

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

Minutes of the Annual Meeting held January 24, 2011

The meeting was called to order at 9:00 a.m.

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

Board Members Not Present: John Barmore (excused)
 Ron Walter (arrived at 9:13 a.m.)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Martin Matson, Deputy Director
 Thomas Rick, Chief Investment Officer
 Kelly Reid, Chief Technology 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; Scott Charles and Carmelo Patti, MPSO; and Mary Turk and Aaron Cadle, Legislative Reference Bureau.

Officers for 2010.

Election of Chair. Mr. Morics asked for a motion for nominations for Chair. It was moved by Mr. Carey and seconded by Mr. Petropoulos 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. Holland, 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. Petropoulos and seconded by Mr. Carey 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.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held December 16, 2010. It was moved by Mr. Carey, seconded by Mr. Murphy, and unanimously carried, to approve the Minutes of the Regular Meeting held December 16, 2010.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report. Mr. Rick handed out a copy of the Performance Update. Mr. Silber reported that as of December 31, 2010 the Fund's value was \$4.31 billion; the Fund has a return of 4.9 percent in December outperforming its benchmark by 20 basis points; and for 2010 the Fund's gross of fee returns was about 14.2 percent and outperformed its benchmark by about 260 basis points. He said the December outperformance was driven by the domestic equity and fixed income portfolios. The domestic equity portfolio had a return of 7.3 percent, outperforming its benchmark by 50 basis points. Mr. Silber noted that the domestic equity composite also turned out to be the top absolute returning asset class for the Fund in 2010, returning 19.1 percent. He reported that through January 21, 2011 the Fund is up about 0.9 percent; most of the managers are outperforming, and the Fund's value is \$4.35 billion.

Mr. Silber reported the Fund will be withdrawing \$30 million in January: \$10 million from Blackrock (BGI) Alpha Tilts; \$5 million from Turner; \$5 million from DFA (US); \$5 million from Earnest; and \$5 million from Bernstein to pay monthly benefits and expenses. He indicated this number is higher than usual as ERS has almost \$9 million in real estate capital calls coming in this month. Brief discussion ensued. Mr. Silber reported that the 14.2 percent return for the total Fund translates into meaningful numbers. For 2010 the Fund had: capital market gains of \$535.6 million; paid out \$288.6 million in expenses; and received contributions of \$94 million. Discussion ensued.

Approval of First Amendment to T. Rowe Price Contract. As a matter of information, Board members received copies of the First Amendment and a letter from the City Attorney's Office, dated January 18, 2011. Mr. Rick stated this amendment is an organizational structural change within T. Rowe and there is no impact on the way the strategy is being managed by the people the Board selected. Ms. Cleary stated they are restructuring from T. Rowe Price International, Inc. to T. Rowe Price Associates, Inc. It was moved by Mr. Petropoulos, seconded by Mr. Ellenberger, and unanimously carried, to approve the First Amendment to the T. Rowe Price contract.

Approval of Callan Investment Consulting Contract. As a matter of information, Board members received a copy of a letter from the City Attorney's Office, dated January 14, 2011, with the contract and ERS' pledge of confidentiality attached. Mr. Rick stated Callan will be taking over for Mercer as ERS' Investment Consultant. He said the services provided by Mercer are going to be replicated in a sense by Callan; the fees are significantly lower, at \$185,000 per year initially and then a 3 percent escalator. Mr. Rick stated that staff is recommending approval of this contract, with an effective date of February 1, 2011. It was moved by Mr. Carey, seconded by Mr. Murphy, and unanimously carried, to approve the Callan Investment Consulting contract.

Approval of AllianceBernstein Guideline Change Request. As a matter of information, Board members received copies of a letter from AllianceBernstein, dated January 6, 2011, and a memo from Mercer, dated January 24, 2011. Mr. Silber stated that currently AllianceBernstein's guidelines permit up to 10 percent of their portfolio in ADRs or other non-US companies that are all traded on US Stock Exchanges. He said Bernstein is bumping up against their 10 percent max and are requesting that the Board allow them to go up to 15 percent in their portfolio, which is consistent with the global theme ERS has been using. Mr. Silber stated that both staff and Mercer agree that Bernstein has the capability currently in their research department to research and review these companies and to include them in ERS' portfolio, and are recommending approval. It was moved by Mr. Petropoulos, seconded by Mr. Ellenberger, and unanimously carried, to approve the AllianceBernstein guideline change request.
(Mr. Murphy left the meeting at 9:16 a.m.)

Approval of Reams Guideline Change Request. As a matter of information, Board members received copies of a letter from Reams, dated December 20, 2010, and a memo from Mercer, dated January 24, 2011. Mr. Silber stated the first guideline change Reams has requested has to do with their duration management of the portfolio. He said duration has to do with the sensitivity of how the portfolio performs when interest rates change. Mr. Silber indicated that currently Reams' guidelines only permit them to deviate from the benchmark plus or minus 25 percent. He said that Reams would like the Board to allow them to go plus or minus 2 years from the benchmark, which would give them a better ability to go underweight the benchmark specifically in a rising rate environment. Mr. Silber stated Reams sees that as a possibility going forward. He noted that both staff and Mercer are recommending approval of this guideline change. After discussion, it was moved by Mr. Holland, seconded by Mr. Walter, and unanimously carried, to approve the Reams' guideline change request.

Mr. Rick reminded Board members that Mr. Fuss from Loomis Sayles will be here tomorrow morning for a Special Investment Committee meeting. Mr. Fuss will also be speaking at the Milwaukee Athletic Club so if any Board members would like to attend, please let him know and he will reserve a spot for the luncheon.

Administration and Operations Committee Report. Mr. Holland reported that Jefferson Wells presented three audit reports: Contributions; Human Resources/Payroll and Ethics & Governance and no reportable issues were found in any of the audits. Also, prior audit items had been resolved. He updated the Board on the organizational study; MERITS status; and the remote server site and remote office.

Approval to Contract for Additional Technical Resources. As a matter of information, Board members received a job summary and tasks. Mr. Holland indicated the IT department has an immediate short-term need (3-6 months) for an additional IT resource to assist with various tasks related to the disaster recovery project. This person will bring additional expertise in VMWare to assist with the virtualization aspect of the project. He noted the Committee approved with a not to exceed amount of \$120,000, which is part of the budget. After discussion, it was moved by Mr. Holland, seconded by Mr. Carey, and

unanimously carried, to approve staff to contract for additional technical resources, not to exceed \$120,000.

New Business.

Mr. Morics noted that item G. is noticed for closed session and he will take that up as the last item on the agenda and adjourn the meeting from closed session.

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. Petropoulos, 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 2011.

Active Death Benefits reported	\$105,757.28
Retired Death Benefits reported	\$48,443.11
Refund of Member Contributions paid	\$113,662.71

It was moved by Mr. Carey, 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:

Tom Rick & David Silber	BlackRock Due Diligence
Sponsor:	BlackRock
Location:	San Francisco, CA
Date(s):	February 22 - 23, 2011
Estimated Cost:	\$800 each

David Silber	Compliance & Risk Mgmt Forum
Sponsor:	Wellington
Location:	Boston, MA
Date (s):	March 2 – 3, 2011
Estimated Cost:	\$600

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

Referral to A & O Committee – Close out 2010 Budget. Mr. Allen stated this is an annual housekeeping item to reconcile and close out the 2010 budget. Mr. Morics referred this to the A & O Committee.

Referral to A & O Committee – Baker Tilly Financial Audit. As a matter of information, Board members received a copy of a letter from Baker Tilly, dated January 5, 2011. Mr. Allen stated this is also an annual housekeeping item and asked this be referred to the A & O Committee. Mr. Morics referred this item to the A & O Committee.

2010 Securities Lending Budget. As a matter of information, Board members received a copy of the Annual Summary of Securities Lending Income and Expenses: 2010. Mr. Rick stated this is an annual item. He said for 2010 ERS earned about \$1.1 million and he talked about slight differences between 2009 and 2010. Mr. Rick indicated this \$1.1 million will be transferred out of the Securities Lending Account into the cash account where it can be used for administrative expenses. If this money is not transferred out, it would close out to the Retirement Fund for non-consenters. Mr. Rick stated this is a standard procedure and recommended approval. After brief discussion, it was moved by Mr. Petropoulos, seconded by Mr. Holland, and unanimously carried, to approve the budget as submitted.

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 & Ordinary Disability Retirement benefits as follows:

<u>Police – New Applications - Duty</u>	<u>Recommendation</u>
Tracy Martinez	Approval
Effective 5/13/10	
Robert Kendziorski	Denial
<u>Fire – New Applications – Duty</u>	<u>Recommendation</u>
Toni Breidenbach	Approval
Effective 1/25/11	
<u>Fire – New Applications – Duty (90%)</u>	<u>Recommendation</u>
James Kopp	Approval
Effective 10/14/10	
<u>Police – Re-examinations</u>	<u>Recommendation</u>
Scott Benton	Approval
Norma Boyd	Approval
Janette Mosley	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Lynn Hester	Approval
Phillip Krawczyk	Approval

<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Phyllis Mack	Approval
<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
James Mertel	Approval
James Carroll	Approval
Elizabeth Shannon	Approval
Nancy Nelson	Approval
Ricky Eisbrenner	Approval
<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Dwaine Allison	Approval
Veronica Jackson Williams	Approval

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

Minimum Monthly Allowance Provision and the Protective Survivorship Option. Requested October 1, 2010, received December 21, 2010. Ms. Cleary briefly discussed the opinion.

It was moved by Mr. Holland, seconded by Mr. Carey, 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 briefly talked about File No. 100964 with regard to a resolution approving an amendment to the indemnification agreement between the City and the ERS.

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. He also talked about the goals ERS accomplished for 2010. Mr. Allen handed out copies of the Board Rules and Regulations, which is an annual requirement that came from

the internal audit. He also handed out a report on Member Services Statistics for 2010 and briefly talked about the status changes in the membership.

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. He did mention that Mr. Greer is going to submit his memorandum for next month's meeting regarding the potential to recover costs from Mr. DeBraska. These items will stay on the agenda as placeholders until that whole issue is disposed of.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated January 24, 2011, which gives the status of litigation involving the ERS, as prepared by staff of the ERS and City Attorney's office.
- 2) List of Client Conferences and Trustee Education for 2011.
- 3) Adjusted Quarterly Cost Basis of Equity – December 31, 2011.
- 4) Class Action Lawsuit Report.
- 5) Minutes of the Investment Committee Meeting held December 8, 2010.
- 6) Minutes of the Administration and Operations Committee Meeting held December 15, 2010.

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. Holland, 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 the following item (G.), 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 indicated it was his intention to adjourn the meeting from closed session. It was moved by Mr. Carey and seconded by Mr. Petropoulos, that the Board convene in closed session on this item. The motion prevailed by the following roll call vote: AYES: Messrs. Carey, Ellenberger, Holland, Petropoulos, Walter and Morics. NOES: None.

The Board convened in closed session at 9:44 a.m.

There being no further business, Mr. Morics adjourn the meeting from closed session at 10:00 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.)