EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE JANUARY 16, 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	
Dr. Brian Daugherty	
Norb Gedemer	
D.A. Leonard	
Mickey Maier (Chairman)	
Dean Muller	
Dr. Sarah Peck	
Dave Sikorski (Vice Chair)	
Patricia Van Kampen	
Vera Westphal	

   Others Present

   Marian Ninneman, CEBS, CRC, ERS Manager
   Mark Grady, Deputy Corporation Counsel
   Daniel Gopalan, Fiscal Officer
   Jennifer Lundmark, American Realty
   Scott Brown, Morgan Stanley
   Ray Caprio, Marquette Associates, Inc.
   Brett Christenson, Marquette Associates, Inc.
   Yvonne Mahoney, Retiree
   Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Minutes—December Pension Board Meeting

The Pension Board reviewed the minutes of the December 19, 2012 Pension Board meeting.

The Pension Board voted 9-0-1, with Messrs. Gedemer, Leonard, Muller, Sikorski, and Maier, and Dr. Daugherty approving, and Dr. Peck abstaining, to approve the minutes of the December 19, 2012 Pension Board meeting. Motion by Mr. Sikorski, seconded by Mr. Leonard.

Dr. Peck stated that she abstained from the vote because she did not attend the December Pension Board meeting.

4. Investments

(a) American Realty

Jennifer Lundmark of American Realty distributed a booklet containing information on the investment management services provided by American Realty for ERS.

Ms. Lundmark first provided a brief overview of the firm. American Realty has just over $5 billion in assets under management. There have been no major changes to the structure of the firm or to the management team in the past two years. Staff continues to be added, especially to the Chicago office, and the firm will have a total of 15 additional personnel by the end the quarter.

Ms. Lundmark then discussed the American Core Realty Fund, the fund in which the Board is invested. There have been no real changes to the overall fund strategy. The fund is an open-ended core fund, which means it is focused on operating, stabilized, income-producing properties in the United States. Core property areas include office buildings, industrial buildings, multi-family apartments, and grocery anchored retail assets. At the end of third quarter 2012, debt-to-total assets is 17.4%. American Realty will be conducting term financing in the first quarter of 2013 and adding term fixed rates back into the portfolio for acquisitions. This should raise the leverage ratio to over 20%, which is closer to the 23% to 24% index. ERS made its initial investment with American Realty in January of 2011, and then made capital calls in 2011 and 2012. The asset value as of September 30 is over $32 million. The numbers for the end of December are not yet in, but should not look dramatically different.

Ms. Lundmark then discussed fund performance. Preliminary fourth quarter numbers indicate a 2% return, split between the income return and the appreciation return, bringing the total 2012 return to a little over 11%. This is roughly in line with the anticipated fund return over the long term. The fund is a lower leveraged, lower risk profile type of fund, with its primary source coming from the income generated by the properties in the fund as opposed to the appreciation in the properties.

In response to a question from Mr. Muller, Ms. Lundmark stated that the distributions are what the fund is actually paying in a dividend each quarter. The negative distribution figure on the report indicates that ERS is taking quarterly distributions in cash, but the return is definitely positive.

In response to questions from Dr. Peck, Ms. Lundmark stated that the range of values for appreciation is based on the NAV. In terms of outside appraisers for portfolio assets, American Realty uses Altus, a former company of PricewaterhouseCoopers. Altus acts as a third party that engages appraisers in each local market. At the end of each quarter, every asset is appraised, and that becomes the value placed on that asset. The value then rolls up into the fund, and the appreciation of that is the difference from the original investment based on the NAV.

Mr. Muller commented that this is the best possible process without a buyer and seller agreeing on price. Ms. Lundmark agreed, stating that it is similar to purchasing a home. When an appraisal is performed through the bank for a purchase or sale, the appraiser makes judgments based on what other assets are selling for or listed for on the market, what acquisitions have occurred, and other factors. It is not an exact science, like with stock.

In response to a question from Mr. Leonard, Ms. Lundmark stated that she did not know how liquid or illiquid the assets are, but that it most likely varies. Real estate as an asset class is not as liquid as a stock or a bond. It takes more time to buy or sell a building than it would to sell a stock on an exchange. American Realty tends to focus on what it considers the more liquid part of the real estate market, which are middle market assets from between $20 million and $150 million in total size. The Chrysler Building would never be in this portfolio because there are fewer buyers and sellers for a $1 billion asset. Given the size and risk profile of this portfolio, there are a lot more buyers and sellers for a $20 million grocery anchored retail center. American Realty can then buy and sell more property easily, because of the size and the fact that the buildings in this portfolio are institutional quality and operating assets. They are not distressed assets. There are no properties that are 30% occupied or in major need of capital expenditures. Theoretically, these buildings are more tradable. American

Realty also focuses on strong economic markets, primarily larger cities with stronger employment bases and more diverse tenants.

Mr. Christenson then added that these open-ended funds call and redeem cash on a quarterly basis, so it is easier to get in and out of these funds. Ms. Lundmark agreed, adding that American Realty called capital over a period of time, as acquisitions were made.

Ms. Lundmark next discussed strategy for 2013, which is just a re-focus on existing strategy. American Realty hired a new head of research who helped develop a house view or saw tooth view of recovery in the economy. While the economy did not go off the fiscal cliff, the problems that exist had it gone off are still out there to be dealt with. American Realty's overall philosophy is that you cannot overreact to the daily economic news that is changing the day-to-day markets. The recovery is in its early stages and the portfolio is still fairly defensively positioned. Real estate remains attractively valued compared to other asset classes, and interest rates obviously drive real estate valuations. One way to take advantage of the low interest rate environment is to lock in long-term debt. Leverage can be added to the portfolio at very low rates and under very attractive terms to buy properties in a conservative way.

Ms. Lundmark continued by stating that going forward, American Realty will invest in and position the portfolio with globally competitive industries. These are industries that are growing, that are diverse in their employment, and that cannot easily be offshored to other countries. Energy is a good example. As a country, the United States likes energy. It is growing, the employment base is growing, and there will be a lot of development and future growth in the sector. The question is how to get exposed to that. American Realty wants energy tenants in its buildings, but where can those tenants be found? Cities like Houston, Dallas, and Denver have these globally competitive industries and are becoming more concentrated, so there are fewer places in the country that have exposure to energy. The number of people employed in the energy sector in Houston is much higher than in Dallas and Denver. In other words, if you want exposure to energy companies, you want to buy an office building in Houston. Technology is the same way. For example, Seattle, which is a market that is becoming more concentrated with technology and technology-related employment versus other places in the country, like Portland. By targeting globally-competitive industries, American Realty can position the fund to benefit from the strongest demand growth over the long term.

Ms. Lundmark then stated that American Realty's approach to market selection combines both quantitative and qualitative research. The process involves increasing exposure to the cities with specific industries. South Florida is an example of an area with exposure to the Latin American banking industry, which is all in Miami, as well as exposure to distribution centers, trade, and warehouses. Miami is a major import and export center for Latin American goods. If you want exposure to any of these things, then this is where you need to make your investments.

Ms. Lundmark next stated that American Realty takes a conservative approach to the use of leverage in real estate investing. The fund has a low debt profile of a little over 17.5%. The 5-year debt maturity schedule shows that debts can be paid off with a year's worth of the cash flow, so refinancing or worrying about the debt profile in this fund is really not an issue.

In response to a question from Ms. Van Kampen, Ms. Lundmark stated that there has been a lot of discussion in the core space on how to measure when markets are overbuilt. The question is a good question and one with which American Realty continues to struggle. Certain markets are already obviously at that point. In San Francisco, downtown office space is already overpriced, as are multi-family apartments in Manhattan. However, American Realty is disciplined in regard to its underwriting of individual properties. Most properties are acquired through a public auction process where a bid is presented based on underwriting criteria, and if American Realty is not convinced that a return will be realized for the price paid, it will step away from the transaction.

Ms. Lundmark then stated that American Realty tries to implement sustainable technologies into its buildings, which is a good business practice because it decreases the operating costs of buildings to put energy efficiencies into it. Recent transactions into the fund in the last few quarters include 111 Kent, a multi-family property building in New York. The fund was underexposed to the global finance industry, so this was an excellent opportunity to get into a market that is stable and continuing to grow.

In response to a question from the Chairman, Ms. Lundmark stated that Denver is a relatively competitive area under government because there are government services there. While this may not be government per se, the payment services, back office services, and operational services there support the government. The U.S. government is not going to send those jobs offshore; they are a concentrated and growing part of the Denver economy.

In response to a question from Mr. Leonard regarding whether American Realty invests in all levels of government, Ms. Lundmark stated that American Realty considers that a specialized base. The fund has exposure to Washington D.C., so there are tertiary services around Federal government that are tenants in the building, but this is different than having, for example, the FBI as a tenant in the building. American Realty does not invest in buildings that have a large concentration of actual government bureaus or departments. The firm is more attracted to support services which support the government. Though the Federal government may have a building in a city that is not necessarily known as a servicing center, like here in Milwaukee, there is a risk that the government may consolidate services to a city like Denver where there is a larger concentration of government services. Buying an isolated building is not part of American Realty's strategy.

In response to a question from Mr. Christenson, Ms. Lundmark stated that American Realty calls capital quarterly based on acquisitions. Money is not called and held in cash; it is called as it is put to use. Currently, there is approximately $100 million of uncalled capital. American Realty anticipates calling what is in the pipeline plus the committed capital that must be called in full over the next two quarters. If a $1 million additional investment was made today, that $1 million would be invested between now and June 30 of this year.

(b) Morgan Stanley

Scott Brown of Morgan Stanley distributed a booklet containing information on the investment management services provided by Morgan Stanley for ERS.

Mr. Brown first stated that he is the head of the Prime Property Fund, a fully specified and core open-ended real estate fund that he has worked with since 1993. There are specific strategies employed in the given investment sectors. Morgan Stanley does not simply try to aggregate real estate, but rather uses research to help determine the right segment within each sector in which to invest. The portfolio is difficult to replicate in that it contains high-quality assets in major markets that perform well through the cycle. The fund has been a top quartile performer over all measurement periods and outperformance is strong this year.

Mr. Scott then stated that, with respect to sponsorship, Morgan Stanley is a great real estate sponsor with $36 billion in assets under management globally. In the U.S., there are about $15 billion in assets under management, of which prime is just over $11 billion and a dominant part of

U.S. business. The fund is the single largest fund in the real estate investment management practice. The flagship product received a lot of time and attention and support from the firm, and in particular the 90 professionals in the U.S. who are focused on the real estate investing business. In terms of management, in addition to Mr. Brown's 11 years of managing the portfolio, the CFO has been with the portfolio for 12 years. There is a strong consistency of approach and a long-term demonstrated track record between management and its professionals across acquisitions, asset management, and so on.

Mr. Brown then discussed the fund profile. As of the end of December, gross real estate assets are a little over $11 billion. Net asset value or equity in the fund is $8.3 billion, with leverage at 27.6% in 296 assets and with 191 investors. The fund is 94.5% leased, which is as close to fully leased as is possible. Even at the low end of the cycle in 2009, given the high quality of real estate in the fund, it was only 91% leased. The trailing 12-month dividend is 4%, and the return since inception is 8.6%. Even over the last decade, the fund returned over 8%. Across the platform, things are quiet and there have been no major changes. The year has been one of stability and growth. Across the business, the investment committee, the board, the independent board of directors, and the management team have been consistent.

Mr. Brown next discussed fund performance. Year-to-date, the fund outperformed the NFI-ODCE benchmark. Over the first three quarters, the fund outperformed by 140 basis points, with a fourth quarter return of 3.1%. The preliminary index with 87% reporting was 2.3%, so the fourth quarter should also show strong outperformance. On a rolling 1-year basis, as of September, the fund has outperformed by 180 basis points, and by 560 basis points over 3 years, just over 100 basis points over 5 years, and about 150 basis points over 10 years.

In response to a question from Ms. Van Kampen, Mr. Brown stated page 32 of the report shows before and after fee return. Average fees over the last 5 years have been about 112 basis points. There is an incentive fee that is indirectly tied to performance, but because outperformance has been relatively strong, fees have also been above average. The net return is above the gross index.

Mr. Brown continued by stating that Morgan Stanley not only marks all assets to market, but marks all debt to market as well. Interest rates cannot be controlled, and eventually that mark on the debt will revert to par, either as interest rates rise or the duration of selling on mortgages shrinks. Currently, there is $132 million in liability on the balance sheet that will undoubtedly return to par over some duration, and that today is about 150 basis points of return that will come back to investors. Morgan Stanley has taken that mark in terms of marking that debt to market, which is the best practice adopted by the fund.

Mr. Brown then stated that even though the overall return has outperformed, it is also important to consider performance in terms of unleveraged returns. The fund has shown a strong level of outperformance on an unleveraged basis, which looks good compared to the benchmark. Morgan Stanley does not try to be the top-performing fund; rather it wants to act appropriately in terms of the amount of risk taken in the fund, and the firm provides an attractive risk-adjusted return for investors.

In response to questions from Dr. Peck and Mr. Muller, Mr. Brown stated that a breakdown of the returns by income and appreciation appears in the flash report at the end of the report, but that he does not have the performance numbers on a calendar basis. Mr. Brown offered to provide that in the future.

Mr. Brown then noted that performance has been steady and without any one year of outsized performance. A review of Prime Property's 37-year history shows very few years with a negative return. In 2009, the appraisers were trying to determine where the market even was because there were no debt or credit markets, and no properties trading. As a result, there was a negative correction of about 30%. The index at the time was around 31%, which was unheard of. Morgan Stanley overcorrected in the absence of a market and over the last 3 or 4 years has been correcting for that overcorrection. The fund's average 3-year return of 15.7% is not what core real estate should be producing. Over a 10-year period, the fund produced the average expected return, and has only broken even for the last 5 years. The fund is only at 87% of 2007 peak prices versus 72 cents on the dollar in 2009. ERS invested in the fund in September 2010, and the timing was excellent. Average return might be over 14%, and core real estate should produce 8% to 10% through cycles. It would not be prudent to count on another 14% return, but on a relative basis for the risk attributes of real estate as an alternative in a balanced portfolio, an 8 to 10% return makes a lot of sense compared to bonds or equities or other investment alternatives.

In response to a question from Dr. Peck, Mr. Brown stated that when the markets rose up, the fund still delivered a consistent income return because of leased assets. Longer duration leased assets were less impacted from an income perspective. Those of shorter duration were corrected more quickly as the economy recovered. The income return arguably even improved because the denominator in the return in the valuation decreased but the cash flows stayed fairly steady.

In response to questions from Dr. Peck, Mr. Brown stated that Morgan Stanley uses Altus to manage and perform the appraisal process. Four other independent firms also perform part of the work, but report back to Altus. Altus has a market share of 80 to 90% of the index, so there is consistency across the approach and across the funds in the index. Morgan Stanley uses one appraiser, but rotates every 3 years in order to obtain a fresh look.

Mr. Brown then discussed client flows with respect to new investment. Client flows have been strong over the calendar year, with inflows of almost $1.5 billion. While there was no queue at the end of September, there is a queue at the end of December of $370 million. Over the past few years, no investor had to wait more than a quarter to get invested, which is a reasonable expectation.

Mr. Brown then discussed fund holdings, stating that the top 10 assets represent over a third of the fund. These assets include the Fashion Valley Mall in San Diego, Dadeland Mall in Miami, Rosedale Shopping Center in Minneapolis, and Christiana Mall just outside Philadelphia. These are highly productive regional malls and four of the best in the country. Large scale assets also include a Park Avenue office holding and a hotel holding in Manhattan, a Chicago building on North Wacker, Hills Plaza and One Maritime Plaza along the Embarcadero in San Francisco, and Station Place in Washington D.C. The fund is also diversified in holdings across the different sectors, and diversified in terms of concentration across markets, though more concentrated in the preferred markets in the index. These markets have deeper demand drivers and have recovered the quickest. Additionally, it is where employment growth and population growth first occur. Morgan Stanley is very cognizant of factors like cost and location and investor preference, and provides off-market opportunities through its relationships in the business. If inefficiencies in the market can be taken advantage of by buying off-market, all the better for the fund, and it is these non-brokered opportunities that Morgan Stanley looks for.

In response to a question from Mr. Leonard, Mr. Brown agreed that states like Illinois and California have terrible state finances. Morgan Stanley is aware of those problems and takes them into account when pricing and buying in those markets. It is a good time in the cycle, with a 5- or 10-year mentality, to obtain assets with a very attractive basis and strong discounts for placement costs.

Mr. Brown concluded by noting that Morgan Stanley spent a lot of time reviewing how appreciation is realized and then focused on driving up the operating income for assets. Through the third quarter, the net operating income is 7.4%. For the calendar year, the net operating income is over 9%. The fund only had approximately 7% appreciation for the year, which shows that appreciation is not realized through compressing cap rates. The appraisers are not driving appreciation by simply writing values up just because they can. The appraisers are writing values up because the income in fund assets is growing well above that of the index or inflationary expectations.

In response to a question from Mr. Grady, Mr. Brown stated that flows to the fund have fortunately been steady, with the exception of the fourth quarter last year. The fund does not have a large incoming queue that could put pressure on a manager. Morgan Stanley continues to be selective in how capital is deployed, not wanting to dilute the investor by buying highly-leveraged properties. The object is to remain disciplined no matter how large the incoming queue and invest capital in better ways, such as through expansions and development and buyouts.

In response to a question from Ms. Van Kampen, Mr. Brown stated that the investment management and brokerage business is separate from Morgan Stanley's other two business units, wealth management business and the investment banking business. The investment management business is insulated from the business described in recent newspaper articles.

(c) Marquette Associates Report

Ray Caprio and Brett Christenson of Marquette Associates distributed and discussed the December 2012 monthly report.

Mr. Christenson first discussed the high points of the flash report. In terms of manager status, AQR is on notice and Barings is on alert, both for performance reasons. Artisan and K2 are on alert because of minor changes in the firm that would most likely not impede performance. In terms of the asset classes, the Fund is currently underweight in fixed income by approximately $55 million because cash flow is being drawn from there. Fixed income continues to be an unattractive asset class, but it has benefited the Fund, especially the second half of the year. As a result, U.S. equity and international equity are slightly overweight. This topic will be addressed in an Investment Committee meeting. The fixed income allocation could be reduced in order to add to equities and real estate. Additionally, private equity is currently almost $50 million with a target of 6%. A 2012 initiative was to increase the private equity target, and the

Adams Street 2012 and Siguler Guff funds were added to the portfolio. Siguler Guff has already called over $18 million, so progress was made in getting this asset class much closer to its target.

Mr. Christenson then discussed Fund performance. The preliminary year-to-date return for the Fund is approximately 11%. While Marquette is happy with the absolute returns of U.S. equity and international equity, they underperformed their benchmarks, and this is also an ongoing discussion at the Investment Committee and Pension Board meetings. The alternatives—real estate, infrastructure, and private equity—also produced good returns. The hedged equity return of 6.9% is above the HFRX benchmark of 4.8%, but that return is relative to total stock market numbers, represented by the Russell 3000 and the MSCI ACWI in the 16% range. Marquette does not expect hedged equity to earn 16%, but in an upmarket it should capture at least 50% if not 70%. However, down market capture is fairly good. In infrastructure, IFM reported but JPMorgan did not, so the numbers should increase. Private equity has also not reported for the third quarter, so it is likely the 11% will slightly increase, though K2's final number provided this morning was 1% lower than the preliminary. Marquette will need to make small adjustments as the final numbers come in.

Mr. Christenson next discussed the Fund managers. In fixed income, active manager JPMorgan is up 4.9% for the year, beating the benchmark net of fees. Mellon, the index fund, met the benchmark at 4.2%. In U.S. equity, top performers include Boston Partners and Artisan Partners, with strong long-term and short-term outperformance, and the Mellon S&P index fund as the anchor. The rest of the U.S. equity portfolio is not performing as well. AQR is currently on notice, Geneva Capital's short-term numbers are below the benchmark, and Fiduciary is in the red and struggling in the small-cap active. International has a 16.5% return year-to-date with a 17.4% benchmark, which is disappointing. A change was made with GMO large-cap, and the Northern Trust index fund was added in 2012, but the rest of the portfolio is struggling. GMO experienced a nice year in small-cap, up 24%, but Barings showed difficulty in the large-cap, up only 13.2%, and in emerging markets, up 17.1%. Both investments were a drag on the portfolio.

In response to a question from Mr. Grady, Mr. Christenson stated that the final rankings for the year will most likely show that the benchmark ranks higher than the median. This often occurs in a strong stock market where the active managers tend to struggle, especially in value, because they are buying much higher-quality stocks. In a strong market like the current market, there is generally not much differentiation between high-quality and low-quality, which is primarily why a manager like Fiduciary struggles when the benchmark is up so high. Marquette will monitor Fiduciary very closely.

Dr. Peck stated that overall performance argues for passive versus active management, especially with infrastructure and real estate earning better returns there, and then suggested this as a topic at a future Investment Committee meeting.

In response to a question from Dr. Peck, Mr. Christenson stated that a breakdown of real estate income and appreciation could be added to the report. For real estate in 2012, net income will most likely be in the 5.5% to 6% range with the index coming in at around 11%, which indicates about half was appreciation. Infrastructure should be similar at about 6% income with 4% to 5% appreciation.

Mr. Christenson then stated that under hedged equity, K2's preliminary estimate indicated a year-to-date number of approximately 8.8%, but the final came in closer to 7.6%. Under real estate, UBS has not yet reported for the quarter. Under infrastructure, IFM provided an 11.5% return, and a return of over 8% will hopefully come in for JPMorgan. In terms of the overall returns on a 4-year basis, the net returns will likely be over 10%, with the 10-year returns coming in even better at 7.9%. The numbers are close to where the Fund needs to be, which is positive considering the turmoil.

Mr. Christenson then noted the management fees of the Fund, which are higher because of the alternatives, which tend to have higher fees. Total fees are just over 0.5%, or approximately $9.2 million, to run the portfolio. Marquette was asked by the Investment Committee to show the money saved if all of the traditional funds were indexed, which is an appropriate response to active manager struggles in the U.S. and international areas.

In response to a question from Mr. Muller regarding the total management, transaction, and Marquette cost, Mr. Christenson stated that he does not keep track of the Marquette fee, but that he believes it is in the area of $200,000. The total transaction costs, or the major hard-dollar costs that can be monitored, are the equity manager trading costs that probably average around 2.5 cents per share, per trade, and those numbers are built into their returns. The same is true for the fixed income and international trading costs in that they are built into what they buy. Marquette could look into the matter and provide a rough estimate.

In response to a question from Ms. Van Kampen, Mr. Christenson stated that the active managers with above-average turnover compared to their categories include Artisan and AQR, who therefore have more trading costs. However, trading costs can work to ERS's benefit if the right trades are made. Additionally, since fixed income will continue to be a drag on the total return, an asset allocation discussion was started at the Investment Committee that involves the possibility of further reducing fixed income from the current target and adding to U.S. and international equities, and maybe real estate.

In response to a question from the Chairman, Mr. Christenson stated that while there are no current rebalancing needs, the Board should recognize that the Fund is underweight on bonds to the current target, and slightly overweight on equities to the current target. Marquette is comfortable with the numbers, however, especially considering the possible reallocation.

The Chairman then stated that the 10-year numbers look good.

In response to a question from the Chairman regarding progress on the passive versus active discussion at the Investment Committee meetings, Mr. Christenson stated that when the fees are put in dollar terms, $9.5 million sounds like a very big number. In fact, 53 basis points is a bit on the high side. Again, though, the majority of fees are in the alternatives, which are a benefit to the fund aside from the disappointment in the hedge funds. Marquette will present findings at the Investment Committee level. However, if everything possible was indexed, about $3.5 million, or approximately 20 basis points, could be saved per year. The determination then is how much active management is working for the Fund versus against it, and how much time and effort should be spent to continue interviewing managers, replacing them and putting them on alert or notice.

In response to a question from Dr. Peck, Mr. Christenson stated that the cost and benefit of the Board's manager selection could be quantified to verify whether ERS is getting more than 20 basis points of alpha for the 20 basis points ERS is paying.

In response to a question from Mr. Muller on the market value history of the Fund, Mr. Christenson confirmed that the cash flow out has exceeded the earnings. The appreciation is included in the net investment change.

5. Investment Committee Report

The Chairman reported on the January 3, 2013 Investment Committee meeting.

Marquette first presented 2012 year-to-date investment results through November 30.

The Investment Committee next discussed asset allocation. Marquette provided a variety of scenarios for the Committee to review involving lowering the fixed income asset allocation. The Committee agreed to continue discussion at the next meeting.

The Investment Committee then discussed active versus passive management. Marquette will provide a comparison at the next Committee meeting.

6. Disability Matters

(a) Sara Bell

In open session, the Chairman stated that Ms. Bell's application will be held over because Ms. Bell's attorney requested more time to prepare.

(b) Susan Wittliff

In open session, the Chairman stated that Ms. Wittliff'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 Ms. Van Kampen, seconded by Mr. Sikorski.

(c) Joseph Kuntner

In open session, the Chairman stated that Mr. Kuntner'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. Gedemer, seconded by Mr. Leonard.

7. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, December 2012

Ms. Ninneman presented the Retirements Granted Report for December 2012. Seventeen retirements from ERS were approved, with a total monthly payment amount of $24,079. Of those 17 ERS retirements, 6 were normal retirements, 10 were deferred, and 1 was deferred early. Six members retired under the Rule of 75. Additionally, 11 retirees chose the maximum option, and 3 retirees chose Option 3. Four of the retirees were District Council 48 members. Five retirees elected backDROPs in amounts totaling $984,032.

Ms. Ninneman noted that the January retirement number is expected to be double that of December.

Mr. Grady then suggested that ERS prepare an employee communication on the backDROP modification to try to prevent unnecessary departures. The communication would also help ERS staff appropriately counsel employees seeking retirement.

Ms. Ninneman and Ms. Westphal agreed that the communication would be beneficial, both noting that employees are inquiring as to whether they should file emergency retirement paperwork based on the modification.

(b) ERS Monthly Activities Report, December 2012

Ms. Ninneman presented the Monthly Activities Report for December 2012. ERS and OBRA combined had 7,963 retirees, with a monthly payout of $13,092,426.

Ms. Ninneman then stated that there were 352 ERS retirees in 2012, compared to 517 in 2011 and 305 in 2010. ERS anticipates between 325 and 375 for 2013. There were 275 retiree deaths in 2012, compared to 276 in 2011 and 275 in 2010 and 277 in 2009. Additionally, the year ended with 147 legal issues and compliance questions, compared to 57 in 2012, primarily due to the work ERS has done identifying potential payment and system issues. The focus last year was in stabilizing the Vitech system and handling change orders. For 2013, the number of legal issues and compliance questions is expected to be lower.

(c) Pension Board Employee Election

Ms. Ninneman discussed the upcoming employee election, noting that two candidates, Dave Sikorski and Aimee Funck, submitted the required number of signatures to be on the ballot.

Ms. Ninneman stated that ERS staff continues to market the election and the Pension Board to employees in order to increase voter turnout.

In response to a question, Ms. Ninneman confirmed that iPads will be available for employees at remote locations and without e-mail access to vote.

(d) Co-Development Fourth Quarter Report

Ms. Ninneman discussed the fourth quarter co-development report. The team focused on year-end activities, updating Vitech with the tables necessary to process retirements in 2013, and updating reports. Additionally, while on loan to the Benefits Division, the team updated the benefit module with changes relating to health plan years. Overall, the savings using the co-development team came to $14,000 for the fourth quarter and $489,000 for the year.

Ms. Ninneman then stated that a member of the team was replaced beginning January 1. This member had been acting more as a business analyst and project manager, and someone with the technical skills necessary to handle the changes to be made to Vitech this year was needed.

(e) Fiscal Officer

Mr. Gopalan first discussed the December portfolio activity reports, noting that the auditor's statements have not yet been received from the custodian so the numbers are preliminary. There was a great deal of activity in December because ERS was unable to settle the funding in November due to the holiday. Some of the investment managers require notice, which is why $15 million from the MCM Aggregate Bond Fund, $8 million from Robeco, and $7 million from Fiduciary appear on the report. Additionally, Morgan Stanley made some distributions for dividends, K2 made a capital call, JP Morgan made some distributions, Adams Street made some distributions and some small capital calls, and Siguler Guff made a capital call.

In response to a comment from the Chairman, Mr. Gopalan stated that he would verify whether ERS was, in fact, fully invested with K2.

Mr. Gopalan then discussed the cash flow report, noting again the December activity due to the inability to settle the funding in November. One item of note is the December projections, or the cash in closed at the end of the month. ERS prefers to keep two months' worth of payment reserves in the general cash fund, but was under by $7.6 million because of the Siguler Guff capital call and various other things that increased the benefits. Mr. Gopalan already requested additional funds to make up for that shortfall in January.

In response to a question from the Chairman, Mr. Gopalan confirmed that cash needs through the first quarter are already approved.

Mr. Gopalan concluded with a discussion of the fourth quarter check register, noting check number 959061 for Buck Consultants in the amount of $83,587. This was an invoice payment for the County actuary. 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.

Mr. Grady then stated that this issue needs to be addressed because ERS funds should not be used for transactions like this. The Chairman agreed, adding that in the event something similar occurs, the Board should be involved.

8. Audit Committee Report

Mr. Sikorski reported on the January 2, 2013 Audit Committee meeting.

The Audit Committee first discussed an ERS staff request to clarify a number of disability retirement process issues. For example, medical records from treating physicians and who should request those records, and formalizing the "any job" standard and offset guidelines.

The Audit Committee then continued its discussion on optional ERS membership and the difficulty in managing that membership. Ordinance and Rule language is not clear and has caused issues over time. A proposal is being created that will no longer allow seasonal employees to elect into ERS and instead be placed in the OBRA retirement plan upon hire. The only issue that remains relates to seasonal employees who are currently working and have already been allowed membership in ERS.

In response to a question from Ms. Van Kampen, Mr. Sikorski stated that one advantage of the proposed change relates to seasonal employees who are members of ERS and seasonally terminated. These employees are entitled to their money back with interest, almost like a savings account in that it is immediate as opposed to a 5- year wait, and the change would stop that process. While not many employees are doing this currently, the fear is that it will catch on.

Mr. Grady added that employees who have service in both plans because of different jobs over time also want to combine service credit into the ERS plan.

Mr. Sikorski then stated that the Audit Committee is investigating other employee groups, and that the Committee will review the existing Rule to verify all sections are still relevant.

Mr. Grady then stated that the hope is to have the amendments on the optional ERS membership ready for the Board by next month's meeting.

9. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee, and Investment Committee topic lists. The Chairman then stated that anyone with future topic suggestions should voice them.

The Chairman noted Mr. Muller's attendance at the Council of Institutional Investors conference last fall and proposed that the Board become members. Mr. Muller provided information on the $3,000 general membership fee.

Mr. Muller then provided an overview on the Council, stating that it is a solid organization that represents institutional investors. It provides information on current issues such as audits, pay, proxy voting, and other fiduciary responsibilities that the Board members have as trustees. The City of Milwaukee and the State of Wisconsin Investment Board are also members of the Council. Educational materials are widely available on many important and relevant topics. Overall, the $3000 fee is reasonable in terms of what is offered.

The Pension Board unanimously approved Pension Board membership in the Council of Institutional Investors. Motion by Mr. Leonard, seconded by Mr. Sikorski.

Dr. Peck then requested that attendance at International Foundation conferences also be approved by the Board.

The Chairman stated that a standing approval of International Foundation conferences exists, but that it would be a good idea to re-approve given the educational value.

The Pension Board unanimously approved the attendance of any interested Pension Board member at any International Foundation of Employee Benefit Plans conference. Motion by Mr. Sikorski, seconded by Dr. Peck.

10. Pension Board Rule 1047 Amendment

Mr. Huff first stated that after discussing options 1 and 2 presented at the December Board meeting, Mr. Grady, Mr. Huff, and Ms. Ninneman determined that option 1 was not a viable option. Additionally, option 2 will need to be discussed, in part, in closed session today.

Mr. Huff then provided an overview of the amendment to Rule 1047 and option 2. Currently, employees are applying for immediate retirement without the necessary calculations and paperwork that would allow them to retire immediately. These employees then have to complete emergency retirement paperwork, adhering to a series of rules that have been built around this event. Some employees, however, never finish the paperwork, which creates problems for ERS. The amendment, then, provides the guidelines necessary for completing that paperwork. If after not completing the emergency retirement paperwork after 6 months, the employees will receive a final notice informing them that they have 30 days in which to do so. The notice will also explain the benefit and beneficiary selections, as well as state that if a benefit is not selected, at least a nearest relative must be provided. If the employee fails to make a selection by the end of 90 days, the employee will default into the highest form of benefit allowed; a 100% joint and survivor annuity if the employee has a spouse, or a 100% joint and survivor annuity if the employee has named a next of kin. This is essentially what happens when an employee dies while processing a retirement. If the employee does not supply enough information on a nearest relative, then the employee will receive a 100% single life annuity.

In response to a question from the Chairman, Mr. Grady stated changes in benefit structure do cause employees to apply for immediate retirement, but layoff situations relating to possible downsizing or related situations that provide relatively short notice of the layoff also prompt applications for immediate retirement. There may not be a large number of employees doing so, but the situation still occurs.

After general discussion by the Board, Mr. Grady stated the concern is that an employee who wants to assign a beneficiary fails to provide the necessary information.

Mr. Huff added that the preference is for the employee to complete the paperwork and make the necessary elections, but the amendment provides a default when the employee fails to do that.

In response to questions from the Board, Ms. Ninneman stated that currently there are employees who have not completed the paperwork in over a year and because the employee signed the emergency benefit paperwork, the employee maintains their benefits for the period the paperwork is incomplete, resulting in tracking and logistics issues on the benefits. The amendment would provide an end date for selection.

Mr. Grady then added that ERS has to retroactively pay the pension for that employee. The issue is essentially a lack of information. A deadline is needed for the employees who are not completing the appropriate paperwork.

The Chairman then questioned why the initial timeframe for completing the emergency retirement paperwork could not be changed from 6 months to 3 months, to the general agreement of the Board.

Mr. Sikorski moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 10, 11, and 12 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 10-0 to enter into closed session to discuss agenda items 10, 11, and 12. Motion by Mr. Sikorski, seconded by Dr. Peck.

Upon returning to open session, the Pension Board unanimously approved amended Rule 1047 to codify the application for emergency retirement, after changing 6 months to 3 months wherever it appears, attached to these minutes as Exhibit A. Motion by Dr. Peck, seconded by Ms. Van Kampen.

11. 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.

12. Report on Compliance Review

The Pension Board took no action on this item.

13. Adjournment

The meeting adjourned at 11:00 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. Generally, a member completes all retirement paperwork, including electing a form of benefit, prior to his or her retirement date. The Retirement Office then processes the retirement, with benefits commencing as of the member's retirement effective date.

4. A member may use an emergency retirement process that preserves his or her retirement date even though all retirement paperwork and processing will not be completed prior to the member's Retirement Effective Date.

5. Members who use the emergency retirement process may fail to submit the required retirement paperwork to the Retirement Office in a timely manner, resulting in an extended period between their Retirement Effective Date and when they complete the retirement paperwork and payment commences. This delay results in uncertainty regarding the Retirement Office's continuing obligation to notify the emergency retiree that his or her retirement paperwork is outstanding.

6. The Pension Board believes it is appropriate to amend Rule 1047 to provide a period of time during which emergency retirees complete all paperwork and commence their benefit, the consequences of the failing to do so, and the notification process the Retirement Office shall follow for emergency retirements.

RESOLUTION

1. Effective January 16, 2013, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby amends and restates Rule 1047 in its entirety as follows:

1047. Application for emergency retirement.

(1) *Designation of Beneficiary/Form of Benefit Payable.* A member who files an application for emergency retirement shall, upon filing such application, designate a temporary beneficiary to receive the applicable pension benefit upon the member's death prior to the election of a permanent form of benefit.

(2) *Time to Complete Retirement Paperwork.* A member who files an application for emergency retirement shall have three (3) months from the member's Retirement Effective Date, as defined in Rule 1049, to complete all of his or her retirement paperwork, as determined by the Retirement Office. If the Retirement Office does not receive completed retirement paperwork within three (3) months of the Retirement Effective Date, the Retirement Office will commence benefit payments for that individual based on the following default options: i) if the member has designated a beneficiary on the emergency retirement application, the member shall receive a 100% survivor annuity; or ii) if no beneficiary is designated on the emergency retirement application, the member shall receive a 100% survivor annuity and the member's beneficiary shall be the member's spouse or, if none, the member's next of kin determined in accordance with Wisconsin statute section 852.01 governing intestate succession. Notwithstanding the foregoing, the Retirement Office shall contact the member to request any information it may require to determine whether there is an ascertainable beneficiary under Wisconsin statute section 825.01. If the Retirement Office does not receive the required information within thirty (30) days of such request, the member shall receive a normal pension with no beneficiary or survivor benefit under Ordinance section 201.24(5.1). A member who receives a default option, including a normal pension under Ordinance section 201.24(5.1), shall not be eligible for any other pension benefit, including, but not limited to, a backDROP payment**.** The Retirement Office may, if required by the Retirement Office's administrative necessity, extend the three (3) month time period for receipt of completed retirement paperwork.

(a) The Retirement Office shall provide a final written notice of the requirement that completed retirement paperwork be received by the Retirement Office. This notice shall include a request for any information required to determine whether there is an ascertainable beneficiary under Wisconsin statute section 825.01. This notice shall be provided to the member at least thirty (30) days before the three (3) month deadline stated in subsection (2) above.

(b) In the case of members who applied for emergency retirement and, as of January 16, 2013, for whom the Retirement Office has not received completed retirement paperwork within three (3) months of the member's Retirement Effective Date, the Retirement Office shall notify, in writing, such members that the Retirement Office must receive completed retirement paperwork within thirty (30) days of receipt of this notice. This notice shall include a request for any information required to determine whether there is an ascertainable beneficiary under Wisconsin statute section 825.01. If the member does not contact the Retirement Office within 30 days and the member's completed retirement paperwork is not received by the Retirement Office within 90 days, the member shall receive a 100% survivor annuity and the member's beneficiary shall be that designated on the emergency retirement application. If no beneficiary is designated during the emergency retirement process, the member shall receive a 100% survivor annuity and the member's beneficiary shall be the member's spouse or, if none, the member's next of kin determined in accordance with Wisconsin statute section 852.01 governing intestate succession. Notwithstanding the foregoing, the Retirement Office shall contact the member to request any information it may require to determine whether there is an ascertainable beneficiary under Wisconsin statute section 825.01. If the Retirement Office does not receive the required information within thirty (30) days of such request, the member shall receive a normal pension with no beneficiary or survivor benefit under Ordinance section 201.24(5.1).

(c) If the Retirement Office does not receive completed retirement paperwork from the member within thirty (30) days, the member shall receive no further notice from the Retirement Office regarding the member's benefit.

(3) *Death Following Emergency Retirement.* In the event of the member's death following the effective date of the member's emergency retirement and prior to the completion of the member's retirement paperwork, the beneficiary named on the emergency retirement application shall become irrevocable and such beneficiary shall receive a 100% survivor annuity as described in Ordinance section 201.24(7.1).

(a) If a member does not select a beneficiary on the emergency retirement application, then upon the member's death, the 100% survivor annuity shall be paid to the member's spouse or, if none, in accordance with Wisconsin statute section 852.01 governing intestate succession. However, if under section 852.01 multiple beneficiaries would receive the member's benefit, only the oldest member of such group shall receive the benefit. The determination of the member's beneficiary under the intestate statute shall be in the sole discretion of the Retirement Office and the Pension Board.

(b) Benefit payments shall be calculated as if the member retired as an emergency retiree, elected a 100% survivor annuity on the emergency retirement application and immediately died. The survivor benefit will continue to the designated or default survivor.

(4) *Ineligible for BackDROP*. Any beneficiary, named or unnamed, of a member who files an application for emergency retirement shall not be eligible to receive a backDROP payment the member would have otherwise received under Ordinance section 201.24(5.16) if such member dies prior to submitting the retirement paperwork to the Retirement Office. A member who receives a default option described in subsection (2) above shall not be eligible for a backDROP payment, even if requested at the time the member applied for emergency retirement.

(5) *Emergency Retirement Application Superseded*. Upon submission of an emergency retirement applicant's properly completed retirement paperwork to the Retirement Office for processing, the form of benefit and beneficiary selected in the applicant's retirement paperwork shall supersede that designated in the application for emergency retirement or the default election. Following submission of the applicant's properly completed retirement paperwork to the Retirement Office, the form of benefit paid to the member or beneficiary shall be that designated on the applicant's retirement paperwork. It shall be in the sole discretion of the Retirement Office and the Pension Board to determine whether and when the applicant's retirement paperwork was properly completed.