

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

Minutes of the Regular Meeting held May 24, 2012

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

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

Board Members Not Present: Larry Holland (arrived at 9:11 a.m.)
 Ron Walter (arrived at 9:11 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
 Erich Sauer, Pension Investment Analyst
 Greg Trunk, Investment Intern
 Suzanne Fortier, Board Stenographer

Others Present: Rudy Konrad, City Attorney's Office; Jean Burnside, Retirees Association; and Bradley DeBraska, MPSO.

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

Mr. Barmore directed that the Investment Committee Report be taken up prior to the CIO report.

Investment Committee Report. Mr. Murphy reported that at the May 10th Investment Committee meeting, members heard presentations from our private equity managers, Mesirow Financial Partners and Abbott Capital, as well as a presentation from The Townsend Group, our real estate consultant. He stated that Callan provided information on the upcoming portfolio management change associated with T Rowe Price's Global Equity strategy. Staff and Callan will present a plan to address the change at the July Investment Committee. Mr. Murphy noted that, due to time constraints, staff provided a brief summary and performance attribution of Q1 2012 Fund results. Also, the value added report was deferred to today's Board meeting and will be heard under the CIO Report agenda item.

Private Equity Discussion and Proposed Funding Approval. Mr. Murphy stated that members heard an update from staff and Callan regarding ERS' 2012 private equity commitments. Callan recommended, and the Investment Committee members in attendance concurred, that ERS should commit \$60 million to Mesirow's Financial Partners Fund VI and \$40 million to Abbott's AP 2012 Fund. The Abbott partnership agreement and side letter have been finalized and will be presented during today's CIO report. He indicated that ERS staff is currently negotiating with Mesirow and will be conducting a follow-up due diligence visit to Mesirow on June 7, 2012. Assuming their successful completion, ERS expects to present Mesirow's limited partnership agreement and side letter for Board review at the June meeting.

It was moved by Mr. Petropoulos, seconded by Mr. Ellenberger, and unanimously carried, to approve the proposed private equity funding.

Value Added Presentation. As a matter of information, Board members received a copy of the Active Management versus Passive Analysis 10-Year Analysis 1/1/02 – 12/31/11. Mr. Silber provided a commentary on the value added report.

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, 2012 the Fund was only down about 60 basis points and underperformed its benchmark by about 11 basis points. This put the year-to-date return at the end of April at about 8.7 percent, while providing significant outperformance versus the benchmark, about 120 basis points. He noted that seven of the nine active equity managers underperformed in April 2012, which really came from the global and international equity portfolios, with Brandes underperforming its benchmark by 2.8 percent and T. Rowe Price underperforming by about 2.5 percent. Mr. Silber indicated that as of May 23, 2012 the Fund's approximate value is just above \$4 billion.

Mr. Silber noted that the Fund will be withdrawing \$20 million in May: \$10 million from Loomis Sayles; \$5 million from Wellington; and \$5 million from Reams to pay monthly benefits and expenses. He also reported that through May 23, 2012 the Fund had: capital market gains of \$125.6 million; paid out \$107.4 million in benefits and expenses; and received contributions of \$40 million.

Approval of Abbott AP2012 Contract. As a matter of information, Board members received copies of a Side Letter from Abbott Capital, memorandum from City Attorney's Office, dated May 23, 2012 and correspondence from Reinhart Boerner Van Deuren, dated May 18, 2012. Mr. Rick stated that Callan and staff are recommending a \$40 million commitment to Abbott's AP2012 private equity fund. Ms. Cleary spoke about the Side Letter. After discussion, it was moved by Mr. Carey, seconded by Mr. Matson, and unanimously carried, to approve the Abbott AP2012 contract based on staff recommendation.

As a matter of information, Board members received a copy of a memorandum from Mr. Rick, dated May 18, 2012, regarding the Polen Capital Management and Cornerstone Investment Partners Due Diligence Visit.

Approval of Cornerstone Investment Partners Contract. As a matter of information, Board members received a copy of the Investment Management Agreement. Mr. Rick briefly spoke about the contract, noting that Cornerstone came in at 37 basis points for their fee, and ERS was able to negotiate down to 35 basis points. He indicated that staff and Callan recommend approval of the contract. Ms. Cleary spoke about the investment agreement. After discussion, it was moved by Mr. Petropoulos, seconded by Mr. Holland, and unanimously carried, to approve the Cornerstone contract.

Approval of Polen Capital Partners Contract. As a matter of information, Board members received a copy of the Investment Management Agreement. Mr. Rick briefly spoke about the contract. After discussion, it was moved by Mr. Petropoulos, seconded by Mr. Walter, and unanimously carried, to approve the contract.

Approval of Northern Trust Transition Addendum. As a matter of information, Board members received a copy of the Attachment C – Exhibit 2 Transition Work Order. Mr. Rick stated that Northern Trust will conduct the transitions today. He noted that ERS already has a Transition Agreement with Northern Trust, so Attachment C is specifically for this transition of moving \$330 million from the S&P index and splitting it between Cornerstone and Polen. After discussion, it was moved by Mr. Carey, seconded by Mr. Murphy, and unanimously carried, to approve Attachment C –Exhibit 2 Transition Work Order based on staff recommendation.

Mr. Rick introduced Greg Trunk, the new investment intern.

Administration and Operations Committee Report. Mr. Barmore reported that the Committee received an update on the ERS Special Projects Report. The reclassifications are still in progress with DER; all technology projects are moving forward; staff is continually evaluating data storage space, and the system was up 100 percent during the month of April.

Approval of Internal Audit Charters. As a matter of information, Board members received a copy of the Internal Audit Charter, dated May 2012 and the Administration and Operations Committee Charter, dated May 2012. Mr. Barmore indicated that there were no substantive changes to the document and the Committee is recommending approval.

Approval to go to market and/or pursue a contract extension for External Financial Audit Services. Mr. Barmore reported that the current contract is with Baker Tilly and will expire at the end of 2012. This contract was amended last year to expand the time of performance for an additional year, to as to accommodate coordination with the five year actuarial experience study. The Committee recommends approval to pursue an RFP for future external financial audit services.

Approval to go to market and/or pursue a contract extension for Actuarial Services. Mr. Barmore reported that the contract for Actuarial Services, which is currently held by Buck Consultants, LLC, will expire at the end of 2012. This contract was amended last year to expand the time of performance for an additional year, so as to allow for a 5 Year

Experience Study, ending December 31, 2011. The Committee recommends approval to allow staff to pursue either an RFI or an RFQ for future actuarial services.

After discussion, it was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to accept the A & O Committee Report, and approve the recommendations of the Committee for items A through C.

New Business.

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

Active Death Benefits reported	\$31,645.43
Retired Death Benefits reported	\$87,343.97
Refund of Member Contributions paid	\$82,513.65

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

Michael Murphy	Investment Conference
Sponsor:	Madison CFA
Location:	Madison, WI
Date(s):	May 31, 2012
Estimated Cost:	\$75
Tom Rick, David Silber, Jerry Allen & Erich Sauer	Due Diligence
Sponsor:	Mesirow Financial
Location:	Chicago, IL
Date(s):	June 7, 2012
Estimated Cost:	\$85 per person
Tom Rick & Jerry Allen	Pension Risk Conference
Sponsor:	Pensions & Investments
Location:	Chicago, IL
Date(s):	June 12, 2012
Estimated Cost:	\$85 per person
Erich Sauer	Investment Presentation
Sponsor:	GMO

Location: Chicago, IL
 Date(s): June 14, 2012
 Estimated Cost: \$85

David Silber Morningstar Training
 Sponsor: Morningstar
 Location: Chicago, IL
 Date(s): June 19, 2012
 Estimated Cost: \$80

Beth Cleary 2012 Legal Education Conference
 Sponsor: NAPPA
 Location: Philadelphia, PA
 Date(s): June 27 – 29, 2012
 Estimated Cost: **\$2,300** (corrected estimate – Board approved \$1,700 at 4/23/12 meeting)

Mr. Murphy indicated that he would be unable to attend the Madison Investment Conference. Mr. Rick asked that Mr. Sauer be approved to attend in Mr. Murphy's place. Mr. Allen indicated he would like to attend the Alternative Investment Forum in June being held in Chicago for a cost of \$85. Ms. Cleary noted that the Board approved her request at the April meeting, which she estimated the cost at \$1,700, which was the price for the NAPPA February winter meeting, but that the actual estimate for the annual NAPPA Conference should be \$2,300. It was moved by Mr. Petropoulos, seconded by Mr. Walter, and unanimously carried, to approve the conference requests submitted by Messrs. Sauer, Rick, Silber, Allen, and Ms. Cleary.

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:

Police – New Applications - Duty

Lisa Ordonez
 Justine Schmidt
 Effective 4/14/12

Recommendation

Denial
 Approval

Fire – New Applications – Duty

Thomas Locke
 Effective 5/25/12

Recommendation

Approval

Police – Re-examinations

Richard Bates
 Jean Docter
 Robert Henry
 Tracy Martinez
 Janette Mosley
 Brenda Nogalski

Recommendation

Approval
 Approval
 Approval
 Approval
 Approval
 Approval

Fire – Re-examinations

Jeffery Anderson
 Daniel Dombrowski
 Elizabeth Hinckley
 Martin Hisenkamp
 Annette Johnson
 Scott Klockow
 John Nencka
 Robert Norton
 Jeffrey Pruske
 Thomas Timeus
 Christopher Underwood
 Gregory Ptak

Recommendation

Approval
 Approval
 Approval
 Approval
 Approval
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 Approval
 Approval

GC New Applications – Ordinary

Lisa Ordonez
 Effective 3/4/12
 Yoron Whitfield
 Effective 6/26/12

Recommendation

Approval
 Approval

GC Re-examinations – Ordinary

Carol Scott
 Martha Pineda
 Craig Weiss
 Billy Smith
 Judy Breutzmann
 Dale Chapman
 Roben Collins

Recommendation

Approval
 Approval
 Approval
 Approval
 Approval
 Approval
 Approval

GC Re-examinations – Duty

Albert Henry
 Paul Rooney
 Shirley Nation

Recommendation

Approval
 Approval
 Approval

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

Disability Findings – Howard F. Noeske. Mr. Allen presented the findings submitted by Hearing Officer Gerlach, whose Decision states “[I]t is recommended the decision of the Annuity and Pension Board’s denial of Howard Noeske’s request for duty-disability retirement be affirmed.” Correspondence was also received from the City Attorney’s Office, dated May 2, 2012, and Padway & Padway, dated May 4, 2012, indicating that they did not intend to file any briefs. After discussion, it was moved by Mr. Matson, seconded by Mr. Holland, and unanimously carried, to accept the recommendation of the Hearing Officer, affirming the denial of duty disability retirement for Mr. Noeske.

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:

Earnable Compensation. Requested March 2, 2012. Mr. Konrad spoke about the opinion and discussion ensued.

It was moved by Mr. Matson and seconded by Mr. Murphy, to accept the legal opinion and place on file. The motion carried, with Mr. Carey and Mr. Petropoulos being recorded as objecting.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Allen presented a list of pending requests for legislation. Mr. Allen said there were no new items to report; however, he noted that the Chair has requested that a Legislative Committee meeting be held in connection with the Pension Study Task Force. The Legislative Committee consists of Mr. Carey, Mr. Petropoulos and Mr. Walter. It was the consensus of the Committee members to meet prior to the June Board meeting.

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 handed out a copy of the Charter Ordinance regarding a new official city mark. Discussion ensued with respect to the inclusion of the new City logo on ERS correspondence. It was moved by Mr. Petropoulos, seconded by Mr. Murphy, and unanimously carried, that ERS update MERITS generated documents only if other changes are being made to a document.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated May 24, 2012, 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 2012.
- 3) Class Action Lawsuit.
- 4) Minutes of the Administration and Operations Committee Meeting held April 18, 2012.

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

There being no further business, Mr. Barmore adjourned the meeting at 10:20 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.)