

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

Minutes of the Regular Meeting held June 27, 2011

The meeting was called to order at 9:09 a.m.

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

Others Present: Rudolph Konrad, City Attorney's Office; Larry Langer, Mark Ruffini and Galen Lara Minetz, Buck Consultants; Wayne Morgan and Darlene Middleman, Baker Tilly; and Jean Burnside, Tom Hayes and Agnes Stearns, Milwaukee Retirees Association.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held May 23, 2011. It was moved by Mr. Carey, seconded by Mr. Barmore, and unanimously carried, to approve the Minutes of the Regular Meeting held May 23, 2011.

Mr. Morics stated he would like to take up items under New Business out of order. There being no objections, Mr. Morics directed that item IV. D. be taken up at this time.

Acceptance of Actuarial Valuation – January 2, 2011. As a matter of information, Board members received a copy of the Actuarial Valuation Report as of January 1, 2011. Mr. Langer, Mr. Ruffini and Ms. Minetz talked in length about the Actuarial Valuation process. Mr. Langer gave an overview of 2010 Plan Year stating the rate of return on assets was 13.78 percent market and 1.34 percent actuarial. Contribution for fiscal 2011 payable January 31, 2012 is \$0 based on current funding policy. The actuarial value of assets shows ERS is 104.4 percent funded and the market value of assets is 97.2 percent funded. Lengthy discussion ensued throughout the presentation. Mr. Carey asked that Mr. Hayes be allowed to comment. Mr. Morics left the decision to the Board. It was moved by Mr. Petropoulos, seconded by Mr. Carey, and unanimously carried, that Mr. Hayes be allowed to comment. Mr. Hayes indicated he did not have any questions or comments at this time. It was moved by Mr. Holland, seconded by Mr. Murphy, and unanimously carried, to accept the Actuarial Valuation – January 1, 2011.

Acceptance of PABF Actuarial Valuation – January 1, 2011. As a matter of information, Board members received a copy of the PABF Actuarial Valuation Report as of January 1, 2011. Ms. Mintez briefly talked about the Policemen’s Annuity and Benefit Fund valuation results stating the actuarially determined employer contribution due January 31, 2012 is \$208,956. It was moved by Mr. Carey, seconded by Mr. Barmore, and unanimously carried, to accept the PABF Actuarial Valuation Report as of January 1, 2011.

Acceptance of Baker Tilly 2010 Financial Audit. As a matter of information, Board members received a copy of the Basic Financial Statements and Additional Information for the Year Ended December 31, 2010 and Independent Auditor’s Report. Mr. Morgan updated the Board on activities involved in the audit. Ms. Middleman talked about the required communications and responsibilities. She noted there were no new policies that were adopted by management, nor were there any new estimates that were performed within the financial statements. Ms. Middleman stated there were no unusual transactions that happened in the plan during the year that are significant that would require Baker Tilly to inform the Board. She indicated that Baker Tilly did not encounter any difficulties with management in performing the audit; there were no misstatements identified; no disagreements with management were encountered; and to Baker Tilly’s knowledge, there were no consultations with other accountants. Ms. Middleman reported there were no significant issues that should be brought to the Board’s attentions; therefore, there are no additional communications that need to be disclosed. She stated that overall, this has been a straightforward year as there were no adjustments, no big deficiencies noted in internal controls that would rise to the attention of the Board.

Mr. Morgan said the best way to understand what is and is not audited is to look at the Table of Contents under Basic Financial Statements as of and for the Year Ended December 31, 2010. He talked about Baker Tilly’s opinion found on page 8. It was moved by Mr. Barmore, and seconded by Mr. Holland, to accept the 2010 Financial Statements. Mr. Morics commented that, based on the observations made he wanted to congratulate Ms. Johnson and her staff for turning out not only good financials, but keeping the internal controls running. Mr. Allen wanted to recognize Mr. Becker who is actually the person in charge of preparing the financial statements, along with Ms. Johnson. Mr. Morgan indicated that management was very attentive to their responsibilities. There being no objections, the motion unanimously carried.

Mr. Morics called for a break at 10:15 a.m. The Board reconvened at 10:23 a.m.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the May Performance Summary. Mr. Rick handed out an updated performance chart. Mr. Thomas reported that as of May 31, 2011 the Fund’s value was \$4.47 billion and underperformed its benchmark by 20 basis points. Drivers of the underperformance came from the domestic equity and fixed income portfolios as Allianz and DFA underperformed by 200 and 130 basis points, respectively; while Reams and Loomis underperformed by 30 and 10 basis points, respectively. He noted that through June 24, 2011 the Fund is down 4 percent in June, and is returning 2.2 percent year-to-date. Mr. Thomas noted that eight of the fourteen active managers are outperforming year-to-date, while the fixed income composite is also outperforming. He indicated that all the equity portfolios are underperforming year-to-date. Mr. Thomas stated the Fund is valued at approximately \$4.3 billion through June 24, 2011.

He reported that the Fund will be withdrawing \$25 million in June: \$15 million from Loomis Sayles and \$10 million from Barclays Aggregate Index to pay monthly benefits and expenses. He also reported that through June 24, 2011 the Fund had: capital market gains of \$109.1 million; paid out \$128.4 million in benefits and expenses; and received contributions of \$16.8 million. Discussion ensued.

Administration and Operations Committee Report. Mr. Barmore reported the Committee met this morning and he updated the Board on the ERS Special Projects. He also indicated the Committee had a review of the ERS internal ethics policy.

Approval of Second Amendment to Experis (F/K/A Jefferson Wells, Inc.). As a matter of information, Board members received a letter from the City Attorney's Office, dated June 17, 2011, with a copy of the amendment attached. Mr. Barmore noted this contract strictly recognizes the name change and there is no fiscal impact. It was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to approve the Second Amendment to Experis.

New Business.

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

Active Death Benefits reported	\$39,990.82
Retired Death Benefits reported	\$129,756.21
Refund of Member Contributions paid	\$34,617.74

It was moved by Mr. Barmore, 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:

Bruce Thomas	Real Assets Conference
Sponsor:	JP Morgan
Location:	Chicago, IL
Date(s):	June 15, 2011
Estimated Cost:	\$75
Tom Rick & David Silber	Brandes and DFA Due Diligence Visits
Location:	San Diego and Santa Monica, CA
Date(s):	August 14 - 16, 2011
Estimated Cost:	\$1,250 each

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

Approval to Suspend Disability Benefits for Non-Compliance with Periodic Medical Re-examinations – Tia Smith. As a matter of information, Board members received a copy of a memorandum, dated June 21, 2011. Mr. Allen indicated that Ms. Smith is scheduled for the July 8, 2011 Medical Council, and therefore, staff is withdrawing the request for suspension of benefits at this time.

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>Fire – New Applications - Duty</u>	<u>Recommendation</u>
Robert Polensak Effective 4/22/11 (Exempt from Re-exam)	Approval
<u>Police – Re-examinations</u>	<u>Recommendation</u>
Brenda Del Valle	Approval
Gary Gelhaar	Approval
David Grycowski	Approval
Christian Hlavinka	Approval
Rayford Weston	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
George Bonadurer	Approval
Franklin Gee	Approval
Craig Halpert	Approval
Thomas Hoeft	Approval
Mitchell Perry	Approval
Jay Quigley	Approval
<u>GC New Applications – Duty</u>	<u>Recommendation</u>
Natasha Mayes	Denial
<u>GC New Applications – Ordinary</u>	<u>Recommendation</u>
Natasha Mayes Effective 1/31/11	Approval
Vivian Watts Effective 6/15/11	Approval
Valerie Foster Effective 5/20/11	Approval
Drena McCord Effective 5/18/11	Approval

GC Re-examinations – OrdinaryRecommendation

Edward Sturino	Approval
Deborah Merk	Approval
Marija Jakopec	Approval
Johnnie Tangle	Approval
Rozlyne Corder	Approval
Mary Wenzel	Approval
Marvin Siravo	Approval
Renea Rewolinski	Approval
Lamar Donaldson	Approval
Stephan Huber	Approval
Carol Bailey	Approval

GC Re-examinations – DutyRecommendation

Daren Andrysczyk	Approval
Otis Caldwell	Approval

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

Disability Findings – Kenneth Trudeau. Mr. Allen presented the findings submitted by Hearing Examiner Gerlach, whose decision states “The decision of the Annuity and Pension Board denying applicant, Kenneth Trudeau duty disability retirement status is affirmed”. Correspondence was also received from the City Attorney’s Office, dated May 23, 2011 indicating it did not intend to file a brief, and a letter from Mr. Trudeau, dated June 8, 2011 indicating he was opting to stop any further appeals. It was moved by Mr. Holland, seconded by Mr. Carey, and unanimously carried, to accept the recommendation of Hearing Examiner Gerlach denying Mr. Trudeau duty disability retirement benefits.

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 at this time.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. He briefly talked about the State of Wisconsin Budget Repair Bill. He also talked about Assembly Bill 40, which has an amendment to the Budget Repair Bill that had several items that may potentially have an impact on ERS: one is that be a five-year vesting for all public employees, and there was also a provision for a matching employer contribution on any employee contributions made pursuant to Act 10. Brief discussion ensued.

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.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated June 27, 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 Administration and Operations Committee Meeting held May 18, 2011.

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

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

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

Mr. Petropoulos briefly talked about the conference he attended and indicated Mr. Rick would be providing information to the Board Members in the weekly mailing.

There being no further business, it was moved by Mr. Carey to adjourn the meeting. There being no objections, the meeting was adjourned at 10:40 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.)