

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

Minutes of the Regular Meeting held May 23, 2011

The meeting was called to order at 9:08 a.m.

Board Members Present: John Barmore
 William C. Carey
 W. Martin Morics, Chair
 Gust Petropoulos
 Ron Walter

Board Members Not Present: Konrad Ellenberger (excused)
 Larry Holland (excused)
 Michael J. Murphy (arrived at 9:10 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; Chris Toth, MPS; Dennis Yaccarino, Budget Office; Ken Wischer, AFSCME; Jean Burnside, Milwaukee Retirees Assn.; and Jim Greer, Whyte Hirschboeck Dudek.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held April 20, 2011. It was moved by Mr. Barmore, seconded by Mr. Walter, and unanimously carried, to approve the Minutes of the Regular Meeting held April 20, 2011.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report. Mr. Rick handed out an updated performance chart. Mr. Silber reported that as of April 30, 2011 the Fund's value ended at \$4.54 billion and the Fund has a 3.1 percent return during the month, which matched its blended benchmark's return. The Fund is outperforming year-to-date, one and three-year time periods, and is slightly underperforming over the past five years. He noted the main drivers for April performance came from the fixed income and international equity composites: the fixed income portfolio outperformed its benchmark by 70 basis points driven by Loomis Sayles' outperformance, which was largely offset by underperformance from the non-US equity composite, which underperformed by 80 basis points. This was driven by underperformance by Brandes and DFA.

Mr. Silber indicated there has been a pull back in May with the Fund's return in May going down 2.4 percent, which puts the Fund's return through May 20, 2011 at 5.1 percent year-to-date. Ten of the 14 active managers are outperforming their respective benchmarks year-to-date, and the Fund's value is now at \$4.44 billion. He reported that the Fund will be withdrawing \$27 million in May: \$10 million from DFA (U.S.), \$8.5 million from BlackRock Alpha Tilts, and \$8.5 million from Earnest to pay monthly benefits and expenses.

He also reported that through May 20, 2011 the Fund had: capital market gains of \$225.4 million; paid out \$103.2 million in benefits and expenses; and received contributions of \$12.8 million. Discussion ensued.

Mr. Rick updated the Board on Securities Lending stating that through April ERS is about \$512,000 in net revenue received; this compares to the first four months of 2010 of about \$257,000, so about double in revenue this year compared to last year. Discussion ensued.

Investment Committee Meeting. Mr. Murphy reported that at the May 19, 2011 meeting, the Investment Committee heard presentations from ERS' two private equity Fund of Funds managers, Abbott Capital and Mesirow Partners. Callan and staff provided a review of the Fund's 1st Quarter 2011 performance. Staff also presented a due diligence report on Blackrock's enhanced index, fixed income and transition management services. Mr. Murphy stated that Callan discussed the status of their review of our US Large Cap equity portfolio. They are expected to provide additional analysis at our July Investment Committee meeting.

The City Attorney provided a summary of recent and proposed legislation and regulations affecting the investments of ERS. The Committee had a more detailed discussion on the impacts of current ERS managers.

Approval of Abbott Capital AP2011 Contract. As a matter of information, Board members received a copy of a memorandum from the City Attorney's Office, dated May 17, 2011. Mr. Murphy reported that the Investment Committee recommended for approval a commitment of \$55 million to Abbott Capital Private Equity Fund 2011. It was moved by Mr. Murphy, seconded by Mr. Barmore, and unanimously carried, to approve the Abbott Capital AP2011 contract.

Mr. Rick noted the letter in the packet from Russell Investments, dated May 19, 2011. He said at the Committee meeting the City Attorney provided a summary of some of the proposals and actual rules and regulations that have been approved and how they may impact ERS and the investment of ERS. One of those had to do with a pay-to-play type rule that went into effect in March, which involves if an investment manager of ERS provides some type of funding for an election for officials that may be related to the ERS or part of our operations, that they would be not eligible to receive revenues from ERS for their services provided. Mr. Rick stated that Russell is a subsidiary of Northwestern Mutual, and ERS has them as a transition manager, and under the current contract it would prevent ERS from paying Russell for their services. He said on Friday, Russell did forward a request to ERS to terminate that contract with them for the transition manager services, and he recommended that the Board terminate the Russell contract. Mr. Rick talked about some options ERS has to do transition manager services. He again recommended the Board terminate the existing transition manager contract with Russell and have the City Attorney review their proposal with either the outside assistance or consultant to see if that is a viable alternative, and if not, ERS would have to go to several alternatives that are available. After discussion, it was moved by Mr. Petropoulos, seconded by Mr. Walter, and unanimously carried, to terminate the contract with Russell Investments. Ms. Cleary asked if the direction of the Board was to review Russell's proposed alternative contract even if that means potentially using outside counsel to help with the review. Mr. Morics answered in the affirmative and directed this be brought to the Investment Committee.

Administration and Operations Committee Report. Mr. Barmore noted that due to a name change Jefferson Wells is now known as Experis. He stated the benefit payroll report was presented and only two low risk items were identified and have been mitigated by staff. Additionally, the committee made recommendations to secure the payroll audit report generated by the accounting area. Mr. Barmore also talked about MERITS status; and the remote server site and remote office.

Approval of Buck Contract Amendment. As a matter of information, Board members received a copy of the contract amendment. The Buck contract is being amended to extend the time of performance through the next valuation, and to also include the next five year experience study for the five years ending 12-31-2011. This will ensure that the experience study is conducted by our current actuary. This is a fixed fee amendment. The committee recommends approval.

Approval of Internal Audit Charters. As a matter of information, Board members received copies of the A & O Committee Audit Charter May 2011 and the Internal Audit Charter May 2011. Mr. Barmore noted the board packet today is the red-lined version of the A&O Committee Audit Charter and the Internal Audit Charter. Discussion was held on minor changes to the documents. The committee recommends approval.

It was moved by Mr. Barmore, seconded by Mr. Walter, and unanimously carried, to approve the Buck contract amendment and the Internal Audit Charters.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity, as well as Service Credits for the month of May 2011.

Active Death Benefits reported	\$67,130.32
Retired Death Benefits reported	\$10,000.74
Refund of Member Contributions paid	\$68,642.85

It was moved by Mr. Petropoulos, 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 &
David Silber	RREEF Global Opportunities: Annual Investor Mtg
Sponsor:	RREEF
Location:	Chicago, IL
Date(s):	May 25, 2011
Estimated Cost:	\$75 per person
Bruce Thomas	Annual Investor Meeting
Sponsor:	LaSalle Investment Management

Location: Chicago, IL
 Date(s): June 7, 2011
 Estimated Cost: \$75

Bruce Thomas &
 John Barmore
 Sponsor: GMO Meeting
 Sponsor: GMO
 Location: Chicago, IL
 Date(s): June 9, 2011
 Estimated Cost: \$75 per person

Jerry Allen &
 Tom Rick
 Sponsor: Risk Conference
 Sponsor: Pensions & Investments
 Location: Chicago, IL
 Date(s): June 14, 2011
 Estimated Cost: \$85 per person

Gust Petropoulos
 Sponsor: Client Conference
 Sponsor: Abbott Capital
 Location: New York, NY
 Date(s): June 15 - 17, 2011
 Estimated Cost: \$1,500

William Carey
 Sponsor: 57th Annual Employee Benefits Conference
 Sponsor: International Foundation of Employee Benefits
 Location: New Orleans, LA
 Date(s): October 30 – November 2, 2011
 Estimated Cost: \$2,000

Mr. Ellenberger asked to be included for approval to attend the GMO Meeting on June 9, 2011. It was moved by Mr. Carey, seconded by Mr. Barmore, and unanimously carried, to approve the conference requests submitted by Messrs. Thomas, Silber, Barmore, Allen, Rick, Petropoulos, Carey and Ellenberger.

Approval of Resolution of Congratulations – David Silber. Mr. Allen presented the following resolution:

Whereas, David Silber, having worked for the Employees' Retirement System (ERS) since September 2005 as an Investment Analyst has performed his duties admirably, and

Whereas, Mr. Silber joined the ERS having passed the Chartered Financial Analyst exams, and

Whereas, Mr. Silber now has studied and passed the Level I Chartered Alternative Investment Analyst exam, and

Whereas, Mr. Silber has demonstrated his ability to understand and convey complex investment information to the Annuity and Pension Board; therefore be it

Resolved, By the ERS Annuity and Pension Board that it expresses its sincere appreciation for the valuable and conscientious service of Mr. Silber; and be it

Further Resolved, that this resolution be spread upon the permanent records of the Board and a suitably engrossed copy be presented to Mr. Silber.

It was moved by Mr. Walter, seconded by Mr. Murphy, and unanimously carried, to approve the Resolution of Congratulations for Mr. Silber.

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:

<u>Police – Re-examinations</u>	<u>Recommendation</u>
Michael Andrysczyk	Approval
Virgil Cotton	Approval
Joseph Suttle	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
Maureen Aniakudo	Approval
Daniel Clay	Approval
Lamonte Davis	Approval
Tim Franken	Approval
Chad Hendricks	Approval
Willie Hyche	Approval
Christopher Kallas	Approval
Maurya Lomen	Approval
Bruce Parnau	Approval
Alton Taylor	Approval
Jon Voelz	Approval
Victor Williams	Approval
Michael Ziems	Approval
<u>GC New Applications – Duty</u>	<u>Recommendation</u>
Timothy Sconiers	Denial
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Carol Gradinjan	Approval
Effective 3/10/11	
Alfred Lawson	Approval
Effective 3/28/11	
Billy Smith	Approval
Effective 4/27/11	
Judy Breutzmann	Approval
Effective 4/20/11	

<u>GC Re-examinations – Ordinary</u>	<u>Recommendation</u>
Curtis Nealey	Approval
Mary Harris	Approval
Mary Krzywda	Approval
Carol Scott	Approval
Martha Pineda	Approval
Craig Weiss	Approval
Xaoyee Yang	Approval
Dale Chapman	Approval
Roben Collins	Approval
Laurie Goetzke	Approval
<u>GC Re-examinations – Duty</u>	<u>Recommendation</u>
Albert Henry	Approval
Charles Madison	Approval
David Anderson	Approval
Ricky Daniels	Approval
Richard Lafford	Approval
Samuel Gamboa	Approval

It was moved by Mr. Carey, seconded by Mr. Walter, 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 noted there were no legal opinions from the City Attorney's Office, but there was a Whyte Hirschboeck Dudek opinion.

Opinion Regarding State Budget Repair Legislation. Requested April 1, 2011, received May 17, 2011. Mr. Greer talked in length about the opinion. Lengthy discussion ensued throughout the presentation. It was moved by Mr. Barmore, seconded by Mr. Carey and unanimously carried, to accept the 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 reported that the Finance and Personnel Committee and the Common Council approved the following files:

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 also provided a copy of the ERS Update given to the Finance and Personnel Committee on May 18, 2011.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated May 23, 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.
- 4) Minutes of the Investment Committee Meeting held March 24, 2011.
- 5) Minutes of the Administration and Operations Committee Meeting held April 20, 2011.

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. Walter, seconded by Mr. Barmore, and unanimously carried, to accept and place on file the aforementioned informational items.

There being no further business, it was moved by Mr. Walter to adjourn the meeting. There being no objections, the meeting was adjourned at 10:14 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.)