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

Minutes of the Regular Meeting held September 24, 2012

The meeting was called to order at 9:06 a.m.

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

Board Members Not Present: Ron Walter (arrived at 9:20 a.m.)

Retirement System Staff Present: Bernard J. Allen, Executive Director
Beth Cleary, Deputy Director
Thomas Rick, Chief Investment Officer
David Silber, Pension Investment Analyst
Suzanne Fortier, Board Stenographer
Alex Anderson, Administrative Assistant II

Others Present: Rudy Konrad and Maurita Houren, City Attorney’s Office; Chris Toth, MPS; Trevor Byrne and Jack Byrnes, Source One; David Seager, President - Local 215; Jean Burnside, Retirees Association; Bradley DeBraska, MPSO; and Debbie Sweeney, Hayes Companies.

Approval of Minutes. Mr. Allen presented the minutes of the Regular Meeting held July 23, 2012. It was moved by Mr. Carey, seconded by Mr. Matson, and unanimously carried, to approve the Minutes of the Regular Meeting held July 23, 2012.

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 the Fund had a return of 2.1 percent in August, outperforming its benchmark by 46 basis points. He stated that the year-to-date return through August was 9.2 percent, and the Fund outperformed its benchmark by about 70 basis points. Fund’s value as of August 31, 2012 was $4.14 billion. Mr. Silber reported that the main drivers of August’s performance were that 11 of the Fund’s 14 active managers outperformed their benchmarks. The three managers that led the way were Loomis Sayles outperforming by 1.3 percent, Polen outperforming by 2.5 percent, and William Blair outperforming by 0.5 percent.

He stated that, through September 21, 2012, the Fund was up an additional 3.7 percent, which puts the year-to-date return for the Fund at approximately 13 percent. As of September 21, 2012, the Fund’s market value is just under $4.3 billion. Mr. Silber indicated
that the Fund will be withdrawing $57 million in September, with $34 million being for benefits and expense payouts, as well as to cover ERS’ real estate and private equity capital calls: $10 million from the Cornerstone; $10 million from DFA; $5 million from GMO; $5 million from T. Rowe Price; and $4 million from Allianz. He noted that ERS is withdrawing an additional $23 million in September: $9 million from William Blair; $7 million from Northern Trust; $4 million from the BlackRock Alpha Tilts; and $3 million from Earnest to help partially cover 4th quarter benefits and expenses.

Mr. Silber also reported that, through September 21, 2012, the Fund had: capital market gains of $493.4 million; paid out $213.3 million in benefits and expenses; and received contributions of $53.4 million.

He indicated that Mr. Barmore, Mr. Sauer and he will be on due diligence visits with MFS and Wellington and he handed out their due diligence responses to Board members. Mr. Silber indicated that Board members may submit questions they would like asked.

Approval of Amendment to Extend Northern Trust Custody Contract. As a matter of information, Board members received a copy of correspondence from the City Attorney’s Office dated September 6, 2012. Mr. Rick spoke about our relationship with Northern Trust for custodial services indicating the contract expires at the end of 2012. He stated staff is recommending extending this contract for another year, and then conduct additional due diligence and contract negotiations with the assistance of the City Attorney and Callan starting later this year. Mr. Rick noted that the original contract with Northern is from 1996 so the ERS wants to bring that up-to-date, and then negotiate a fairly attractive 5-year agreement. After brief discussion, it was moved by Mr. Holland, seconded by Mr. Petropoulos, and unanimously carried, to approve the amendment to extend the Northern Trust Custody contract.

Approval of Amendment to Polen Capital Investment Management Agreement. As a matter of information, Board members received a copy of correspondence from the City Attorney’s Office dated September 6, 2012. Mr. Rick indicated that Mr. Polen passed away, and this amendment updates Exhibit D, which is the list of key personnel, to include the new Portfolio Manager and Stan Moss, who is now the Chief Executive. It was moved by Mr. Carey, seconded by Mr. Petropoulos, and unanimously carried, to approve the amendment to the Polen Capital agreement.

Investment Committee Report. Mr. Murphy reported that due to the pending portfolio management team changes at ERS’ Global Growth equity manager, T Rowe Price, the Investment Committee conducted manager interviews at its September 6, 2012 meeting. In addition to T Rowe Price, the Investment Committee interviewed three other managers: Harding Loevner, MFS, and Baille Gifford. He stated that based on these interviews and follow-up discussion, the Investment Committee recommends hiring MFS to provide Global Growth Equity investment management services. In addition, the Committee authorized staff and the consultant to begin the due diligence and contract negotiation process. Mr. Murphy noted that Callan is comfortable with leaving the assets at T Rowe Price until pending final contract approval, which is expected at the October Board meeting.
(Please note the Board did not convene in closed session as noticed.)

Approval of Selection of Global Growth Manager. After discussion, it was moved by Mr. Murphy, seconded by Mr. Holland, and unanimously carried, to approve the selection of MFS.

Administration and Operations Committee Report. Mr. Barmore updated the Board on the ERS Special Projects report. He talked about several improvements made to the cmers.com website, including a presentation on website analytics that help create metrics to measure and assess the overall effectiveness of the website. Mr. Barmore also updated the Board on the ARIS maps project.

New Business.

Retirements, Death Claims, and Refunds. Mr. Allen presented the following activity, as well as Service Credits for the months of July and August of 2012.

<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>August</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Death Benefits</td>
<td>$0.00</td>
<td>$137,578.41</td>
</tr>
<tr>
<td>Retired Death Benefits</td>
<td>$24,678.83</td>
<td>$36,459.34</td>
</tr>
<tr>
<td>Refund of Member Contributions</td>
<td>$64,026.62</td>
<td>$196,603.34</td>
</tr>
</tbody>
</table>

It was moved by Mr. Murphy, seconded by Mr. Petropoulos, 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:

<table>
<thead>
<tr>
<th>Event</th>
<th>Sponsor</th>
<th>Location</th>
<th>Date(s)</th>
<th>Estimated Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Erich Sauer &amp; Tom Rick Client Seminar</td>
<td>DFA</td>
<td>Chicago IL</td>
<td>September 27, 2012</td>
<td>$85 each</td>
</tr>
<tr>
<td>John Barmore Due Diligence</td>
<td>MFS and Wellington Management</td>
<td>Boston, MA</td>
<td>October 1 – 2, 2012</td>
<td>$750</td>
</tr>
</tbody>
</table>
David Silber & Erich Sauer Due Diligence
Sponsor: MFS and Wellington Management
Location: Boston, MA
Date(s): October 1 – 4, 2012
Estimated Cost: $1,650 per person

John Barmore Public Safety Employees Pension & Benefits Conference
Sponsor: NCPERS
Location: New Orleans, LA
Date(s): October 7 – 10, 2012
Estimated Cost: $2,000

Erich Sauer, David Silber & Gust Petropoulos Advanced Strategies Conference
Sponsor: Mesirow Financial
Location: Chicago, IL
Date(s): October 10 – 11, 2012
Estimated Cost: $145 Mr. Sauer/Mr. Silber
$425 Mr. Petropoulos

David Silber Investment Seminar
Sponsor: Wellington Management
Location: Chicago, IL
Date(s): October 11, 2012
Estimated Cost: $80

Erich Sauer, Tom Rick & David Silber Institutional Investor Roundtable
Sponsor: Institutional Investor
Location: Chicago, IL
Date(s): October 15 – 17, 2012
Estimated Cost: $85 each – Only 1 person will attend each day

Erich Sauer & Tom Rick Client Conference & Due Diligence
Sponsor: GMO
Location: Boston, MA
Date(s): November 7 – 9, 2012
Estimated Cost: $1,350 each

Mr. Allen indicated he would like to attend the DFA Client Seminar on September 27, 2012. It was moved by Mr. Holland, seconded by Mr. Petropoulos, and unanimously carried, to approve the conference requests submitted by Messrs. Allen, Rick, Sauer, Silber, Barmore, and Petropoulos.
Referral to Legislative Committee of Proposed Amendment of Board Rule XVII.

E. regarding Worker’s Compensation Offset. Mr. Allen briefly spoke about this Board rule. Ms. Houren clarified that this would not be a Board Rule change, but would require a change to the Charter, and she talked about Chapter 36-12. Mr. Seager, President of Local 215, spoke briefly on this item. It was moved by Mr. Murphy, seconded by Mr. Carey, and unanimously carried to refer this item to the Legislative Committee.

Referral to Legislative Committee of Proposed Amendment of Board Rule XIII.

A. 9 a. regarding eligibility requirements of MPS part-time employees. As a matter of information, Board members received a 3-page Resolution submitted by the MPS Board. Mr. Allen briefly spoke about the MPS request. Ms. Toth from MPS was present to discuss this item. It was moved by Mr. Murphy and seconded by Mr. Petropoulos, that this be referred to the Legislative Committee. After further discussion, the motion unanimously carried.

Referral to A & O Committee of a pilot for paperless Board Packets via on-line access. Mr. Allen indicated that this is an initiative of the Chair. He stated that they have discussed the idea of referring this to the A & O Committee to evaluate whether it would make sense to have paperless packets. A pilot program could be started for the A & O Committee materials. Mr. Allen stated if ERS would use the City’s Legistar System, all the materials would be posted there and be available to the public. Alternatively, there is an opportunity to do this pilot in a way that would not involve Legistar as ERS could amend our own website to provide secure access to the Trustees and relevant staff members. He indicated that if ERS were to go paperless that would mean that each of the Trustees would probably access these materials on-line during the meeting. The ERS would provide laptops or iPads, and at the same time ERS could arrange to have the materials projected by a projector or on a smart board. After discussion, it was moved by Mr. Holland, seconded by Mr. Murphy, and unanimously carried, to refer to the A & O Committee for review.

Referral to A & O Committee to review Local 215’s request to consider retiree health insurance premium deductions in conjunction with the HELPS Retiree Act. As a matter of information, Board members received a copy of a letter from the Milwaukee Professional Fire Fighters’ Association, Local 215 dated August 27, 2012. Mr. Allen stated that Local 215 is basically requesting that the Board permit the machinery be put in place to make payroll deductions in order for fire and police retirees to pay for dental and vision insurance program that Local 215 is trying to organize. He noted this would also be a referral to the A & O Committee to study the issues both administrative and legal. Mr. Seager addressed the Board on this issue. After discussion, it was moved by Mr. Matson, seconded by Mr. Petropoulos, and unanimously carried, to refer to the A & O Committee for review.

Approval of Renewal of Fiduciary Liability Insurance. As a matter of information, Board members received a copy of the Board Summary submitted by the Hayes Companies. Ms. Sweeney spoke about the changes to the renewal proposal for the period of November 1, 2012 through November 1, 2013. After brief discussion, it was moved by Mr.
Matson, seconded by Mr. Petropoulos, and unanimously carried to approve the renewal of the Fiduciary Liability Insurance.

**Medical Reports.**

**All Duty & Ordinary Disability Applications & Re-examinations (August and September).** 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:

<table>
<thead>
<tr>
<th>Fire – New Applications - Duty</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patrick Nogalski</td>
<td>Approval</td>
</tr>
<tr>
<td>Effective 8/28/2012</td>
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</table>

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<thead>
<tr>
<th>Police – Re-examinations</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>James Lucht</td>
<td>Approval</td>
</tr>
<tr>
<td>Matteo Norante</td>
<td>Approval</td>
</tr>
<tr>
<td>Angel Alderman</td>
<td>Approval</td>
</tr>
<tr>
<td>David Grycowski</td>
<td>Approval</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Fire – Re-examinations</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gilbert Baltutis</td>
<td>Approval</td>
</tr>
<tr>
<td>Teresa Clyse</td>
<td>Approval</td>
</tr>
<tr>
<td>Nancy Hutchinson</td>
<td>Approval</td>
</tr>
<tr>
<td>Christopher Kallas</td>
<td>Approval</td>
</tr>
<tr>
<td>David Mead</td>
<td>Approval</td>
</tr>
<tr>
<td>Hal Boston</td>
<td>Approval</td>
</tr>
<tr>
<td>Robert Smith</td>
<td>Approval</td>
</tr>
<tr>
<td>Maureen Aniakudo</td>
<td>Approval</td>
</tr>
<tr>
<td>Todd Schultz</td>
<td>Approval</td>
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</tbody>
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<thead>
<tr>
<th>GC New Applications – Ordinary</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gerardo Gonzales</td>
<td>Approval</td>
</tr>
<tr>
<td>Effective 8/4/2012</td>
<td></td>
</tr>
<tr>
<td>Jerry Watkins</td>
<td>Approval</td>
</tr>
<tr>
<td>Effective 8/2/2012</td>
<td></td>
</tr>
<tr>
<td>Reginald Thompson</td>
<td>Approval</td>
</tr>
<tr>
<td>Effective 7/25/2012</td>
<td></td>
</tr>
<tr>
<td>Heather Shefbuch</td>
<td>Approval</td>
</tr>
<tr>
<td>5/24/2012</td>
<td></td>
</tr>
<tr>
<td>Deborah Gutowski</td>
<td>Approval</td>
</tr>
<tr>
<td>7/23/2012</td>
<td></td>
</tr>
</tbody>
</table>
It was moved by Mr. Murphy, seconded by Mr. Petropoulos, and unanimously carried, to accept the aforementioned recommendations of the Fire and Police Panel Physicians and the Medical Council.
Disability Findings – Rodrigo Castaneda. Mr. Allen presented the findings submitted by Hearing Examiner Kessler, whose Decision states “The application of Rodrigo Castaneda for Duty Disability Retirement is denied.” Correspondence was also received from the City Attorney’s Office, dated August 16, 2012, indicating it did not intend to file a brief. It was moved by Mr. Carey, seconded by Mr. Walter, and unanimously carried, to approve the recommendation of Hearing Examiner Kessler, denying duty disability retirement for Rodrigo Castaneda.

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:

Fire and Police Duty Disability Applications. Received July 26, 2012. Ms. Houren discussed the opinion. It was moved by Mr. Holland, seconded by Mr. Petropoulos, 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. Mr. Allen and Mr. Konrad briefly talked about File 120022. 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. Mr. Konrad discussed Dane Co. 11CV3772 Madison Teachers, et al. v. Walker.

Mr. Barmore noted that item VII. D. was posted for closed session, and stated it was his intent to adjourn the meeting from closed session; therefore, he directed that the Board take up items VIII. 2. through 10.

(Mr. Carey left the meeting at 10:30 a.m.)

Informational (July and August)

The following is a list of informational items:

2) List of Client Conferences and Trustee Education for 2012.
4) Minutes of the Legislative Committee Meeting held June 25, 2012.
5) Minutes of the Investment Committee Meeting held July 12, 2012.
The following is a list of activities since the last Board meeting, copies sent with meeting notice and attached to minutes:

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.

Mr. Barmore asked for a motion to accept items VIII. 2. through 10. It was moved by Mr. Petropoulos, seconded by Mr. Walter, and unanimously carried, to accept and place on file informational items 2. through 10.

Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on the following item (1. a.), as provided in Section 19.85 (1) (g), Wisconsin State Statutes, to confer with legal counsel concerning strategy the Board may adopt with respect to litigation in which it is or is likely to become involved. The Board may then reconvene in open session following the closed session. It was moved by Mr. Petropoulos and seconded by Mr. Holland, to convene in closed session on this item. The motion prevailed by the following roll call vote: AYES: Messrs. Holland, Matson, Murphy, Petropoulos, Walter and Barmore. NOES: None.

1) Report on Claims and Litigation – Memorandum dated September 24, 2012, which gives the status of litigation involving the ERS, as prepared by staff of the ERS and City Attorney’s office.


The Board convened in closed session at 10:41 a.m. and reconvened in open session at 10:55 a.m.

Mr. Barmore called for a break at 10:55 a.m. The Board reconvened at 11:05 a.m.

**Recommendation to City of Milwaukee requesting Changes to Salary Ordinance regarding ERS Investment Staff.** Mr. Barmore advised that the Annuity and Pension Board may vote to convene in closed session on the following item, (D.), as provided in Section 19.85 (1) (c), Wisconsin State Statutes, for considering employment, promotion, compensation or performance evaluation data for any public employee over which the governmental body has jurisdiction or exercises responsibility. He indicated that it was his intent to adjourn the meeting from closed session. It was moved by Mr. Petropoulos and seconded by Mr. Holland, to convene in closed session and adjourn the meeting from closed session. The motion prevailed by the following roll call vote: AYES: Messrs. Ellenberger, Holland, Matson, Murphy, Petropoulos, Walter and Barmore. NOES: None.
The Board convened in closed session at 11:06 a.m. Mr. Barmore adjourned the meeting at 11:20 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.)