EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE APRIL 20, 2011 PENSION BOARD MEETING

1. Call to Order

Chairman Mickey Maier called the meeting to order at 8:40 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present	Members Excused
Linda Bedford (Vice Chair)	Dr. Sarah Peck
Donald Cohen	Guy Stuller
Keith Garland	Donald Weber
Mickey Maier (Chairman)	
Jeffrey Mawicke	
David Sikorski	

Others Present

Mark Grady, Acting Deputy Corporation Counsel
Gerald Schroeder, ERS Manager
Marian Ninneman, Operations Manager - ERS
Dale Yerkes, ERS Fiscal Officer
Ken Loeffel, Retiree
Bess Frank, Retiree
Ray Caprio, Marquette Associates, Inc.
Brian Wrubel, Marquette Associates, Inc.
Kathryn A Vorisek, Fiduciary Management Associates, LLC
Robert L. Hudon, Jr., Fiduciary Management Associates, LLC
Jeremy Getson, AQR
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Chairman's Report

The Chairman presented Mr. Cohen with a plaque on behalf of the Pension Board commemorating the Board's appreciation for his outstanding and long-term dedicated service to the Employees' Retirement System. The Chairman credited Mr. Cohen with keeping the Board meetings on track and moving forward, and thanked him for his long and able service. Mr. Cohen stated that serving on the Board was a good learning experience and he enjoyed it. The Chairman then noted that Mr. Cohen is moving to the Pension Study Commission.

The Chairman stated that there are several changes to the Board. Dean Muller, appointed by the County Board Chairman, will be at the May Board meeting. Additionally, Mr. Stuller retired and Mr. Weber resigned for health reasons. Elections will be organized for a retiree seat and employee seat. The Chairman then asked to be informed of anyone who may be interested in running. The Chairman also stated that he would appreciate all efforts to attend the Board meetings over the coming months because the Board may be short a member or two until after the elections.

4. Minutes — March 16, 2011 Pension Board Meeting

The Pension Board reviewed the minutes of the March 16, 2011 Pension Board meeting.

The Pension Board unanimously approved the minutes of the March 16, 2011 Pension Board meeting. Motion by Mr. Cohen, seconded by Ms. Bedford.

5. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, March 2011

Ms. Ninneman presented the Retirements Granted Report for March 2011. Thirty-four retirements were approved in March, with a total monthly payment amount of $50,842. Of those 34 retirements, 26 were normal retirements and 8 were deferred vested retirements. Seventeen retirees elected backDROPs in amounts totaling $2,318,980. Of those 17 retirees, 8 backDROP amounts were over $100,000 each.

(b) ERS Monthly Activities Report, March 2011

Ms. Ninneman presented the Monthly Activities Report for March 2011. ERS had 7,517 retirees at the end of March 2011, with a monthly payout of $14,431,428.

In response to questions from the Chairman, Ms. Ninneman confirmed that more employees with extended service are deciding to take advantage of retirement now. Ms. Ninneman stated that an emergency retirement process was put in place for employees who wanted to retire before March 31, 2011. The number of applications is significantly lower now, though 90 are being processed in April and 120 are in the queue for May. Ms. Ninneman also confirmed that the long-term trend for retirements was approximately 40 per month. Projections indicate that with the Budget Repair Bill and other changes in process, the number of retirements this year will be close to 500. Ms. Ninneman then stated that other than the increase in retirements, everything remains stable.

Mr. Schroeder then reminded the Board that ERS has a pool of approximately 1,200 employees who could retire at any point. Anytime there is an Ordinance change, or any change that impacts the formula or their benefits, the number of retirement applications increases. This could stabilize in the coming months, but if the Budget Repair Bill becomes law, the next two or three years could be unstable.

Mr. Schroeder then requested Board approval for an employee and a retiree election, and distributed a timeline outlining what needs to occur if approval is received. The preliminary election is targeted for July 8 through July 11, and the final election, if necessary, is targeted for July 22 through July 25. Mr. Schroeder then noted that only 7 months remain on the employee seat and 27 months remain on the retiree seat. Additionally, the newly-elected employee and retiree members would begin serving in August.

In response to a question from the Chairman, Mr. Schroeder stated that the election will be held electronically. A contract amendment was made with Votenet for $6,495. The cost for one election is $5,495, plus a reduced cost of $1,000 for a second election since it will be held simultaneously. Votes will automatically be split into retiree and employee categories.

The Pension Board unanimously approved holding an election for the replacement of the employee seat occupied by Mr. Stuller and a replacement of the retiree seat occupied by Mr. Weber. Motion by Mr. Mawicke, seconded by Mr. Garland.

In response to a question from Mr. Garland, Mr. Schroeder indicated that a longer amount of time before holding an election is necessary because there are a number of tasks that need to be performed, such as sending out a notice and creating nomination papers and biographies.

Mr. Schroeder then stated that he notified the County Board Chairman and the County Executive that he will be retiring on July 30, 2011. Mr. Schroeder noted that he would agree to a consulting position to help recruit and train his successor to ensure that OBRA payouts begin properly, to set up and implement the co-development program, and to support the Board.

The Chairman thanked Mr. Schroeder for bringing stability and direction to ERS and to the Board, and stated that Mr. Schroeder will be missed.

Ms. Ninneman then discussed the Certification for Retirement Counseling, a program that began in 2010 to improve the professionalism of the staff and the retirement process through retirement counseling certification. The program contains stringent guidelines and requirements in order to become a Certified Retirement Counselor. The exam is extensive and covers four modules: retirement planning, investment, retirement plan design, and retirement income planning. In January 2011, 8 ERS staff members took the exam and 3 passed. The remaining 5 staff members will continue their studies and retake the exam in either July or October. Ms. Ninneman credits ERS staff for taking on this challenge, especially with the current high volume of retirement applications.

In response to a question from the Chairman, Ms. Ninneman indicated that the program is sponsored by the International Foundation for Retirement Education (InFRE).

Ms. Ninneman then discussed the retiree exit survey results for the first quarter of 2011, which indicate that the certification program is already positively affecting the retirement process. The survey return rate was 76%. Of all respondents, 54% gave ERS an

Excellent rating and indicated that ERS staff is knowledgeable, professional, and thorough in the information they provide. Ms. Ninneman stated that ERS staff follows up as necessary on any retiree feedback requiring action. The Chairman agreed that the ratings were very positive.

Ms. Ninneman concluded by discussing the overtime cost project plan, a contingency plan to handle the increased workload. On average, 6 ERS staff per week put in overtime on one of six projects currently targeted, including final calculations, estimates for retirement packets, and file scanning.

(c) Fiscal Officer/Cash Flow Report

Mr. Yerkes discussed the ERS cash flow report, noting that contributions from non-represented employees and elected officials remain at 2%. In June, those contributions will increase to 3%, which will be reflected on the July report, and to 4% in December, which will be reflected on the January report. The March cash flow needs were funded by US Equity, Robeco, and Reinhart Partners at $5 million each. Cash needs for April, May, and June should remain as previously approved, which is $10 million, $5 million, and $5 million respectively.

In response to a question from the Chairman, Mr. Yerkes indicated that he has the authorization needed for cash flow through the second quarter.

Mr. Yerkes next distributed the March 2011 Portfolio Activity report, noting that there was no activity for Adams Street. Mr. Yerkes also stated that cash needs were high, requiring the transfer of $17 million to the checking account in March. However, this was primarily because of the $1.3 million payment to the County in March for County-paid administrative expenses in accordance with Ordinance section 201.24(8.8), and the additional expense related to extra retiree benefits.

Mr. Yerkes then confirmed, in response to a question from the March Board meeting, that the County is contributing the amount indicated in the 2010 budget to the pension plan, and that ERS received the money in 2011.

In response to a question from Ms. Bedford, Mr. Yerkes stated that the amount the County contributed is approximately $32 million.

In response to a question from Mr. Grady, Mr. Yerkes agreed that the increasing number of retirements and therefore the increased monthly payout will at some point affect cash flow. Mr. Yerkes stated, however, that he did not want to increase monthly cash flow too much at present, though he did increase the lump sum payments.

Mr. Grady then stated that cash flow needs in 2012 will be higher than in 2011, and indicated that Marquette will have to factor this in when managing the ERS Fund.

Mr. Yerkes concluded by providing a report on the RFI for banking services conducted by ERS staff. Banking services involves two checking accounts, a main checking account for ERS and then a small one for OBRA, with most activity involving electronic funds transfer. An RFI was sent out with three exhibits. Exhibit A was a questionnaire requesting information on the institution, such as its capabilities and fees. Exhibit B contained an estimate of annual ERS activity. Exhibit C included a timeline of the RFI process. The RFI was sent to Wells Fargo, M&I Bank, North Milwaukee State Bank, US Bank, and Park Bank. Park Bank declined to participate, and North Milwaukee State Bank did not respond. However, Wells Fargo, M&I, and US Bank completed the questionnaire and marketing information on time. All three banks can handle ERS's needs, so the decision will be based on the fees charged to ERS.

In response to a question from the Chairman, Mr. Yerkes stated that the fees these banks would charge ERS are in addition to any income earned on compensating balances and float.

Mr. Yerkes then noted that Wells Fargo reduced the current fee schedule by 21%. M&I had the highest fee schedule and US Bank had the lowest. The estimated annual fee for Wells Fargo is $6,000, with M&I coming in at approximately $7,000 and US Bank at a little over $2,000.

Mr. Yerkes then recommended that ERS stay with Wells Fargo, stating that Vitech would charge $15,000 to change the programming because the name of the actual bank that ERS uses is hardcoded in the software that prints out the checks. Mr. Yerkes noted that the co-development team be responsible for changing the programming in the future. Next year, then, another RFI for banking services can be conducted.

In response to a question from the Chairman, Mr. Yerkes indicated that he will confirm the new fee schedule from Wells Fargo will be effective beginning May 1. The Chairman recommended informing Wells Fargo that it did not have the lowest fee schedule, and that ERS expects services to improve as a result of continuing ERS's relationship with Wells Fargo.

6. Investments

(a) Applied Quantitative Research (AQR)

Jeremy Getson provided an overview of AQR, stating that it was founded in 1998. AQR maintains a consistent, strong, and stable team of 210 employees, primarily in an investment, trading, or research capacity.

Mr. Getson stated that at the end of the first quarter of 2011, AQR was managing just over $36 billion in assets, with approximately $20 billion in long-only, traditional stock-oriented strategies over a global coverage area, and about $15 billion in more alternative strategies. Mr. Getson then noted that while US Small Cap is $2 billion in assets across AQR's various small-cap strategies, it is part of a greater whole of about $21 billion in long-only, equity-oriented strategies. Though there are natural capacity limits when in the small-cap space, US Small Cap is supported by a much larger asset base of strategies.

In response to a question from the Chairman, Mr. Getson stated that the target capacity for US Small Cap is not much more than what it is today at $2 billion. AQR holds very diversified portfolios with growth in other areas.

Mr. Getson then discussed AQR's investment strategy, which includes a systematic and quantitative approach to picking stocks. AQR tries to build an expert system by looking at the kind of indicators and measures that experts use and applying them much more broadly in a very consistent and systematic fashion. These indicators and measures help evaluate and rank securities to obtain small, predictive power. Central to AQR's investment strategy is a "Cheap with a Catalyst" methodology: companies that are cheap, with good quality conservative accounting, and that show a catalyst for improvement. AQR combines value and momentum to increase predictive power by applying many measures of these concepts in a very robust fashion.

Mr. Getson stated that the process AQR uses involves researching and identifying the predictive signals, such as price-to-book and price-to-earnings, to create a blueprint. The challenge is in the implementation, or the construction of the blueprint. AQR spends half its time improving the signals or indicators it looks at and the other half improving the implementation, or how those signals are built into ERS's portfolio and how AQR trades using an electronic, direct market access. The result is that in a portfolio like ERS's, AQR is now trading 50 shares for a penny, so commission rates are low.

Mr. Getson then stated that AQR tries to achieve the catalyst by overweighting securities that are cheap and improving and underweighting securities that are expensive and deteriorating. The market environment over the last four or five years has been unique and challenging. Despite this, AQR's investment strategy has yielded positive results.

Mr. Getson indicated that AQR picks stocks relative to their industry peers. Securities are ranked based on value, the quality of earnings, the quality and strength of the companies with regard to sustainable growth, and a number of other measures. AQR then integrates that information into an overall view of the securities relative to their peers. AQR has developed a robust and cutting-edge technology that takes it beyond the traditional approaches into a newer mathematical field of robust optimization, which has helped AQR over the last four years to hold its ground in what has been a challenging market environment.

Mr. Getson concluded by stating that AQR began managing the ERS portfolio in the fourth quarter of 2006. After the financial crisis, which was a very difficult and volatile period, and since the market stabilized to a more normal environment, AQR showed strong results, which is what AQR expects to see more consistently going forward.

In response to a question from Mr. Wrubel of Marquette, Mr. Getson stated that 2% to 3% above the benchmark is a realistic long-term performance goal.

In response to a question from the Chairman, Mr. Getson indicated that CNH is a team within AQR that is responsible for arbitrage strategies. It does not work with the small-cap value portfolios.

In response to a question from Mr. Mawicke as to what is being built into the strategy in terms of the US dollar as the future reserve currency, Mr. Getson stated that in small-cap, less globalized companies are less exposed to US currency risk. However, AQR is considering and researching the issue and risk involved.

(b) Fiduciary Management Associates (FMA)

Bob Hudon introduced himself as the Chief Marketing Officer and then provided an overview of FMA, a Chicago-based investment firm that remains independent and 100% employee-owned. FMA has 21 employees, 11 of whom are involved in the investment management process or trading. FMA is a $1.9 billion firm that has surpassed $1 billion in the small-cap value strategy.

Mr. Hudon then introduced Kathy Vorisek, the senior managing director and Chief Investment Officer. Ms. Vorisek discussed FMA's philosophy as a relative value manager. FMA is a small-cap manager, focused on companies with $200 million in market capital to about $3 billion. The company is dually-focused on valuation metrics, as well as identifying impending catalysts that will drive earnings and cash flow growth higher for the 75 to 80 securities in the ERS portfolio. FMA focuses on consistency of returns but also on risk management.

Ms. Vorisek stated that FMA has a lot of experience in the small-cap market and in analyzing sectors to identify trends that can be applied to the portfolio. FMA looks closely at the negative potential impacts of increased costs to consumers and how that impacts consumer spending, making multiple decisions within the portfolio as they integrate macro issues, or headline news, into the portfolio strategy. FMA looks for attractive valuations, for earnings growth prospects, earnings inflection, healthy balance sheets, and access to free cash flow. As a result, FMA typically has a focused pool of 400 to 500 companies from which to choose for the ERS portfolio.

Ms. Vorisek continued that FMA selects high-quality companies wherein management has a demonstrated capability of returning high returns to shareholders. These companies must be focused on high returns on invested capital and have a lot of financial flexibility. A key focus of FMA strategy is access to capital and access to credit, which were critical to how well a company weathered the recession.

In response to a question from the Chairman, Ms. Vorisek stated that FMA typically has 60% to 70% turnover in terms of the holdings within an 18-month holding period. Transaction turnover is higher because FMA trims and adds to core positions as opportunities present themselves, so the actual annual turnover is closer to 100%.

In response to a question from Ms. Bedford, Ms. Vorisek stated the benefit of using a fundamental strategy versus a quantitative strategy involves investment process and philosophy. The fundamental strategy is more flexible and adaptable to change. FMA continually incorporates new information into its portfolio strategy, allowing FMA to be much more responsive to a changing environment or marketplace.

Ms. Bedford and the Chairman commented that AQR and FMA have very different strategies, but both companies track the benchmark fairly closely. Ms. Vorisek agreed, stating that FMA's focus as a fundamental manager is on differentiation via stock selection, which is why it runs a more concentrated portfolio. FMA performs a lot of due diligence before adding a company to the portfolio and when performance is analyzed over a market cycle, 80% to 100% of it is driven by stock selection.

In response to a question from the Chairman, Ms. Vorisek stated that FMA does deviate from the benchmark, overweighting and underweighting as opportunities arise, depending on how confident FMA is in the global economic environment.

In response to a question from Mr. Wrubel regarding the financial sector, Ms. Vorisek stated that it is one of the areas that FMA has underrepresented because confidence in that sector is low. FMA has instead been very focused in the regional bank sector because one of its financial services analysts is an excellent stock picker in that area. If not for this ability to add value through stock selection and pick banks that have more productive outcomes, FMA would most likely be underweight in the commercial bank sector. Additionally, FMA has representation in other sectors where there are more promising opportunities.

Ms. Vorisek then stated that, as a small-cap manager, FMA often works with its large-cap and fixed income teams to take advantage of trends in those markets, which has been of benefit to FMA portfolios.

At the Chairman's request, Ms. Vorisek then discussed FMA's process for picking stocks using Cloud Peak Energy and Valley Technology as examples. Ms. Vorisek stated that Cloud Peak Energy is part of FMA's broader energy exposure, which FMA is in the process of exiting. In different points of an economic cycle, there is a specific energy cycle, and FMA wants to invest along that energy cycle. Typically in the beginning of a cycle, when earnings and cash flow increase, FMA invests in a company. As the commodity complex increases, those commodities move generally in the same direction. However, in the current cycle, crude prices continually increase and natural gas prices hover in the $45 range. At the same time, coal inventories were relatively low when FMA invested. FMA was attracted to it as a substitute in the portfolio because it did not see the opportunity for gas prices to increase meaningfully, because the demand and supply characteristics in the coal markets were much tighter, and because better opportunities in the coal prices versus gas prices would be realized. Cloud Peak Energy is a very efficient low cost producer, so FMA bought it as an opportunity to participate in what it hoped to be rising coal prices while production increased at the company. However, FMA believes Cloud Peak Energy will not have the earnings originally anticipated because the company is not getting as much upside in coal prices and costs of production are increasing, so company margins are flattening. FMA wants to exit the position because of the probability of missing the earnings target as a result of rising diesel costs.

Ms. Vorisek then discussed Valley Technology, which is a provider of gaming machines to the gaming and lodging industry. Valley introduced a new technology that involves linking multiple games in a casino to those elsewhere in the country. The jackpots are larger and gamblers are more attracted to it. FMA is interested in it because these technologies are usually a positive return on investment for casino companies since they are able to earn more money and because they are new and more exciting to people. FMA wants to invest in this cycle throughout the industry as companies continue to invest in upgrading their casinos with the technology. Ms. Vorisek then stated that this quarter will show the acceptance level for the technology. Initially, it was lower than expected, at which point FMA took the weighting down to a 1% position. Valley has since announced a Dutch tender offer, which is going to be as much as 20% of the outstanding shares, which FMA believes will help earnings in the shorter term until the opportunity and the acceptance of these new gaming opportunities are realized. FMA is closely evaluating the situation.

Mrs. Vorisek then discussed FMA's performance. In the fourth quarter of 2010 and the first quarter of 2011, FMA lagged the index by about 65 basis points. While leadership in the first quarter was very narrow, the energy and health care sectors had double-digit returns for the small-cap market. FMA had good positioning in the cyclical sectors, and the stock-specific issues that resulted in negative performance were eliminated by the selling of those stocks. On a longer term basis, FMA has been able to outperform the indices since October of 2009.

Ms. Vorisek then discussed how FMA's portfolio would perform in certain market environments. FMA has very distinct characteristics in its style and strategy, which have proven to work over its history. Though FMA was not managing money for ERS during the dramatic market downdraft from September 2008 to March 2009, it had a meaningful amount of outperformance in that period and a protection of capital that was important for pension plans that are managing assets for the long term. Also during this period was a very short market advance of a few quarters, and a dramatic 45% return in the small-cap market. This is the type of environment where FMA strategically would tend to lag because it is focused on a higher-quality portfolio. FMA's goal is 200 to 250 basis points of outperformance over benchmark over a market cycle through stock selection, which they have demonstrated in the past.

Ms. Vorisek concluded by stating that fundamentals are starting to make a difference in the marketplace and that can be seen in FMA's outperformance from September 2009 through March 2011. Going forward, the differentiation among the performance of ERS managers is going to be driven to a greater extent by stock selection and manager ability to handle the macro and sector cross-currents that occur. While the market has been slightly unstable in 2011, FMA believes that ERS will realize double-digit returns in the small-cap markets. FMA anticipates a 10% return this year for the portfolio.

(c) Marquette Associates Report

Ray Caprio and Brian Wrubel of Marquette Associates, Inc. distributed the monthly report.

Mr. Wrubel stated the presentations from AQR and FMA were interesting because, despite the fact that one is a fundamental manager and one is quantitative, both add value. Companies that have dividends or true earnings associated with them, like higher quality and lower debt, typically do well in different types of cycles.

Mr. Wrubel first discussed the portfolio as of March 31, 2011. The overall portfolio is almost $1.9 billion, so positive asset growth has been realized over the last few years as the market continues to improve.

Mr. Wrubel stated that from an asset allocation perspective, over the last few months Marquette has been reducing ERS's allocation to fixed income because fixed income has not been performing as well. These allocations were moved to benefit payments and also to real estate, one of the last asset classes to rebound. The timing for this particular rebalancing was excellent.

Mr. Wrubel then stated that the ERS portfolio has approximately 30% in higher quality bonds, with U.S. equity at about 23%. There is a good balance between large-cap value, mid-cap growth, and small-cap value.

Mr. Wrubel stated that the international side has been more volatile. Growth in the last few years has outperformed value. As a result of a significant change in leadership, however, in the first quarter of 2011, value has outperformed and growth has lagged. The trend is that emerging markets small-cap stocks have performed well in the short term. There was good volatility on the upside, but in January the volatility started to occur on the downside. This was partly due to macro economic concerns; for example, what was happening in Europe, and in the Middle East, in particular. The Fund has limited exposure to frontier markets like Egypt.

Mr. Wrubel then stated that hedged equity is lagging in the portfolio as the stock market has surged in this area. However, in months like April where the market has sold off a little, that amounts to a good insurance policy in the portfolio. Additionally, in real estate, Marquette is starting to fund managers like American Realty and Morgan Stanley in order to participate.

Mr. Wrubel then stated that the Fund has a good allocation in private equity, especially with the allocation to Adams Street in 2009. Adams Street has been approximately 20% to 25% slower to draw on capital than it has been historically, most likely for market reasons. Adams Street is very balanced in its portfolio so it does not allocate heavily to one area, and the venture capital areas have been slow. However, Adams Street has done very well on what it has drawn.

Mr. Wrubel continued that for the first three months of 2011, the overall Fund was up 2.8%, which is a good start to the fiscal year. The trailing 12-month return is approximately 12%. Bonds were basically flat, up about .5%, so there was a lot of short term volatility in interest rates. However, sectors like real estate and infrastructure helped to offset the volatility.

Mr. Wrubel then stated that domestic equities is up about 6.7%, which is a big driver of Fund performance in addition to international stocks. The international equity composite benchmark is up 3½%. The Fund composite is up 2.2%, so taking into account all managers, this was a disappointing sector in the international markets. The hedge funds performed well relative to the benchmark, up about 1½%. They outperformed bonds and lagged the stock market, which is how Marquette expected them to perform. Real estate is up about 3.5%, which is a strong performance and a nice offset to bonds. Infrastructure is up 2.7%, which is a favorable income component.

Mr. Wrubel then discussed the Fund managers, stating that many have performed well in the first quarter. Most of the return over the past 12 months has actually come from the U.S. dollar weakening, which is a current trend and a double-edged sword. From a U.S. economy standpoint, a weakening U.S. dollar is not desirable. However, from an investor standpoint, a weakening dollar is an added value.

Mr. Wrubel stated that Morgan Stanley reported a 4% return year-to-date, which is a strong performance. Marquette is moving some of these assets into the real estate portfolio valuations that are 30% to 40% below what they were two years ago. Marquette is buying in at the bottom and hopefully catching some of the upside. Core real estate is another focus because it contains asset classes such as office buildings and industrial parks for which there are competitive bids. Also, IFM continues to perform well, in part because of the currency movement, but the portfolio is solid overall.

In response to a request from Mr. Grady to address the international large-cap fund managers, Mr. Wrubel stated that the issue relating to beating the benchmark is both a manager issue and an allocation issue. Barings and GMO do not have a lot of emerging type exposure and they both also have a higher quality bias to the portfolio. They have not picked great stocks for ERS. When funds outperform by just a sliver and then underperform by a fairly decent margin, suddenly the fund trails and returns do not look as favorable. Additionally, in international small-cap, GMO has not performed very well in this cycle. GMO is more defensive in nature and that is why their international exposures have lagged markets in general. A consideration will be made at an Investment Committee meeting as to whether an RFP for this sector is necessary. Additionally, the international portfolio has more exposure to small-to-mid sectors versus the broad market, which has been positive. The small-cap and emerging markets have done well, but manager performance has not helped in those areas. Marquette spends a lot of time on asset allocation and wants the managers to cooperate as part of that. As a result, Marquette might index partly in that space to maintain exposure and for better tracking, and then look for managers that can perform well in that portfolio.

In response to a question from the Chairman about GMO's promise to show a turnaround in 2011 and early 2012, Mr. Wrubel stated that the market has been very unstable in terms of risk. While picking stocks is difficult, that is a manager's responsibility, and to do so in all markets. An ideal manager is one who is more dynamic. Additionally, there is a healthy exposure to indexing in the U.S. portfolio. Future discussions should involve having that same allocation in the international portfolio.

In response to a question from Mr. Grady, Mr. Wrubel indicated no rebalancing is necessary at this time.

7. <u>Audit Committee Report</u>

There was no Audit Committee Report because the April 7, 2011 meeting was cancelled.

8. <u>Investment Committee Report</u>

There was no Investment Committee Report because the April 4, 2011 meeting was cancelled.

9. Proposed Ordinance Amendments

Mr. Grady provided the background on the Ordinance amendment proposal, which is similar to an Ordinance amendment of approximately two years ago for promoting deputy sheriffs to higher-level, non-represented deputy sheriff positions. The proposed amendment includes corrections officers being promoted to newly-created lieutenant corrections officers positions. The sheriff is eliminating sergeants in the deputy sheriff ranks and moving to a corrections officer lieutenant position to supervise the corrections officers in the correctional facilities. In both situations, these individuals could have been eligible for additional pension benefits by promotion because of the change from a represented to a non-represented position. The deputy sheriffs would move to a non-represented position and become eligible for benefits such as the backDROP and the pension multiplier. The corrections officers could become eligible for the Rule of 75 when they did not already have it prior to promotion.

Mr. Grady continued that AFSCME gave up the Rule of 75 as of January 1, 1994 for new members after that date. Non-represented employees, however, did not give up the Rule of 75 until January 1, 2006. Therefore, if a corrections officer was hired between 1994 and 2006 and became a non-represented employee, at retirement that employee would be eligible for the Rule of 75 when the employee would not have otherwise been eligible in the employee's prior position.

Mr. Grady stated that the County Board Finance Committee, for both occasions, asked him to draft an Ordinance amendment to eliminate that possibility. Employees do not lose any benefits through the promotion, but neither do they gain any. The Ordinance states that, beginning May 1, 2011, any corrections officers promoted to non-represented positions do not become eligible for the Rule of 75 if they were not already eligible for it. This is essentially a cost savings because it does not reduce pension benefits, but it also does not allow increases in pension benefits.

Mr. Grady then discussed an actuarial report on the savings from Buck Consultants, which cites a rough number of $12,000 per appointment on average. Buck Consultants cautions that this number can vary based on individual circumstances because who these employees will be and who their replacements will be is unknown. Currently, the number of affected employees is 18, but this number will increase over time through promotions, retirements, and resignations. Buck Consultants indicated the savings range could be as low as no savings at all if the employee does not opt for the Rule of 75, to as much as $100,000 in savings for an employee who would otherwise have been eligible to retire quickly and now has to work much longer.

Mr. Grady then stated that the County Board Finance Committee and Personnel Committee approved the proposed Ordinance. The Pension Study Commission approved and recommended it, and the County Board will meet to vote on it. The Pension Board is required by pension Ordinance to review it and be provided an opportunity to comment.

Mr. Grady then suggested that the Pension Board respond in the same manner as with previous proposed Ordinances. That is to say, that the Pension Board is not taking a position on the wisdom of the Ordinance, but is stating that costs exist for implementation of the Ordinance. Mr. Grady then stated that his understanding from Mr. Schroeder is that there may be a one-time approximate cost of $20,000 to implement the Ordinance.

In response to a question from Mr. Garland, Mr. Schroeder stated that the current programming for the Rule of 75 and the matrix applies to everyone. The $20,000 fee is a one-time fee.

The Pension Board unanimously approved the adoption of the following resolution:

> **The Pension Board offers no formal comment regarding the proposed Ordinance amendments to sections 201.24(4.1) of the Milwaukee County Code of General Ordinances regarding exemption from the Rule of 75 for members who transfer from a represented correction officer position to a non-represented position after May 1, 2011, and waives the balance of its 30 day comment period provided for under section 201.24(8.17) of the Milwaukee County Code of General Ordinances. The Employees' Retirement System ("ERS") Manager estimates that computer system updates to implement the proposed Ordinance amendments could have a one-time programming cost to the System of $20,000. The Pension Board believes that it is in the best interest of ERS for the County Board to adopt Ordinance amendments which enhance and preserve the assets of ERS and clarify the intended operation of the Ordinances.**

Motion by Mr. Cohen, seconded by Ms. Bedford.

Mr. Grady then cautioned that the County Board may be adopting more Ordinance amendments in the coming months, contingent on State legislation. Assuming it goes through, the County Board will most likely amend the Ordinances to apply the 1.6% multiplier to AFSCME employees right away, and then to all the other union employees possibly next year when contracts end, and then also the age 64 normal retirement age for new members.

10. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee, and Investment Committee agendas.

The Chairman stated that BNY Mellon will present at the June Board meeting. He asked that anyone with future topic suggestions should voice them. Those topics will be discussed at the next agenda planning meeting.

The Chairman noted that all conferences and educational sessions have been approved and there are none to add at this Board meeting.

The Chairman then stated that the Investment Committee will continue to review the international portfolio. GMO is on the watch list and Marquette will most likely recommend that ERS index at least part of that or replace them with an international index fund, in which case an RFP will be necessary.

11. Disability Matters

(a) Applications

(i) Victor Salbashian, ADR

The Pension Board discussed Victor Salbashian's accidental disability pension. The Medical Board recommended that the Pension Board grant Mr. Salbashian's accidental disability pension application if an appropriate vacant position within ERS could not be found. The Board noted that no position could be found.

The Pension Board unanimously approved accepting the Medical Board's recommendation to grant an accidental disability pension application. Motion by Mr. Cohen, seconded by Mr. Sikorski.

(ii) Lynne Drummer, ADR

The Pension Board discussed Lynne Drummer's accidental disability pension. The Medical Board recommended that the Pension Board grant Ms. Drummer's accidental disability pension application. The Board noted that no position could be found within her training, experience, and limitations.

The Pension Board unanimously approved accepting the Medical Board's recommendation to grant an accidental disability pension application. Motion by Mr. Cohen, seconded by Mr. Sikorski.

12. RFP for Application Development

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(e), with regard to item 12 for considering the investing of public funds or conducting other specified public business whenever competitive or bargaining reasons require closed session, and that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), and with regard to items 13 and 14 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board voted by roll call vote 6-0 to enter into closed session to discuss agenda items 12, 13, and 14. Motion by Mr. Cohen, seconded by Ms. Bedford.

In open session, the Pension Board unanimously approved awarding the application development contract to the Joxel Group subject to execution of a satisfactory contract. Motion by Mr. Cohen, seconded by Ms. Bedford.

13. Pending Litigation

(a) *Mark Ryan, et al. v. Pension Board*

The Pension Board took no action on this item.

(b) *Travelers Casualty v. ERS & Mercer*

The Pension Board took no action on this item.

(c) *ERS v. Lynne Marks*

The Pension Board took no action on this item.

(d) *Christine Mielcarek v. ERS*

The Pension Board took no action on this item.

(e) *Lucky Crowley v. ERS*

The Pension Board took no action on this item.

14. Report on Compliance Review

The Pension Board took no action on this item.

15. Adjournment

The meeting adjourned at 11:00 a.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board