EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE FEBRUARY 20, 2013 PENSION BOARD MEETING

1. Call to Order

Chairman Mickey Maier called the meeting to order at 8:30 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present	Members Excused
Laurie Braun	D.A. Leonard
Dr. Brian Daugherty	Dr. Sarah Peck
Norb Gedemer	Vera Westphal
Mickey Maier (Chairman)	
Dean Muller	
Dave Sikorski (Vice Chair)	
Patricia Van Kampen	

Others Present
Marian Ninneman, CEBS, CRC, ERS Manager
Mark Grady, Deputy Corporation Counsel
Daniel Gopalan, Fiscal Officer
Vivian Aikin, ERS
Kathryn A. Vorisek, FMA Fiduciary Management Associates, LLC
Ray Caprio, Marquette Associates, Inc.
Greg Leonberger, Marquette Associates, Inc.
Steve Schultze, Reporter, *Milwaukee Journal Sentinel*
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Chairman's Report

The Chairman expressed the Board's gratitude to Mr. Sikorski for his dedicated service to the Board. The Chairman praised Mr. Sikorski for his contributions as Vice Chairman of the Board and noted that he will be missed. On behalf of the Board, the Chairman wished Mr. Sikorski well in his future endeavors.

Mr. Grady advised that a new Vice Chairman would be elected at the next Board meeting according to the provisions in Rule 1041.

4. Minutes—January Pension Board Meeting

The Pension Board reviewed the minutes of the January 16, 2013 Pension Board meeting. The County Comptroller reviewed the draft minutes and disagreed with the reason stated by the speaker during the meeting for the invoice payment, as set forth in the draft minutes at section 7(e). Mr. Grady and Mr. Huff, with agreement from Mr. Hanchek and Mr. Gopalan, proposed the following revision to the minutes: "ERS was asked to make a payment because of a delay in obtaining County payment of this invoice related to contract formation and processing issues. Mr. Hanchek and Mr. Gopalan recognize that this invoice was the County's responsibility and not ERS's. The County has agreed to make an appropriate reimbursement to ERS from the County for this payment."

In response to a question from Ms. Braun, the Chairman stated that the authorization for the payment was an internal request from within members of County staff. The minutes reflect that in the future such matters should first come to the Board for approval, but the Chairman stated that he does not anticipate this happening again.

The Pension Board unanimously approved the minutes of the January 16, 2013 Pension Board meeting. Motion by Dr. Daugherty, seconded by Ms. Van Kampen.

5. Investments

(a) Fiduciary Management

Kathryn A. Vorisek of Fiduciary Management Associates distributed a booklet containing information regarding the small cap value investment management services provided by FMA for ERS.

Ms. Vorisek first provided a brief overview of the firm. FMA is an independent, 100% employee-owned firm based in Chicago with 17 personnel. The firm currently manages about $1.4 billion in total assets and is strictly dedicated to the small cap and SMID cap market. Public funds represent about 60% of their total assets in addition to sub-advisory and corporate Taft-Hartley clients.

Ms. Vorisek then discussed the firm's client relationships. The average client tenure is over six years and FMA has a deep history in working with public fund clients, particularly in the Midwest. FMA also works on a sub-advisory basis with both Russell Investments and SEI Investments. SEI Investments was one of their most meaningful new client additions last year, with a portfolio of about $70 million across both the small cap and SMID cap assets.

Ms. Vorisek then discussed asset growth under the small and SMID cap value strategies. The SMID strategy was introduced in 2010 and they have been able to grow those assets to just short of $150 million as of the 2012 year end. In addition, small cap assets have ranged from about $1.2 to $1.3 billion over the last several years.

In response to a question from the Chairman, Ms. Vorisek stated that FMA does study liquidity within the small cap market to determine targets for closing or capacity concerns for potential assets under management at which they feel they could effectively manage. This study is performed on an annual basis and these liquidity tests have in the past suggested that FMA manage up to $2 billion in total assets. However, during the second half of 2011 and into 2012, the liquidity in the market was reduced fairly significantly, due in large part to the public withdrawing funds from the small cap market. Because of this impact, FMA has reduced that target number closer to $1.5 or $1.6 billion. Ms. Vorisek stated that market conditions are monitored on a regular basis and will effectively dictate the answer to that question. Ms. Vorisek further stated that FMA is currently comfortable with the asset size in place and will not aggressively pursue additional growth in the small cap value strategy. Ms. Vorisek stated, however, that there is plenty of capacity in the SMID strategy and they are pursuing additional client assets there.

Ms. Vorisek then discussed FMA's relative value manager philosophy. FMA's philosophy involves a dual focus on selection of investment opportunities which possess attractive valuations and identifiable catalysts that are expected to generate accelerating earnings and cash flow growth. As a manager, FMA focuses on both generating attractive risk-adjusted returns and consistency of returns, as well as consistently aiming to outperform the benchmark over a market cycle. FMA also participates in rising markets and protects capital in down markets, which is one of their key tenets.

Ms. Vorisek then provided an organizational overview of the FMA team for ERS. The bulk of the current team has worked together since the 2003-2004 period, with recent additions of Mike Vitek in 2011 and Lloyd Spicer in 2012. Both Mike and Lloyd have made positive contributions relative to the sectors in the ERS coverage and have been very good additions to the team.

Ms. Vorisek then expanded her earlier discussion relative to generating attractive risk-adjusted returns. Referencing a snapshot over the last eight-year period of time, Ms. Vorisek stated that FMA strives to achieve and maintain a position under small cap value of more return with less risk. From this strategy, they will take lower risk as measured by standard deviation or other risk measures than the marketplace and the peer group. In doing so, they have been successful over the longer term in achieving outsized returns, which is their goal. Also within this same eight-year period, they have outperformed the Russell 2000 Value Index six of the last eight years and five of the last six years. FMA's goal is 150 to 250 basis point of excess return on a gross basis relative to the Russell 2000 Value Index which they have been able reach and maintain, even with some challenges resulting in underperformance in 2012.

Ms. Vorisek then discussed 2012 performance. There were some public factors involved in contributing to the underperformance on a relative basis. Half of the underperformance in 2012 was created in the first six weeks or so of the year. However, with the subsequent improvement in performance led by fundamental strength in the portfolio in the last six weeks, they have been able to erase most of those losses on a one-year basis.

In response to a question from Ms. Van Kampen, Ms. Vorisek stated that leadership in the last six weeks is not dissimilar to the period of one year ago and it is being led by the same lower quality factors. However, so far this quarter, they have had incredibly strong earnings experience relative to the portfolio holdings. The portfolio has benefited from positioning in stocks that have had better than expected earnings results and forecasts for 2013.

With the exception of the first quarter of last year, a pattern developed where FMA was outperforming by 50 to 175 basis points in the first two months of the quarter, only to lose that relative performance in the last month of the quarter. In the second, third and fourth quarters, they had lower quality characteristics for ETF flows or macro issues that drove the market in the last month of each of those quarters, virtually erasing any fundamental gains that were made. Ms. Vorisek noted that she has never in her 17 years of experience seen such a period like last year, with such a high level of volatility of returns. There were five distinct periods of 10% loss in the market and this low quality leadership impacted many active managers negatively last year.

In response to a question from the Chairman regarding low quality leadership, Ms. Vorisek explained that when money flows into the ETF, investors are basically buying the securities that make up the index and a disproportionate amount of flows impacts the bottom end of the market capitalization of the index. The results are outsized increases in the value of the stocks with the lowest level of market cap, because they have the lowest level of liquidity. The value of the lower market cap companies becomes temporarily inflated because of low liquidity. Therefore, as the ETFs push the stocks higher, they are moving up more than the index. At this same time they were seeing a diverse reaction, whereas institutional managers were getting redemptions, they were selling their higher capitalization and more liquid securities. Consequently, a somewhat perverse relationship developed where lower quality stocks were moving up because of flows and higher quality stocks were being sold because of negative outlooks on an institutional basis. Ms. Vorisek referenced a study performed by Merrill Lynch that would suggest when you have high relative flows into small cap ETFs, manager performance is negative. All these factors of low quality, low market cap and lower profitable companies all go together. This lower end of the spectrum is typically where you find smaller companies with less effective management teams that do not generate a great deal of precash flow. This is an interesting phenomena that they did not see dominate the relative performance in 2010 and 2011, even with the very macro-driven markets.

Ms. Vorisek stated that she has not, to such a degree, seen other periods of time similar to this with such significant market moves in such a short period of time, however, she does not believe this phenomenon will continue over the longer term. The fact that the Fed and the ECB are in the market has allowed a lot of companies that potentially would not otherwise be in the small cap market, because they would not have access to such cheap money and capital. Because of this environment, trades have been very crowded and macro-oriented over the last few years. With the macro issues of Europe and the financial crisis receding at the margin, this year will mark the transition where fundamental stock selection becomes much more important which will decrease disparity in returns. Macros are not going to be what drives the market in shorter periods of time to the degree that they have recently.

In a response to a question from the Chairman, Ms. Vorisek stated that within the next three to five years, interest rates should be moving higher. There probably will not be much movement in 2013, but it will certainly come with healing in the economy and by 2014, a ten-year rate at 2-1/2% is possible with the idea that it would be moving even higher.

Ms. Vorisek then discussed high quality versus low quality leadership in the market. Companies with higher quality characteristics and greater profitability are expected to do the best in the marketplace. However, since the end of 2008, the lower quality companies have been typically outperforming and providing leadership. This recent trend is another anomaly which will hopefully turn around this year. Despite this, over the prior 60-month period, FMA has generated an 8% annualized return while all the indices were negative. This is significant relative to pension assets in terms of preservation of capital and total returns over the long run. This high quality versus low quality market leadership anomaly created about 60% of the underperformance in 2012.

Notwithstanding the aforementioned leadership issues, Ms. Vorisek acknowledged that FMA also had some challenges as a firm. FMA had two wrong sector calls in 2012 which negatively impacted performance, as well as a higher than average number of stocks that did not perform as expected. FMA tries to mitigate the number and magnitude of mistakes while attempting to limit any securities lost in the portfolio to about 50 basis points. In 2012, stocks incurred a 35 to 50 basis point loss in the portfolio.

Ms. Vorisek then discussed the current positioning of the portfolio and the strategy for 2013 and beyond. Solid returns are anticipated in 2013 in the equity markets and, in fact, the targets have nearly been hit for the year even though it is only February. What this means is that the targets should potentially be readjusted or, to preserve these gains, the portfolio may have to get a little more conservative. The greatest differentiator in 2013 versus the last 18 months is an expected continued improvement in both the U.S. and global economies. FMA is looking at companies that generate revenue and earnings on a global basis. Because the economic situation in Europe is expected to grow in the second half of this year into 2014, more international exposure across the portfolio is being investigated. Housing is also the focus of an area of significant improvement in 2014. The housing trend was introduced into the portfolio in 2012 through several investments which are geared towards expected improvements in the housing sector. Consumers, the market and the economy in general are in a much better place now than they were a year ago. Despite a continued lag in the employment issue, over time, job creation is expected and the improvement will be noticeable, although lower than average within an economic cycle.

In response to a question from the Chairman, Ms. Vorisek stated that even though 2012 was a difficult year, FMA still has a very good and successful strategy in place relevant to the long-term. With the current team in place and recent new additions, they have not changed their processes. The mistakes made last year were thoroughly analyzed so as not to be repeated. Ms. Vorisek concluded by stating that despite the issues experienced in 2012, 2013 is off to a good start. Most of the outperformance over the past year has been driven by stock selection which is fairly tried and true and FMA is hoping these fundamentals really drive the market.

(b) Marquette Associates Report

Ray Caprio and Greg Leonberger of Marquette Associates distributed and discussed the January 2013 monthly report. Mr. Caprio introduced Mr. Leonberger to the Board as the Director of Research at Marquette, an actuary who is in charge of all capital markets research.

Mr. Caprio first discussed fixed income. Yields on fixed income continued to be extremely low during the month of January with everything either flat or negative, except high yield and bank loans. The fixed income in the Fund was all slightly negative at about 70 basis points. Currently at 25%, the Fund is strategically below the 30% target for fixed income and has been that way for about one year. With the current performance issues in fixed income, Mr. Caprio discussed asset allocation and the possibility of reducing the fixed income target. Several options for asset allocation were presented by Marquette at the February Investment Committee meeting which Mr. Leonberger will later expand on.

Mr. Caprio next discussed the stock market and stated that overall it was a good month, with the U.S. market stronger than the international market. January was a strong month with returns in U.S. stocks ranging from 5.5% to 7%. In general, when looked at over the last 20-year average, PE ratios are still at about 70%. Stocks on a relative value basis are still cheap and currently the yield is more attractive than investing in bonds. It was also a good month with positive returns across the broad spectrum in non-U.S. stocks. The frontier markets were the best performing asset in the class which the Fund has exposure to through the Barings EM products.

Mr. Caprio then discussed commercial real estate and stated that this area is currently looking very attractive with yields at around 6%. The Fund currently has a 7% allocation in commercial real estate dating back to 2010, and this is an area which could potentially be increased.

Mr. Caprio next discussed the high points of the flash report. The Pension Fund is just over $1.7 billion as of the end of January. Relative to policy targets, the Fund is overweight in everything except for fixed income and private equity. The Fund's performance is off to a good start for the year with an absolute return for the month of January at 2.4%. Mr. Caprio noted that over the long range, they have seen fairly strong returns with the policy benchmark exceeded over almost all of the last ten-year periods with the exception of two of those periods. The ten-year total Fund composite number is listed at around 8%. Marquette anticipates seeing good numbers like this with continued favorable performance in the stock market.
Mr. Caprio then broke down the components of returns. Fixed income is at 50 basis points versus a benchmark of 70 basis points; the U.S. stock portfolio was up 5.8% versus 5.5%, while the International equity composite was down a bit at 3.7% versus 4.1%. Hedge funds were a bright spot at 3% with performance picking up. Real estate is valued quarterly so there were no numbers in for January. However, with a three-year number listed at 15.4%, it is a good time to get into commercial real estate. Infrastructure is showing a slightly negative return but that is also valued quarterly, and numbers on private equity were not yet available.

Mr. Caprio then provided a general overview of the investment managers. J.P. Morgan had a very good month and beat the benchmark by 30 basis points. Under U.S. equity, Fiduciary Management turned around and performed nicely in the month of January. Two of the small cap managers struggled with performance for different reasons, and AQR is on notice with a five-year performance number below net of fees. There was a lot of underperformance within the international portfolio, particularity with Barings and Barings EM. Marquette met with Barings on both of their products twice last week with Marquette's international analyst sitting in. From that meeting, Marquette learned that Barings' philosophy is almost identical on both of their products, incorporating a very strong preference for investing in cyclical stocks with some weighting in gold mining stocks which has hurt them. Additionally, there was a slightly heavier weighting under the emerging markets that did not work well last year. Mr. Caprio recommended that the underperformance issues with Barings be discussed further at the next Investment Committee meeting. In summarizing the month, there was some good and some bad news. Asset allocation is the number one driver of performance and there was still a nice return for the end of the month. The hedge funds are doing well, real estate is not yet in and the numbers under infrastructure were only preliminary.

Mr. Caprio next discussed the 2012 quarterly return. The Fund was up 11% net of fees last year and was 60 basis points above the policy benchmark. This ranked in the 66th percentile of the public fund universe, which includes about 160 portfolios with a wide range of asset sizes, some with restrictions. Marquette would like to see the Fund reach a higher percentile here, but that would typically entail making changes and taking big bets in the portfolio. There has been reduced volatility, and risk-adjusted performance is the goal which has been highlighted in the numbers.

Mr. Leonberger next discussed the recent asset allocation analysis performed by Marquette. Mr. Leonberger prefaced his remarks by stating that today's discussion is a high-level overview of Marquette's presentation to the Investment Committee.

Marquette would like to see the Fund achieve an 8% target rate of return which has been difficult with the relatively low rates seen under fixed income. Marquette would like to get the desired target rate return in line with asset allocation. Mr. Leonberger then provided an overview of Marquette's analysis which compared the current portfolio structure with three different proposed portfolio options listed as Portfolios A, B and C. The general theme under each of these options is moving low yield fixed income to higher return asset classes. Under Portfolio A, 2% is added to U.S. equities and 2% to international equities. Portfolios B and C further reduce the exposure to fixed income by 1-1/2% each step, moving it into real estate. With the movement to a higher return asset class, the Fund will pick up some volatility along the way. However, this greater volatility actually decreases the downside risk when missing the target rate of return. Marquette utilizes a risk score card that measures nine types of risk when determining a recommended portfolio structure. Once calculated, these risk scores actually had a very small margin of difference under each of the options presented. Based on these risk assessment scores, Marquette recommends moving over to Portfolio C as the recommended portfolio structure.

Mr. Caprio then noted that these are all small tweaks within each of the three portfolio options presented and none will likely achieve the desired 8% target rate of return over the short to medium term. However, there is a good compliment of bonds and real estate which are fairly conservative in terms of risk, and currently the returns in these areas are much more attractive than fixed income.

In response to a question from Ms. Van Kampen, Mr. Leonberger stated that in order to achieve the desired 8% target rate of return, fixed income would have to be reduced fairly low to about 10%.

In response to a question from the Chairman on projected policy, Mr. Caprio stated that the money used to satisfy capital calls under private equity would come from U.S. equity.

In response to a question from Mr. Grady, Mr. Caprio stated that the range on the current investment policy for fixed income purposes is at plus or minus 5%. For example, with fixed income listed at 22% under Portfolio C, there is a potential range for fixed income of anywhere between 17% and 29%.

In response to questions from the Chairman and other members of the Board, Mr. Caprio confirmed that, in general, the changes in the asset allocation in Portfolios A through C would be fairly minimal. The Chairman then noted to the Board that the asset allocation study was performed mainly due to Marquette's concern over the current portfolio's relatively high allocation under fixed income. Given the prospects of poor interest rates projected over the next three to five years for fixed income, it seems prudent to make a change now.

The Chairman then asked the members of the Board if they were in favor of changing the current asset allocation policy and, if so, which of the optional portfolio structures appears to be most desirable.

After lengthy discussion between the Board members, Mr. Caprio suggested that all three scenarios would reduce risk across the board, but he would be most comfortable changing over to either Portfolio B or C.

In response to a question from Ms. Braun, Mr. Caprio confirmed that as stated in the Investment Committee meeting, a shift to Portfolio A would be a minor shift while a shift to Portfolios B or C would be more of a medium shift. Within Portfolios A through C, there is a 1-1/2% step reduction in exposure to fixed income between each portfolio, with Portfolio C having the lowest exposure to fixed income.

In response to a question from Ms. Van Kampen, the Chairman noted that with the current policy on fixed income at plus or minus 5%, the Fund could theoretically make a change to Portfolio B yet still have an asset allocation similar to Portfolio C. After lengthy discussion between the Board members, the Chairman recommended making a move over to either Portfolio B or C.

The Pension Board unanimously approved authorizing a change in asset allocation to Portfolio C as presented by Marquette Associates. Motion by Dr. Daugherty, seconded by Ms. Braun.

In response to a question from Mr. Grady, Mr. Caprio confirmed that the revision to the investment policy will be laid out next month.

The Chairman next discussed removing K2 from alert status. After being placed on alert for the past six months due to an organization change, there have been no changes in portfolio management with K2.

The Pension Board unanimously approved removing K2 from alert status. Motion by Ms. Van Kampen, seconded by Dr. Daugherty.

(c) BNY Mellon - Securities Lending

Ray Caprio of Marquette Associates discussed ERS's involvement with securities lending through BNY Mellon. BNY will implement changes within its securities lending program and Marquette recently met with representatives from BNY to discuss the proposed changes. Mr. Caprio suggested that it would be beneficial to have a representative from BNY Mellon attend a future Board meeting to present their specific proposals. In response to a question from Mr. Grady, Mr. Caprio indicated there was no immediate deadline for any decisions on BNY's proposals at this time.

Mr. Caprio first provided a brief overview of the history of the securities lending program with BNY. In 2008, due to impairments within their securities lending program associated with Lehman Brothers, Marquette decided to cap the amount of securities linked to stocks and bonds that BNY could lend out. ERS has been invested in securities lending with BNY through a portfolio called the ASL Fund. The ASL Fund is a commingled fund similar to a mutual fund where investments are made within the fund. Four years later, ERS is now in a position where the income generated from the securities lending program is being used to pay down the impairment in the fund that was the ownership of the ERS. This impairment will be completely paid off by 2014.

Mr. Caprio next discussed BNY's current proposed changes. Because BNY is ending the commingled fund ERS is currently invested in, they would like to move ERS into a separately managed securities lending portfolio. In response to this proposal, Marquette proposed a cap be placed on the amount to be loaned out because it is not prudent to continue to lend out securities in a potentially risky market. BNY has a $50 million minimum for separately managed accounts. Alternatively, BNY proposed a second option that would allow ERS to continue to invest in an overnight fund. In the overnight fund, ERS could still participate in securities lending while also being afforded the ability to cap the program. The overnight fund is basically a money market fund with very low risk but also very low yield, at 13 to 15 basis points or around $100,000 in income a year.

In response to a question from the Chairman, Mr. Caprio indicated that the current cost to pay off the impairment period and exit securities lending entirely would be about $190,000. However, without securities lending, BNY would ask for a higher custodial fee. Staying in the program probably assures a lower custodial fee which is currently at $50,000. In response to a question from Mr. Grady, Mr. Caprio advised that the fee could go up as high as $200,000 to $300,000 without participation in securities lending.

In response to a question from Ms. Van Kampen, Mr. Caprio suggested that BNY does a fairly good job as custodian and he doesn't see the need to investigate alternatives at this time.

The Chairman then concluded by stating that BNY should have a representative attend next month's Board meeting to make their specific proposals prior to the Board making any final decisions on the matter.

6. Investment Committee Report

The Chairman reported on the February 4, 2013 Investment Committee meeting.

Marquette first discussed the portfolio's return for 2012. Although the final numbers from all investment managers are not yet in, the Pension Fund's return is expected to be around 11%. There was also a discussion regarding the current performance of the stock and bond markets.

Marquette then provided an analysis of the Pension Fund moving away from active investment management and investing in passive index funds. Marquette provided an analysis that suggested the Fund could save approximately $3.5 million, or 20 basis points, per year by switching most of the active managers to index funds. The analysis did not include changing the management of the Fund's alternative investments.

The Investment Committee then discussed the risks involved in moving to a more passively managed fund and which of the alternative asset classes would yield a greater return if moved into index funds. In order to continually review the appropriateness of passive management, the Investment Committee suggested that at least one index manager be included whenever a search is performed for a new investment manager in any allocation. No further study from Marquette was recommended.

The Investment Committee next discussed asset allocation. Marquette provided three scenarios where the fund would lower the fixed income allocation and allocate the investments in U.S. equities, international equities, infrastructure, and/or real estate investments. The Committee agreed to continue the discussion at the February Pension Board Meeting.

The Investment Committee concluded with a discussion of the possibility of removing K2 from alert status, noting that this will be further addressed and reviewed at the February Pension Board Meeting.

7. Disability Matters

(a) Michael Pauley

In open session, the Chairman stated that Mr. Pauley's application was received by the Medical Board and recommended for approval. The Chairman stated that he reviewed the application and did not have any questions. In response to a question from the Chairman, no other member had a question.

The Pension Board unanimously approved granting the accidental disability pension application based on the Medical Board's determination. Motion by Mr. Sikorski, seconded by Dr. Daugherty.

8. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, January 2013

Ms. Ninneman presented the Retirements Granted Report for January 2013. Twenty-seven retirements from ERS were approved, with a total monthly payment amount of $46,276. Of those 27 ERS retirements, 12 were normal retirements, 1 was normal early, 12 were deferred, and 2 were deferred early. Ten members retired under the Rule of 75. Additionally, 16 retirees chose the maximum option, and 2 retirees chose Option 3. Ten of the retirees were District Council 48 members. Nine retirees elected backDROPs in amounts totaling $2,323,377.

(b) ERS Monthly Activities Report, January 2013

Ms. Ninneman presented the Monthly Activities Report for January 2013. ERS and OBRA combined had 7,962 retirees, with a monthly payout of $14,389,216.

Ms. Ninneman noted that the months of January and February have been fairly quiet for ERS with limited open records requests and no uptick in legal compliance issues. Ms. Ninneman further noted that because it is taking up a fair amount of staff time, ERS will begin tracking the number of terminated employees requesting withdrawal of mandatory contributions and the related dollar amounts.

(c) Pension Board Employee Election

Ms. Ninneman discussed the recently completed employee election, noting that voter participation had increased by 2%. Ms. Ninneman stated that ERS staff visited some of the more remote locations to distribute brochures and information on ERS in an effort to promote further awareness, which was well received. Ms. Ninneman reported that employees loved the access of easy voting via the iPads. In addition, the ERS staff was able to access the Internet onsite if employees had questions regarding their pensions, which turned out to be another valuable tool for promoting ERS and the benefits of the Plan.

Ms. Ninneman then discussed the next upcoming retiree member election for the seat held by D.A. Leonard, whose term ends in October 2013. This election will have to be handled somewhat differently than the recent employee election, making allowances for more mail communication and voting by mail, as ERS does not currently have access to retirees via e-mail.

In response to a question from Mr. Sikorski, Ms. Ninneman indicated she was not made aware of an IMSD technician who was unable to place his vote online during the last day of the election. The employee then placed a call to Votenet and was incorrectly advised that the election was already over.

Ms. Braun added that she heard from many employees that the online voting system simply did not work and the system had difficulties with the confirmation process. In response, Ms. Ninneman advised that they did have technical support through Votenet looking at such issues and were advised that despite not getting a confirmation, such votes were in fact counted.

Ms. Braun further advised that also she heard from employees who simply gave up while unsuccessfully attempting to vote via telephone. Ms. Braun believes this may have caused other employees that witnessed a coworker's frustration with the process to not even attempt to vote, therefore reducing participation in the election. In response, Ms. Ninneman advised that both systems of voting were thoroughly tested ahead of time and she does not understand how such issues could arise.

The Chairman then suggested that the concerns raised today surrounding the voting process be further discussed and investigated at the next Audit Committee meeting in order to further understand the full range of issues involved. Despite these issues, the bottom line is that there has been more voter participation over the last two election cycles than has ever been seen before, which is good.

Mr. Gedemer then stated that based on his experience in running past elections, such issues could be troublesome if certain elections are decided by a very small margin of votes. In such cases, uncounted votes could potentially swing an election one way or another. Mr. Gedemer next stated that it may be a good idea during future elections to track and address such issues in real-time, perhaps through a help desk line, as now that the election has passed, such issues may be difficult to address. In response, Ms. Ninneman advised that arrangements were made with Votenet to provide a help desk number specifically designed to walk employees through any issues that arose with the voting process. Ms. Ninneman stated that this number was staffed by a highly technically skilled County employee who took the time to walk an employee through the process and troubleshoot any issues. Ms. Ninneman appreciated all the concerns raised and stated that she is open to hearing any further ideas on how to improve the entire voting process.

Mr. Sikorski concluded the discussion by stating despite the technical issues with the election, he appreciated that staff was out in the field and able to meet with and assist employees with the process. Mr. Sikorski then thanked everyone involved with the election for their efforts and expressed his appreciation for all the Retirement Office has done.

(d) Fiscal Officer

Mr. Gopalan first discussed the December 2012 portfolio activity reports, noting that the December report is now a finalized version of the preliminary report discussed last month. Most notable for December was that Siguler Guff had a capital call of $6.8 million. In addition, Siguler Guff also requested a $2 million capital call for the end of February.

In response to a question from Mr. Muller regarding a Wells Fargo transaction listed on the report, Mr. Gopalan noted that this is a benefit payment and such expense payments are made from the Wells Fargo checking account.

Mr. Gopalan next discussed the January 2013 portfolio activity reports. January benefits were funded by Mellon Capital and there was also a $6 million distribution from Artisan. Mr. Gopalan noted that $15 million was requested from Barings Large Cap. However, that request did not go through until February, so it will not be reflected in this month's report. Mr. Gopalan also noted that income was also just received from American Reality, UBS Trumbull and Adams Street.

Mr. Gopalan then discussed the cash flow report. For December 2012, the only notable issue was a transfer to the OBRA checking account in the amount of -$104,000. Mr. Gopalan explained that was due to the fact that there were some outstanding checks for OBRA and these were escheated to the State of Wisconsin.

Mr. Gopalan concluded with a discussion of 2013 and stated that he was anticipating around $2 to $2.25 million in capital calls per month from Siguler Guff based on December's average. It does not appear now that Siguler Guff will pull that much out and Mr. Gopalan believes that the funds requested for the second quarter of 2013 can be reduced from $15 million down to $12 million.

In response to a question from the Chairman, Mr. Gopalan advised that he will not require approval of the funds requested until the March meeting. Mr. Gopalan concluded by stating that there is no check register this month because it is only received quarterly.

9. Audit Committee Report

Mr. Sikorski reported on the February 6, 2013 Audit Committee meeting.

The Audit Committee first discussed continuing research on the disability retirement process. However, a report was not available for discussion and the topic is to be rescheduled as a future meeting agenda item.

The Audit Committee next discussed disability factors. Ms. Ninneman stated that with the conversion from the legacy system over to the V3 system, the Retirement Office was looking for clarification regarding the use of disability factors. The disability factors were included in addition to healthy life factors used for benefit calculations in Rule 1014. After further review, the Pension Board decided that Buck should be asked to confirm whether only one set of factors for healthy life should be included in the table.

The Audit Committee next discussed optional ERS membership. This was a continued discussion from a prior meeting regarding the administrative difficulty in managing opt-ins. Ordinance and Rule language was not clear and has caused issues over time. The Committee further reviewed and discussed additional information received along with a draft amended rule that will affect seasonal opt-ins. The amended Rule will go before the Board for consideration.

The Audit Committee next discussed backDROP modification. Ms. Ninneman provided the Audit Committee with an example of the communication that is currently sent out to employees in response to inquiries on the recently adopted backDROP modification ordinance and the effect it will have on eligible members.

The Audit Committee next discussed proposed 2013 Co-development projects. Ms. Ninneman will request Statements of Work from the vendor outlining the project scope as well as fee estimates for 2013.

The Audit Committee concluded with a discussion of staff conference attendance. Ms. Ninneman will provide a summary of upcoming training conferences and costs which will be brought to the Board for review and approval.

10. Administrative Matters

The Chairman noted a request for approval of attendance of any interested Board member at the Council of Institutional Investors conference in Washington D.C. on April 17-19, 2013.

The Pension Board unanimously approved the attendance of any interested Pension Board member to the Council of Institutional Investors. Motion by Mr. Sikorski, seconded by Ms. Van Kampen.

Ms. Ninneman then provided a review of several other requests for Retirement Office staff conference attendance. The Vitech Users Conference is being held in Sarasota, Florida March 13-15, 2013. This conference is held every 18 months to two years. ERS is looking to do a feasibility study on a full version upgrade to the system this year and Ms. Ninneman would like to attend along with Peggy Kubricky and another member of the Retirement Office. Ms. Ninneman stated that the conference would be valuable in establishing a client user group outside of Vitech which will help promote fixes and changes to Vitech through business modeling. The total fee per person would be around $2,000 with airfare and discounts applied.

Dr. Daugherty commented that it is good corporate governance to first bring such matters to the Board for approval, however, it appears the deadline for the early registration discount has already passed.
Ms. Ninneman replied that she has already requested a temporary hold pending the Board's approval. As a follow up, Dr. Daugherty asked if the Board should perhaps set a minimum requirement for Board approval to avoid any possibly future loss of discounts. In response, the Chairman advised that they have done this in the past and will preapprove attendance at certain seminars, in order to take advantage of early registration discounts. Ms. Ninneman noted that attendance at such conferences are already constructed into the budget but she is just looking to achieve full transparency.

Ms. Ninneman next discussed a request for Mr. Gopalan to attend the Advanced Government Finance Institute conference in Madison on July 21-26, 2013. Mr. Gopalan noted that he must first apply and be accepted, so currently there is no guarantee that he will attend. The fee for attendance is approximately $2,000.

Ms. Ninneman concluded her discussion with a request for her attendance at the 2013 Trustees and Administrators Institutes conference to be held in San Francisco, California on June 24-26, 2013. Ms. Ninneman noted that topics of particular interest included effective administrative staffing and development practices as well as surviving Internal Revenue Service audits. The fee for attendance is approximately $2,300.

The Pension Board unanimously approved staff attendance at all three conferences. Motion by Dr. Daugherty, seconded by Ms. Braun.

The Pension Board voted by roll call vote 7-0 to enter into closed session to discuss agenda items 11, 12, 13, and 14. Motion by Mr. Sikorski, seconded by Dr. Daugherty.

Upon returning to open session, the Pension Board unanimously approved amended Rule 202 and 203 to remove seasonal employees from Optional Membership and prohibit future elections into ERS with the exception of one-time final elections, attached to these minutes as Exhibit A. Motion by Ms. Van Kampen, seconded by Dr. Daugherty.

The Pension Board next unanimously approved the re-denial of the Option 7 application regarding Lesley Schwartz-Nason for the purpose of updating the numbers from estimates to actual final amounts. Motion by Mr. Sikorski, seconded by Mr. Gedemer.

13. Pending Litigation

(a) *Stoker v. ERS*

The Pension Board took no action on this item.

(b) *AFSCME v. ERS*

The Pension Board took no action on this item.

(c) *Tietjen v. ERS*

The Pension Board took no action on this item.

(d) *Brillowski & Trades v. ERS*

The Pension Board took no action on this item.

(e) *AFSCME 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 11:05 a.m.

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

EXHIBIT A

AMENDMENT TO THE RULES OF
THE PENSION BOARD OF THE EMPLOYEES'
RETIREMENT SYSTEM OF THE
COUNTY OF MILWAUKEE

RECITALS

1. Section 201.24(8.1) of the General Ordinances of Milwaukee County (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").

2. Ordinance section 201.24(8.6) allows the Pension Board to establish rules for the administration of ERS.

3. Ordinance section 201.24(8.17) authorizes the Pension Board to deny membership in ERS to classes of employees and provide optional membership for other classes of employees.

4. The Pension Board adopted early versions of Rules 202 and 203 in the 1940s. Generally, those rules provide that employees employed in ERS-covered positions are required to be members of ERS. However, some positions are authorized for Optional Membership. These "Optional Members" have the option to elect into ERS. If an Optional Member covered by OBRA does not elect into ERS, the member remains in OBRA.

5. Milwaukee County created the OBRA pension plan effective in 1992. The OBRA plan primarily covers seasonal employees. The Pension Board has not re-evaluated the continuing appropriateness for Optional Membership for seasonal employees since the creation of OBRA.

6. Seasonal employees constitute a large number of the Optional Members. By the nature of their work, seasonal employees are often hired and terminated annually. Historically, seasonal employees have been provided opportunities to elect into ERS each year they are rehired by the County. This practice produces an administrative burden, and some members may have service credit in both ERS and OBRA, which can lead to lower benefits than if the members had been enrolled in only one retirement system.

7. The Pension Board desires to alleviate some of this burden and provide members with consistent benefits. Accordingly, the Pension Board desires to adopt amendments to Rules 202 and 203 to remove seasonal employees from Optional

Membership and prohibit future elections into ERS with the exception of one-time final elections.

RESOLUTIONS

1. Effective February 20, 2013, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby amends Rule 202 to read as follows:

202. Optional membership.

(1) Employes whose salaries are paid in part by the State of Wisconsin.

(2) All interns, students and trainees employed on non-civil service positions.

(3) All resident physicians employed on non-civil service positions.

(4) Seasonal employees.

(a) Seasonal employees initially employed by the County on or after January 1, 2014, or seasonal employees whose service credit was terminated and return to County employment on or after January 1, 2014, are excluded from Optional Membership and shall be denied membership in ERS under Rule 203.

(b) Optional Membership includes seasonal employees who are members of ERS or OBRA on January 1, 2013, or are hired by the County as seasonal employees for the first time, or rehired after terminations of service credit, during the 2013 calendar year.

(c) Any seasonal employee who is a member of ERS or OBRA as of January 1, 2013, or is hired by the County as a seasonal employee during the 2013 calendar year, will be provided a final election opportunity. A member shall make a final election within sixty (60) days after the later of March 15, 2013 or the first day of the member's employment after January 1, 2013. If the individual is not employed by the County as a seasonal employee during 2013, but was a member of ERS or OBRA as of January 1, 2013, the individual shall have a final election opportunity at the time the individual returns to County employment as a seasonal employee, unless the individual's service credit was terminated prior to his or her return to County employment due to absence from County employment for five years pursuant to Ordinance section 203(4.5) or Ordinance section 201.24(2.11). In this final election, a seasonal employee shall have the opportunity to permanently elect into ERS. If elected, the seasonal employee shall remain an ERS member until the member withdraws from the system. If a seasonal employee does not affirmatively elect into ERS during the employee's election period, the employee shall be permanently enrolled in OBRA for the duration of the employee's County employment unless and until the employee commences employment covered by ERS.

(i) No Service Credit Transfer. Regardless of a seasonal employee's final election, all service credit previously earned by a seasonal employee shall remain in the system in which it was earned.

(ii) Minors. Any minor who makes a final election pursuant to this Rule shall have a parent or guardian consent to the final election.

(5) Part-time employes whose part-time monthly salary is at least equal to fifty (50) percent of the full-time monthly rate, with the exception of part-time "regular appointees" hired at least on a half time basis who shall become mandatory members.

(6) Persons who previously have exercised their option not to become members and who pursuant to section 3(3) of the Retirement Act request to become members, and pass any medical examination required thereunder.

(7) Persons holding emergency appointments, except retired members of the county retirement system, upon their return to county employment.

The option to become a member may be exercised at any time but may not be thereafter revoked except by withdrawal from service and the retirement system. The employe who exercises an option set forth above shall be considered a member from the first of the month next following his or her date of application for membership. An employe who purchased prior service credit pursuant to Rule 207 shall be considered a member as specified in Rule 207. A seasonal employee who is eligible for, and provided, a final election right under Rule 202(4)(c) shall no longer have an option to become a member under this paragraph after the seasonal employee's final election period.

2. Effective February 20, 2013, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby amends Rule 203 to read as follows:

203. Denial of membership.

The following classes of employes shall not be eligible for membership in the retirement system:

(1) Members of boards and commissions, except members of the county board of supervisors.

(2) Physicians paid on the payroll on a per call or fee basis unless said persons previously held a position which permitted membership in the retirement system. In the event such a position was held by said persons, they shall be given service credit as follows:

  (a) On a per call basis, each call shall be considered one-half hour and the total number of annual calls divided by two (2) will give the total number of hours on which the service credit will be figured as "X" hours over two thousand eighty (2,080) hours.

  (b) On a clinical hour basis, the number of clinical hours over two thousand eighty (2,080) hours shall determine the annual service credit.

(3) Part-time employes whose part-time monthly salary is less than fifty (50) percent of the full-time rate.

(4) Noncivil service persons on county relief or work program.

(5) Any employe in a teaching position eligible to membership in the state retirement system established by ss. 42.20-42.54, Wis. Stats., unless he became a member of the employes' retirement system of the County of Milwaukee prior to August 1, 1951.

(6) Seasonal employees, unless considered optional members pursuant to Rule 202(4).