorney's Office; Jay Patel, S&S Consulting; Jon Granger, PDG Consulting; Wayne Morgan and Darlene Middleton, Baker Tilly; Larry Langer, Marco Ruffini and Lara Minetz, Buck Consultants; and Carol Graham, Tom Hayes and Roger Oldenburg, Milwaukee Retirees Association.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held May 24, 2010. It was moved by Mr. Holland, seconded by Mr. Carey, and unanimously carried, to approve the Minutes of the Regular Meeting held May 24, 2010.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated June 23, 2010. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Thomas reported that as of May 31, 2010 the Fund's value was \$3.9 billion; the Fund underperformed its benchmark by 50 basis points. Drivers for the underperformance in May came from the domestic equity and fixed income portfolios. DFA underperformed its benchmark by 100 basis points and the Barclays Alpha Tilts underperformed by 70 basis points. In addition, Mr. Thomas reported that Loomis underperformed by 340 basis points, while Reams was underperforming by 20 basis points. He noted positives for May were Brandes outperformed by 130 basis points, and Blair outperformed by 122 basis points. He stated that month-to-date in June the Fund is up approximately 0.3 percent with a year-to-date return about -0.3 percent. Domestic equity, international equity and fixed income portfolios are all outperforming their respective benchmarks year-to-date. He indicated the Fund's approximate value as of June 25, 2010 is about \$3.91 billion.

Mr. Thomas stated ERS will be withdrawing \$30 million: \$10 million from Earnest Partners, \$10 million from Loomis Sayles, and \$5 million from DFA (U.S.), and \$5 million from

Northern to pay monthly benefits and expenses. As of June 25, 2010 year-to-date, the Fund had: capital market losses of \$13.9 million; paid out \$119.7 million in expenses; and received contributions of \$77.1 million. Discussion ensued.

Approval of Northern Trust Securities Lending Fee Agreement. As a matter of information, Board members received a copy of the Seventh Amendment to the Restated and Extended Northern Trust Company Agreement. Mr. Rick stated this amendment reflects the fee change, which ERS has already been receiving since January 2010. It was moved by Mr. Barmore, seconded by Mr. Petropoulos, and unanimously carried, to approve the Seventh Amendment.

Approval of The Townsend Group Brookfield Agreement. Mr. Rick passed out a memorandum, dated June 28, 2010. He indicated it was his understanding that the side letter agreement has basically been agreed to by both parties and we are just waiting for receipt of that side letter agreement today. Ms. Cleary stated that the Townsend Group has Power of Attorney to act on ERS' behalf. She stated that the City Attorney's Office felt more comfortable if there was an extra layer of review to look at this particular construction of the fund. Ms. Cleary stated that her office worked with outside legal counsel and, in addition to doing the review, they have negotiated a side letter which has additional terms, and we are just waiting for the final version to be faxed to ERS. Ms. Cleary stated the City Attorney's Office recommends approval to go ahead and start executing the required partnership agreement. It was moved by Mr. Petropoulos and seconded by Mr. Murphy, to approve the Brookfield Agreement. The motion carried, with Mr. Barmore being recorded as opposed.

Approval to Extend Mercer Investment Consulting Contract. As a matter of information, Board members received a copy of the Third Amendment to the Agreement. Mr. Rick stated this amendment gives ERS three months to negotiate a contract with Mercer. It was moved by Mr. Murphy, seconded by Mr. Petropoulos, and unanimously carried, to approve the extension of the current Mercer contract.

Mr. Rick took a moment to introduce and welcome Mr. Brophy, ERS' College Investment Intern, to the Board members and he gave some background information on Mr. Brophy.

Investment Committee Report. Mr. Murphy reported that the Staff provided a brief performance update as well as an update to the GMO transition. Earnest Partners and Blackrock provided performance and strategy updates.

Approval of T. Rowe Price Transition Plan. As a matter of information, Board members received a copy of a memorandum from Mr. Rick, dated June 3, 2010. Mr. Murphy stated the Committee recommends approval of the transition plan for the T Rowe Price Global Growth equity strategy.

Approval of Fixed Income Manager Search. As a matter of information, Board members received a copy of a memo from Mercer, dated June 10, 2010. Mr. Murphy stated the Committee recommends approval of the finalists for the Global Fixed Income search with interviews to be held at the July 22, 2010 Investment Committee meeting.

Approval of Bernstein Guideline Change. As a matter of information, Board members received copies of a memo from Mercer, dated June 10, 2010, and a letter from

AllianceBernstein, dated May 3, 2010. Mr. Murphy stated the Committee recommends approval of the change to Bernstein's guideline, which will allow them to participate in public secondary equity offerings with up to 5% of the portfolio.

Approval of Real Estate Strategy Change. As a matter of information, Board members received a copy of the Real Estate Strategic Plan, dated June 2010. Mr. Murphy stated a sub-committee of the Investment Committee considered changes to the real estate strategy recommended by Townsend. These changes include reaffirming the 60% core and 40% specialized real estate investment mix for the real estate portfolio; and the addition of a guideline which delineates the usage of real estate debt strategies and sets a 20% limit on those types of strategies.

It was moved by Mr. Murphy, seconded by Mr. Petropoulos, and unanimously carried, to approve the Investment Committee Report, including approval of items A. through D.

Administration and Operations Committee Report. Mr. Barmore reported that the Chief Technical Officer (CTO) recruitment stating that Hudepohl has now interviewed 21 candidates. The goal will be to present the top three *or so candidates to the full Board for final interviews. Staff will then request that the other re-class paperwork, which has been on hold in DER, to be moved forward. He noted that a new Records Tech will be available shortly, and a hire should occur in July. Mr. Barmore also updated the Board on the MERITS status and the business continuity planning; the Risk Management audit; business continuity planning, and the remote server site. He stated that the Committee suggested that the September Board meeting held at the remote location with the Board's approval.

Approval of Contract Extension for Jefferson Wells Internal Audit Services. As a matter of information, Board members received a copy of a letter from Jefferson Wells, dated May 20, 2010. Mr. Barmore stated that the committee forwarded this item to the full Board for approval. Staff requested that the 3 year contract extension be amended to not exceed \$310,000 per year and adjusted the rates included in the proposal so the overall blended rate for the 3 years not exceed \$140 per hour. The amended contract amount includes a 7% contingency for any additional items outside of the audit plan. He indicated that staff will bring the contract amendment back to the committee for approval later this year. This amendment precludes having to do an RFP for internal audit services by extending the current contract.

Approval of CEM Benchmarking Survey. As a matter of information, Board members received a copy of the CEM Benchmarking Overview. Mr. Barmore stated the Committee approved conducting the survey, not to exceed \$30,000. He said the survey should provide a good comparison of the ERS to its peers, and the CEM will provide a presentation to the Board.

It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to approve the Administration and Operations Committee Report, along with items A. and B.

*corrected to include the words "or so" at the Regular Meeting held July 20, 2010. The minutes were approved as amended by unanimous vote July 20, 2010.

New Business.

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

Active Death Benefits reported	\$67,947.07
Retired Death Benefits reported	\$67,307.78
Refund of Member Contributions paid	\$105,783.40

It was moved by Mr. Holland, 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:

Bruce Thomas	The Pension Bridge PE Conference
Sponsor:	The Pension Bridge
Location:	Chicago, IL
Date (s):	July 26 - 27, 2010
Estimated Cost:	\$400 each
Bruce Thomas	Due Diligence
Sponsor:	Turner Investment Partners
Location:	Philadelphia, PA
Date (s):	August 22 - 23, 2010
Estimated Cost:	\$800
Tom Rick & Jerry Allen	Due Diligence
Sponsor:	Turner Investment Partners/Bernstein/Northern Trust
Location:	Philadelphia, PA and New York, NY
Date (s):	August 22 – 24, 2010
Estimated Cost:	\$1,600 each
John Barmore	Due Diligence
Sponsor:	Turner Investment Partners/Bernstein/Northern Trust
Location:	Philadelphia, PA and New York, NY
Date (s):	August 22 – 25, 2010
Estimated Cost:	\$1,600 each
David Silber	Due Diligence
Sponsor:	Bernstein/Northern Trust
Location:	New York, NY
Date (s):	August 23 - 25, 2010
Estimated Cost:	\$1,200

It was moved by Mr. Holland, seconded by Mr. Ellenberger, and unanimously carried, to approve the conference requests submitted by Messrs. Thomas, Rick, Allen, Barmore and Silber.

Approval of Active Election Bulletin No. 182. As a matter of information, Board members received a copy of Election Bulletin No. 182. Mr. Allen noted that Mr. Barmore's term expires at the end of 2010 so this was the announcement that will be sent out regarding the election. It was moved by Mr. Murphy, seconded by Mr. Petropoulos, and unanimously carried, to approve Bulletin No. 182.

Approval of July Resolution. Mr. Allen presented the July Resolution as follows:

WHEREAS, the regularly scheduled July 26, 2010 meeting of the Board has been rescheduled, and as such, the payroll and Annuity and Pension Board reports will not be complete in time for Board approval at the earlier scheduled meeting, therefore be it

RESOLVED, By the Annuity and Pension Board that the Secretary is authorized and directed to pay bills, retirement allowances, death claims and refund of contributions, and take whatever action may be necessary to administer the system, including approve disability reports of the Medical Council and Medical Panel applications, and report such action to the Board at the Regular Meeting in September, 2010. Denials will be held for action by the Board at its next regular meeting.

It was moved by Mr. Holland, seconded by Mr. Carey, and unanimously carried, to approve the July Resolution.

Acceptance of Actuarial Valuation – January 1, 2010. As a matter of information, Board members received a copy of the Board Presentation book, dated June 28, 2010. Mr. Allen handed out updated Board Presentation books and a copy of the Actuarial Valuation as of January 1, 2010. Mr. Langer, Mr. Ruffini and Ms. Minetz were present from Buck Consultants. Mr. Langer briefly gave an overview of 2009 Plan year. He talked about the objectives of the actuarial valuation, which is to determine the contribution based on the funding policy. He stated the contribution for fiscal 2010 payable January 31, 2011 is ZERO based on the current funding policy. He noted other objectives were to check on progress and security of promised benefits; and to measure net actuarial gain and loss. Mr. Langer said on the smoothed value basis that Buck makes use of has the plan at 112.8 percent funded as of January 1, 2010; on a market basis the plan was 98.4 percent funded as of January 1, 2010. He also noted that ERS had an actuarial value return of 22.51 percent, and had a gain of \$660 million. Discussion ensued throughout the presentation. *Mr. Langer was questioned as to a change in the actuary letter previously distributed to Board Members. He responded that a numerical oversight was rectified.

Mr. Ruffini walked the Board members through the actuarial valuation process used by Buck Consultants. He talked about the member statistics; benefit changes since last year; and actuarial assumptions. Mr. Ruffini talked about the market value of assets as of January 1, 2010; the actuarial value of assets – 5-year smoothed market with a 20 percent corridor; assets – actuarial value of assets as of January 1, 2010; ten-year history of asset values; allocation of assets among Funds; funding methodology; and the core actuarial valuation results. Lengthy discussion ensued with respect to the full funding limit. It was moved by Mr. Holland, seconded by Mr. Walter, and unanimously carried, to accept the Actuarial Valuation – January 1, 2010 as submitted.

*corrected to include the last two sentences at the Regular Meeting July 20, 2010. The minutes were approved as amended by unanimous vote July 20, 2010.

Acceptance of PABF Actuarial Valuation – January 1, 2010. As a matter of information, Board members received a copy of the Policemen’s Annuity and Benefit Fund Actuarial Valuation – January 1, 2010. Ms. Minetz briefly talked about the purpose of the PABF. She reported that the PABF experienced a 30.41 percent return. Ms. Minetz and Mr. Langer talked about the projection of actuarial liabilities and assets from January 1, 2010 to December 31, 2029. It was moved by Mr. Carey, seconded by Mr. Petropoulos, and unanimously carried, to accept the PABF Actuarial Valuation – January 1, 2010 as submitted.

Mr. Morics called for a break at 10:53 a.m.

(Mr. Walter left the meeting at 10:53 a.m.)

The Board reconvened at 11:05 a.m.

Approval of Baker Tilly 2009 Financial Audit. **As a matter of information, Board members received draft copies of the Basic Financial Statements and Additional Information for the Year Ended December 31, 2009 and Independent Auditors’ Report; Baker Tilly’s Internal Controls Letter and the Management Letter.** Mr. Morgan briefly talked about the required communications. Ms. Middleton talked about the management letter stating that there were no significant transactions that were significant or unusual. She said there were no difficulties with management during the audit, and there were no uncorrected misstatements that were material to the level that they would need to be brought to this Board. She indicated she is required to inform the Board that, to the best of Baker Tilly’s understanding, there were no consultations by management with another accounting firm. Ms. Middleton said that at the end of the audit, Baker Tilly does require management to give them certain representations, which have not been obtained yet as the audit is not complete. She noted it will be part of the package that management will receive. Mr. Morgan stated that has been reviewed in draft form and there are no unusual items in the representation letter; we are not asking management to represent to any facts that are different or unusual from prior audits.

Finally, she reported that Baker Tilly is independent with respect to the system and management. Mr. Morgan walked the Board through the audit opinion. After discussion, it was moved by Mr. Murphy and seconded by Mr. Carey, to approve the audit report as submitted.

Referral of Management Letter to the A & O Committee. Mr. Morics indicated this action was not necessary as Baker Tilly has stated there are no reportable conditions. Mr. Morics formally noted for the record his congratulations to ERS management, the accounting staff and Mr. Allen. He stated it is a lot of work for an organization of this size to come out of an audit with no reportable conditions, and it a tribute to a dedicated staff. Mr. Morgan stated that there was a tremendous amount of effort by management with communication this year and making sure we mutually held each other accountable and everyone hit all the deadlines. He felt that, in and of itself, that process has a lot to do with how well it went. Mr. Morics commended Ms. Johnson for all her efforts. Mr. Morics called for the question. There being no objections, the motion unanimously carried.

Referral of Board Rule XV. A. 2. b. – Grace Provisions to Administration and Operations Committee. As a matter of information, Board members received a copy of the current Board Rule. Mr. Allen indicated this was a housekeeping matter. Mr. Morics referred this Board Rule to the A & O Committee.

Mr. Morics took a moment to present Mr. Holland his Resolution of Appreciation and thanked Mr. Holland for his service.

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>
Nicole Belmore	Approval
Brenda Del Valle	Approval
James Lucht	Approval
Michael Lutz	Approval
Rayford Weston	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Jeffrey Beamon	Approval
Irving Blackmon	Approval
Teresa Clyse	Approval
Franklin Gee	Approval
Thomas Hoeft	Approval
Nancy Hutchinson	Approval
Martin Klicinski	Approval
Scott Mantey	Approval
Scott Van Roo	Approval
Brian Zirgibel	Approval
<u>GC New Applications – Duty</u>	<u>Recommendation</u>
Lamar Donaldson	Denial
Stephan Huber	Denial
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Stephan Huber	Approval
Effective 6/27/2010	
Lamar Donaldson	Approval
Effective 4/24/2010	

<u>GC New Applications – Ordinary (cont'd)</u>	<u>Recommendation</u>
Tia Smith	Approval
Effective 6/23/2010	
Renea Rewolinski	Approval
Effective 6/12/2010	
Carol Bailey	Approval
Effective 5/26/2010	
 <u>GC Re-examinations – Ordinary</u>	 <u>Recommendation</u>
Anneloren Smith	Approval
Gary Pitts	Approval
Kenneth Meyer	Approval
Sandra Crowder	Approval
Allen Silva	Approval
 <u>GC Re-examinations – Ordinary (cont'd)</u>	 <u>Recommendation</u>
Marvin Siravo	Approval
Kathleen Becker	Approval
Marsha Conner	Approval
 <u>GC Re-examinations – Duty</u>	 <u>Recommendation</u>
James Walensa	Approval
Daren Andrysczyk	Approval
Otis Caldwell	Approval
Tommy Kellogg	Approval

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

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 Rule Amendment – II.C.4. Requested January 6, 2010, received June 23, 2010. Ms. Cleary briefly discussed the Board Rule amendment. It was moved by Mr. Holland, seconded by Mr. Barmore, to received and refer to the A & O Committee.

Annual Valuations of the Assets and Liabilities of the ERS (CCFN 091274). Requested April 28, 2010, received June 21, 2010. Ms. Cleary briefly discussed the opinion.

After discussion, it was moved by Mr. Holland and seconded by Mr. Murphy, to accept and place on file. The motion carried with Mr. Carey being recorded as objecting.

ERS Disciplinary Policy. Requested August 31, 2009, received May 25, 2010. Ms. Cleary briefly discussed the opinion. It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to accept 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.

Update on Suspension of Disability Benefits for Norma Boyd. As a matter of information, Board members received a memorandum, dated June 9, 2010. Mr. Allen reported that Ms. Boyd was now in compliance with the re-examination requirements and her pension benefits will be re-instated as of June 30, 2010.

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 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 June 28, 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 July 2010 through April 2011.
- 3) Class Action Lawsuit Report.
- 4) Minutes of the Investment Committee Meeting held May 6, 2010.
- 5) Minutes of the Administration and Operations Committee Meeting held May 13, 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. Murphy, seconded by Mr. Holland, and unanimously carried, to accept and place on file the aforementioned informational items.

6/28/2010

There being no further business, it was moved by Mr. Carey, seconded by Mr. Barmore, and unanimously carried, to adjourn the meeting at approximately 12:10 p.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.)