

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

Minutes of the Regular Meeting held April 20, 2011

The meeting was called to order at 9:30 a.m.

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

Board Members Not Present: Michael J. Murphy (arrived at 10:32 a.m.)
 Gust Petropoulos (arrived at 9:32 a.m.)
 Ron Walter (Excused)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Martin Matson, Deputy Director
 Thomas Rick, Chief Investment Officer
 Kelly Reid, Chief Technology Officer
 Melody Johnson, ERS Financial Officer
 Mary Jane Stoffel, Member Services Manager
 Bruce Thomas, Pension Investment Analyst
 Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Cleary, Rudolph Konrad and Maurita Houren, City Attorney's Office; Jon Granger, PDG Consulting; Jay Patel, S&S Consulting; Jean Burnside, Milwaukee Retirees Assn.; and Ken Wischer, AFSCME DC 48.

Mr. Carey introduced Jean Burnside, the new President of the Retirees Association.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held March 28, 2011. It was moved by Mr. Ellenberger, seconded by Mr. Holland, and unanimously carried, to approve the Minutes of the Regular Meeting held March 28, 2011.

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 Charts. Mr. Thomas reported that as of March 31, 2011 the Fund's value was \$4.4 billion, with 50 basis points of outperformance within the month of March. He stated that driver for the outperformance in March came from both equity and fixed income: GMO and William Blair both outperformed their benchmarks by 160 and 60 basis points respectively; Loomis Sayles outperformed their benchmark by 50 basis points within the fixed income composite. Mr. Thomas noted that through April 19, 2011 the Fund is down approximately 40 basis points, and year-to-date the Fund is up approximately 4.0

percent, with 11 of the 14 active managers outperforming. He noted that as of April 19, 2011 the Fund's value is approximately \$4.4 billion.

Mr. Thomas reported that the Fund will be withdrawing \$24 million in April: \$10 million from DFA; \$9 million from Blair and \$5 million from Bernstein to pay monthly benefits and expenses. He also reported that through April 19, 2011 the Fund had: capital market gains of \$171.7 million; paid out \$75.7 million in expenses; and received contributions of \$10.2 million. Discussion ensued.

Approval of Mesirow Financial Contract. Mr. Rick handed out a memorandum from the City Attorney's Office, dated April 19, 2011, with a Subscription for Additional Interest form attached, and a copy of Amendment No. 1 to the Amended and Restated Limited Partnership Agreement. Mr. Rick and Ms. Cleary talked about the contract. After discussion, it was moved by Mr. Holland, seconded by Mr. Carey and unanimously carried, to approve the contract. Mr. Rick then talked about Amendment No. 1 to the Amended and Restated Limited Partnership Agreement. He noted that Callan Associates have reviewed this and indicated they were in discussion with Mesirow and recommend approval. Mr. Rick indicated the City Attorney has not had a chance to review this issue, and asked the Board to approve subject to review by the City Attorney's Office. It was moved by Mr. Barmore, seconded by Mr. Petropoulos, and unanimously carried, to approve Amendment No. 1 to the Amended and Restated Limited Partnership Agreement subject to review by the City Attorney's Office.

Approval of Northern Trust Custodial Contract Amendment. As a matter of information, Board members received a copy of the Eighth Amendment to the Restated and Extended Agreement. Mr. Rick indicated that staff asked Jefferson Wells to look at ERS' compliance analyst module tool, which was something that ERS had negotiated in our custodial contract. He noted that one of the recommendations from JW was to look and see if ERS should have a third party input the investment guidelines that are used to check for compliance into the system instead of ERS handling that work. Mr. Rick stated that Northern Trust indicated there was a \$1,500 fee for that service. He said that staff felt this would be worthwhile and recommended approval. It was moved by Mr. Carey and seconded by Mr. Petropoulos, to approve the amendment to the Northern Trust Custodial Contract. After discussion, the motion unanimously carried.

Mr. Rick handed out a copy of the R. V. Kuhns study, which rates Milwaukee as the #2 Public Pension Plan for net assets available for benefits as of December 31, 2010. Discussion ensued. Mr. Rick indicated this would be put out on ERS' website. Mr. Morics also suggested that staff send pages 65 and 68 along with ERS' 2012 budget request. Discussion ensued.

Administration and Operations Committee Report. Mr. Barmore reported that the Committee met today and Mr. Holland was re-elected as Vice Chair. He reported the Committee convened in closed session with Jefferson Wells regarding software compliance such as how staff tracks basic licenses and other software issues. The take away was there were no high level concerns and any low level concerns were being

addressed by management. He also updated the Board on the organizational study; MERITS status; and the remote server site and remote office. Mr. Barmore stated that Ms. Reid presented the IT Strategic Plan, which maps a five years plan including balancing internal staff with external vendors to create a higher level of service at a lower cost. He noted that this also would continue to look at MERITS 2.0 in relationship to the care and feeding of the existing system and what direction ERS should take going down the road.

Approval of 2012 ERS Budget Request. As a matter of information, Board members received a copy of the 2012 Draft City Budget Request, dated April 14, 2011. Mr. Barmore reported that Ms. Johnson presented the budget to the Committee, which has a \$400,000 reduction in the IT line item. It was moved by Mr. Barmore and seconded by Mr. Holland, to approve the 2012 ERS budget request. After 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 April 2011.

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|-------------------------------------|--------------|
| Active Death Benefits reported | \$86,148.25 |
| Retired Death Benefits reported | \$8,039.94 |
| Refund of Member Contributions paid | \$129,937.14 |

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

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|-----------------|------------------------|
| Tom Rick | Fixed Income Summit |
| Sponsor: | Pensions & Investments |
| Location: | Chicago, IL |
| Date(s): | April 28, 2011 |
| Estimated Cost: | \$85 |

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|---------------------------|---------------------------------|
| Tom Rick & Jerry Allen | Annual Midwest Investment Forum |
| Sponsor: | Alternative Investments Forum |
| Location: | Chicago, IL |
| Date(s): | May 26, 2011 |
| Estimated Cost: | \$85 per person |

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|--------------------------------|---|
| Tom Rick & Jerry Allen | U.S. Retirement Savings – Looking for a Better Way |
| Sponsor: | CFA Society of Madison |
| Location: | Madison, WI |
| Date(s): | June 2, 2011 |
| Estimated Cost: | \$200 each |
| David Silber & Bruce Thomas | Reams Due Diligence Trip |
| Location: | Columbus, IN |
| Date(s): | June 13 – 14, 2011 |
| Estimated Cost: | \$650 per person |
| Ellen Tangen | 2011 Legal Education Conference |
| Sponsor: | National Assn. of Public Pension Attorneys |
| Location: | Seattle, WA |
| Date(s): | June 21 – 24, 2011 |
| Estimated Cost: | \$2,295* |
| Martin Matson | NASRA Conference |
| Sponsor: | National Assn. of State Retirement Administrators |
| Location: | Lake Geneva, WI |
| Date(s): | August 6 – 9, 2011 |
| Estimated Cost: | \$1,900 |

It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to approve the conference requests submitted by Messrs. Rick, Allen, Silber, Thomas and Matson. After discussion, it was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to approve the conference request for Ms. Tangen with an estimated cost of \$2,500.

Extended Life Duty Disability Presentation. As a matter of information, Board members received a copy of an outline of Extended Life Duty Disability Benefits. Ms. Stoffel and Ms. Konrad discussed the extended life duty disability benefits. Discussion ensued.

Medical Reports.

All Duty & Ordinary Disability Applications & Re-examinations. 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:

Fire – New Applications - Duty

Thomas Balistreri
Effective 11/26/10

Recommendation

Approval (Extended Life)

| | |
|---------------------------------------|-----------------------|
| <u>Police – Re-examinations</u> | <u>Recommendation</u> |
| Kimberlee Foster | Approval |
| Jayne Cler | Approval |
| Dave Orłowski | Approval |
| <u>Fire – Re-examinations</u> | <u>Recommendation</u> |
| Jeffery Anderson | Approval |
| Scott Krahn | Approval |
| Jeffrey Pruske | Approval |
| Patrick Sierra | Approval |
| William Soderbeck | Approval |
| <u>GC New Applications – Duty</u> | <u>Recommendation</u> |
| Judy Williams | Denial |
| <u>GC New Applications – Ordinary</u> | <u>Recommendation</u> |
| Tracy Ingram | Approval |
| Effective 4/2/11 | |
| Judy Williams | Approval |
| Effective 1/16/11 | |
| Marcia Friske | Approval |
| Effective 3/19/11 | |
| Wanda Griffin | Approval |
| Effective 4/9/11 | |
| <u>GC Re-examinations – Ordinary</u> | <u>Recommendation</u> |
| Dorothy McLaurin | Approval |
| Robert Morden | Approval |
| Gerard Sengbusch | Approval |
| Evelyn Wilson | Approval |
| David Brottlund | Approval |
| Harriet Harrison | Approval |
| Judith Larson | Approval |
| Lucille Kotecki | Approval |
| Ronald Watson | Approval |
| <u>GC Re-examinations – Duty</u> | <u>Recommendation</u> |
| Terrence Webster-Austin | Approval |
| Mark Madritsch | Approval |
| Leon Brown | Approval |

It was moved by Mr. Holland, 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:

Application for Duty Disability After Conversion Age. Received April 5, 2011. Ms. Houren discussed the opinion and brief discussion ensued.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation.

Reinstatement of Disability Benefits – Harrison Kern. As a matter of information, Board members received a copy of a memorandum, dated April 13, 2011. Mr. Allen reported that Mr. Kern has now complied with the re-examination requirements. It was moved by Mr. Carey, seconded by Mr. Petropoulos, and unanimously carried, to approve the reinstatement of Mr. Kern's disability benefits.

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.

Going back to item A. of the Executive Director's report, Mr. Morics passed the gavel and asked the Board to consider passing a resolution of congratulations for Mr. Silber. He stated the Board should make it a practice of recognizing those types of achievement in the future. It was moved by Mr. Holland, seconded by Mr. Carey, and unanimously carried, that staff prepare a Resolution of Congratulations for Mr. Silber.

Mr. Morics asked Mr. Konrad and Ms. Cleary if the Board in its discussion decided to grant any increases, must that vote be taken in open session. Ms. Cleary and Mr. Konrad both agreed that this action should be taken in open session. Mr. Morics stated he would take up item VI. E. last, and reconvene in open session after the closed session.

On item VII. H. under Informational, Mr. Morics noted that his response to MPS was included and he asked for any input from Board members. Brief discussion ensued.

Mr. Morics also talked about the Governor of Michigan seizing control of several of the state's pension funds. Mr. Allen talked about the legislation that gives the Governor, under certain circumstances, emergency powers. It is a new law granting state appointed

financial managers emergency powers to terminate employee contracts and suspend collective bargaining. He said the Governor of Michigan has invoked this power and appointed two emergency financial managers in two cities. In Benton Harbor they have actually suspended the operation of the democratically elected government by suspending the City Council and the Mayor. Mr. Allen stated that in Detroit the new financial manager has replaced the School Board. He noted that two of the pension plans in the City of Detroit have brought action in Federal Court in seeking an injunction to block the implementation of this law alleging that the law authorizes an unlawful modification and termination of the constitutionally protected contract rights of the employees and seizure and control of the retirement system as well as unlawfully changing the city charter. Mr. Allen indicated that there are rumors on websites over the weekend that the Governor of WI is considering the same action; however, Governor Walker denied that emphatically. He noted that there is a website called Make It Your Milwaukee that is operated by some fellow travelers who are proposing this idea but it is not clear who is behind it. Discussion ensued.

(Mr. Murphy arrived during the above discussion.)

Informational (March* and April)

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated April 20, 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) Class Action Lawsuit Report (March and April).
- 4) Adjusted Quarterly Cost Basis of Equity – March 31, 2011.
- 5) February 28, 2011 City Attorney Opinion to Ald. Dudzik (March).
- 6) March 3, 2011 City Attorney Opinion to MPS (March).
- 7) March 10, 2011 Letter to Mr. Morics from MPS (March).
- 8) Draft Letter from Mr. Morics to MPS.
- 9) Minutes of the Investment Committee Meeting held February 10, 2011 (March).
- 10) Minutes of the Administration and Operations Committee Meeting held March 28, 2011 (March).

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

- 11) Report on Bills (March and April).
- 12) Deployment of Assets (March and April).
- 13) Securities Lending Revenue and Budget Reports (March and April).
- 14) Preliminary Performance Report/Asset and Manager Allocation Pie Charts (March and April).
- 15) ERS Holdings Report (March and April).

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

Review of Compensation for ERS Staff. Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on the following item, (E.), 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. The Board may then reconvene in open session following the closed session. It was moved by Mr. Petropoulos and seconded by Mr. Carey, that the Board convene in closed session on this item. There being no objections, the Board convened in closed session at 10:38 a.m.

The Board reconvened in open session at 11:00 a.m.

Mr. Morics asked for a motion relative to Mr. Rick. It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to increase Mr. Rick's compensation by \$12,500. Mr. Morics asked for a motion relative to Mr. Allen. It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to increase Mr. Allen's compensation by 3 percent. Mr. Morics entertained a motion to request DER to perform a classification study on the positions held by Mr. Thomas and Mr. Silber. It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to request DER to perform a classification study on the positions held by Mr. Thomas and Mr. Silber. Mr. Morics noted that it is understood in the motion that should the 3 percent not bring Mr. Allen's salary to the same level of Mr. Rick, that it be brought to the same level – 3 percent or an amount needed to make the two salaries equal. However, if the 3 percent winds up over Mr. Rick's salary, that is fine.

There being no further business, Mr. Morics adjourned the meeting at 11:05 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.)