EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE JANUARY 19, 2011 PENSION BOARD MEETING

1. Call to Order

Chairman Mickey Maier called the meeting to order at 8:35 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

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

Others Present

Mark Grady, Principal Assistant Corporation Counsel
Gerald Schroeder, ERS Manager
Dale Yerkes, ERS Fiscal Officer
Marian Ninneman, Certified Employee Benefit Specialist
Ken Loeffel, Retiree
Yvonne Mahoney, Retiree
Brett Christenson, Marquette Associates, Inc.
Ray Caprio, Marquette Associates, Inc.
Scott Darling, American Realty Advisors
Jennifer Lundmark, American Realty Advisors
Steven Huff, Reinhart Boerner Van Deuren s.c.
John Busch, Michael Best & Friedrich LLP

3. Chairman's Report

The Chairman noted that the Annual Meeting will be held on February 9, 2011 at the Italian Community Center. Mr. Schroeder stated the doors will open at 8:00 a.m. and the meeting will begin at 9:30 a.m. The annual meeting is expected to last two hours. ERS sent invitations to the County Executive and the Chairman of the County Board. When ERS receives a response, ERS will update the agenda.

In response to a question from the Chairman, Mr. Schroeder indicated that there are three confirmed speakers: Buck Consultants, Marquette Associates, and Boston Partners.

The Chairman then stated that because there are no business items to address, the February 16, 2011 Pension Board meeting is cancelled.

In response to a question, the Chairman stated that if urgent matters develop prior to or at the annual meeting, the necessary parties could reconvene afterward to discuss them.

4. Minutes — December 15, 2010 Pension Board Meeting

The Pension Board reviewed the minutes of the December 15, 2010 Pension Board meeting.

The Pension Board voted 5-0-1, with Mr. Garland abstaining, to approve the minutes of the December 15, 2010 Pension Board meeting. Motion by Mr. Cohen, seconded by Mr. Stuller.

5. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, December 2010

Mr. Schroeder presented the Retirements Granted Report for December 2010. Fourteen retirements were approved in December, with a total monthly payment amount of $11,736. Of those 14 retirements, 5 were normal retirements and 9 were deferred vested retirements. Two retirees elected backDROPs in amounts totaling $173,882.

(b) ERS Monthly Activities Report, December 2010

Mr. Schroeder presented the Monthly Activities Report for December 2010. ERS had 7,502 retirees at the end of December 2010, with a monthly payout of $12,155,551.

Mr. Schroeder then noted that the number of retirees in 2010 was only approximately 15% higher than the number of retirees in 2009, and that the total payout amount was relatively the same.

In response to a question from the Chairman about pre-retirement consultations, Mr. Schroeder stated that many employees who planned to retire before April 1, 2011 scheduled a meeting, but once the employees realized they had more time than they previously thought, many withdrew their applications.

In response to a question from the Chairman about projected January, February, and March 2011 retirements, Mr. Schroeder indicated that ERS expects a normal amount of retirements at approximately 20 to 25 per month.

Mr. Schroeder next provided an update on the employee election in February 2011. ERS is working with Votenet to set up the ballots and test the system. The two candidates running in the final election are Keith Garland and John Pfeifer. ERS will send email blasts with candidate information to employees. To promote voting and increase voting numbers, the email blasts will also explain the responsibilities of the Board, the significance of those responsibilities, and how each employee's vote is critical. Additionally, the voting period is expanded to February 4, 2011 through February 7, 2011 and employees can now vote using a phone or a computer.

Mr. Schroeder then discussed the County Department audit and the Baker Tilly audit. The County Department audit will review ERS retirement payments. The Baker Tilly annual audit will review approximately 100 cases, of which 80 are expected to be 2010 retirement cases and 20 to be payment comparison cases from 2010 and 2011. Baker Tilly will be on site in April to conduct the annual audit.

Mr. Schroeder next discussed the Annual Report. ERS continues to meet weekly with Buck Consultants in person and by teleconference to prevent delays as a result of moving the Annual Report up by one month. ERS expects to provide the ERS file to Buck Consultants on January 31, 2011.

Mr. Schroeder then described the code development process project to be implemented in 2011. This process involves moving some Vitech programming in-house to reduce both costs and the amount

of time needed for implementing ordinance-related or other changes. This item is budgeted and Mr. Schroeder is in the process of creating an RFP for review by Corporation Counsel. Mr. Schroeder requested that a panel with Pension Board representation be created. In response to Mr. Schroeder's request, Messrs. Maier, Stuller, and Garland volunteered. Mr. Schroeder stated that an independent analysis based on actual 2010 expenses indicated that ERS could save over $500,000 per year if this project is implemented.

Mr. Schroeder then introduced Marian Ninneman, who discussed the revised Trustee manual. Over the past six months, the manual has been reorganized and re-tabbed, and new sections on ERS operations, a brochure series, and benefit statements have been added. The manual is a good reference tool and contains information on employees who are retiring and are currently retired, and includes the type of pension benefits each retiree selected. Ms. Ninneman stated that anyone wanting to contribute information to the manual can send that information through the Board packets or separately. Ms. Ninneman also requested that the old Trustee manuals be discarded. In response to a question from the Chairman, Ms. Ninneman stated the revised manual includes the Ordinances.

The last item Mr. Schroeder discussed was the Banking Services RFI. The Audit Committee wants to send this RFI to 8 or 9 local banks, including minority banks, to compare to the current relationship with Wells Fargo. ERS will bring results back to the Board. In response to a question from the Chairman, Mr. Schroeder indicated that the RFI is primarily for two checking accounts, the account connected to the Vitech System and the account used for maintaining ERS funds for the portfolio.

(c) Fiscal Officer/Cash Flow Report

Mr. Yerkes presented the ERS cash flow report. The report does not include any of the mandatory contributions from the County. The contributions should start in February or March, depending on the Ceridian update. Additionally, included in the transfer section for the projected January cash flow is the funding of American Core Realty on January 3, 2011 in the amount of $12,840,000, all of which was sourced from U.S. investment managers. ERS has a $30 million total commitment with American Core Realty.

Mr. Yerkes next distributed the December 2010 Portfolio Activity report. Morgan Stanley provided ERS income of $738,000 for the

month. In the future, all real estate managers will be set up to send ERS the income when it is declared; ERS will not have to request the funds. ERS drew down its investment in the GMO large-cap value fund to fund December cash flow.

Mr. Yerkes noted that for the January Portfolio Activity report, the miscellaneous and interest/dividend income columns will be combined and the net realized and net unrealized gain and loss columns will be combined because itemization of either is not necessary. In response to a question from the Chairman, Mr. Yerkes indicated that typical miscellaneous income includes County reimbursement of Medicare payments and class action fees.

In response to a question from the Chairman on the fourth quarter check register, Mr. Yerkes stated that the multiple entries and the reversal for the meeting fees to the Trustees are because of a printing error caused by the system defaulting to an incorrect check format. The initial check to the Trustees had to be voided and then another check was issued in the correct format. The Chairman commented that reviewing the check registry is helpful as part of exercising the Board's fiduciary responsibility.

6. Investments

(a) American Realty Advisors

Jennifer Lundmark introduced herself as the Director of Marketing and Client Services in Chicago.

Scott Darling then distributed a report and provided an update on American Realty Advisors. The company is privately held and 100% owned by its senior investment professionals. American Realty Advisors offers a focused selection of private real estate investment management products and services. Since it formed in 1988, the company has been a real estate investment advisor and has extensive experience acting as a fiduciary and with prudent pension investing in accordance with applicable fiduciary guidelines. Pension plans and other institutional clients represent 100% of American Realty Advisors' revenue. There has been no change in the capital structure of American Realty Advisors and no change in the senior management of the firm or in the senior management group that oversees the American Core Realty Fund (the "Fund"). The company has never been involved in any litigation with any of

its clients concerning its investment management activities, and it has had no regulatory sanctions imposed on it.

Mr. Darling then provided an update on the Fund. It is a large, highly-diversified, open-end product with 170 clients and over $1.5 billion in gross market value invested in 53 properties nationwide. The fundamental design of the product is to provide investors with broad-based exposure to the private market commercial real estate asset class through a highly-diversified and conservatively-managed investment product. The Fund formed in 2004 and has always had a very conservative core strategy focused only on existing high-quality core assets, such as office, industrial, retail, and multi-family properties located throughout the U.S. The Fund is not invested in any specialty properties, such as hotels, senior housing, public storage, or land.

Mr. Darling next described aspects of the Fund's strategy. The primary investment objective is to build a stable income stream and then create the opportunity for long-term appreciation as rental rates increase. This stable income stream is built through a strong focus on diversification. The Fund will always maintain meaningful exposure to each of the four property types—office, industrial, retail, and multi-family—and to each of the four primary geographic regions of the U.S.—the West, the East, the Midwest, and the South.

Mr. Darling then stated that another aspect of the Fund's strategy is to have a diversified rent roll. To accomplish this goal, an objective is for the Fund to have predominantly multi-tenant investments. The real source of diversification in a commercial real estate portfolio comes from the tenant leases and the Fund has over 2,000 commercial tenants in its portfolio. No single tenant represents even 3% of the scheduled rent within the portfolio.

In response to a question from the Chairman, Mr. Darling indicated that the diversification strategy includes avoiding undue concentration in certain areas in the portfolio and reviewing the lease rollover schedule of the portfolio. Over the next 10 years, there is only one year in which even 15% of leases mature. This is critical because when the next economic slowdown or recession will occur is unknown and American Realty Advisors does not want all leases expiring during that time.

Mr. Darling then stated that American Realty Advisors is now actively buying and selling assets. The Fund is highly liquid with no

redemption queue and has capital available to invest at today's lower, attractive prices. The Fund was underweight in retail properties, so it purchased shopping centers in Maryland and California. The Fund also sold industrial assets in Cincinnati and Chicago.

Mr. Darling then discussed the Fund's historical performance. Throughout the history of the Fund, and again in 2010, it has generally outperformed in market downturns and underperformed in market recoveries. Performance is slightly below the benchmark and this primarily reflects the fact that American Realty Advisors takes on less leverage and less risk than its peer groups, and risk and leverage tend to increase returns in a strong recovery. American Realty Advisors monitors the portfolio to eliminate losses that can occur if the economic recovery stalls.

Mr. Darling stated that the portfolio is currently in great operational shape. There are a few assets with occupancy challenges, which could provide a slight upside in an economic recovery, but there are no problem assets that might be lost to a lender foreclosure or some other kind of issue. The portfolio's assets are currently 91% occupied and generating strong cash flow. There is only one loan with a $6 million balance that matures between now and the end of 2011.

Mr. Darling noted that ERS completed the Fund documents in December 2010, which allowed for the ERS January 3, 2011 investment of $12,840,000 in the Fund.

Mr. Darling then discussed the ERS fee structure. ERS committed $30 million to the Fund, so the ERS fee rate is 95 basis points, even on the $12.8 million already invested. This is not a ladder fee schedule. Additionally, there is only one fee in the Fund. There are no hidden fees and no acquisition, disposition, or incentive fees. Fees are not assessed on commitments, only on the amount invested.

In response to a question from the Chairman as to the outlook on the real estate market, Mr. Darling stated that forms of commercial real estate reflect, but lag, the overall economy. As long as the recovery continues, even if it is slow and inconsistent, there will be a recovery in commercial real estate. Job growth is starting to improve, and any level of job growth results in demand for commercial real estate. In 2010, a general stabilization in demand occurred. There is no new competitive supply being built, so even moderate demand in a slow

economic recovery will eventually absorb space. There may also be some moderate improvement in rental rates in 2011, with a 0% to 2% increase in rates from the beginning to the end of the year. Additionally, commercial real estate today is probably still priced approximately 15% below the long-term trend, so over the next 5 to 7 years there is a favorable environment for the asset class. It is currently an attractive income return at slightly above 6%, especially when compared to most other high-quality income-generating investments.

In response to a question from the Chairman, Mr. Darling stated that there is no concern with obtaining financing when needed. With quality assets, low leverage, and good cash flow, there is plenty of financing available at reasonable rates. With multi-family properties, the lender has almost exclusively been government-sponsored entities such as Freddie Mac and Fannie Mae.

In response to a question from Mr. Grady, Mr. Darling stated that the next draw on the ERS commitment will most likely occur on July 1, 2011 depending on transaction activity.

(b) Marquette Associates Report

Brett Christenson and Ray Caprio of Marquette Associates, Inc. distributed the monthly report. Mr. Grady indicated that he liked the new layout for the Marquette presentation, to which Mr. Christenson responded that Marquette is revising the layout of all of its materials.

Mr. Christenson first discussed the fourth quarter market environment. There was a slight drop in unemployment with the unemployment rate at a little over 9.3%. Unemployment has stabilized, which is very important in terms of providing confidence that there is a slight recovery. Mr. Christenson then noted that economists feel the U.S. economy is likely to experience inflation. However, with an over 9% unemployment rate, low interest rates, and the government having to be fiscally responsible going forward because of outstanding debt, currently there is no sign of inflation.

Mr. Christenson next described the fixed income environment. Most of the broad fixed income indices had negative returns in December 2010, and this is a result of depreciation in bonds from a slight increase in interest rates. Demand for 10- or 30-year bonds has decreased and as a result the interest rate on the bonds has increased, which is often a sign that some sort of inflation may lie ahead. If

interest rates start to increase, even if it is a slow increase, it will put pressure on the fixed income portfolio. Fixed income is a necessary allocation for the portfolio. It provides a great anchor during periods of stress and stability for paying benefits.

The ERS portfolio has a target allocation to fixed income of 32%. In response to a question from the Chairman, Mr. Christenson stated that JPMorgan is duration-neutral in managing its fixed income fund. JPMorgan focuses on trying to own higher coupon bonds to over-account for any depreciation it might experience. If a rise in interest rates is anticipated, the duration of maturity for the portfolio is decreased, which helps to minimize losses in a rising interest rate environment. The problem with this strategy is that if interest rates do not rise, there is a slightly lower yield on the portfolio.

Mr. Christenson then discussed U.S. equity markets. December returns in the stock market were very strong, and overall the market was very strong in 2010. All major U.S. indices had a return of over 5% for December 2010, which for the one-year time period gives ERS a high double-digit return. The Wilshire 5000 was up 17.2% for 2010, and small- and mid-cap stocks were up anywhere between 25% and 30%. Additionally, the price-to-earnings ratio of the S&P 500 indicates that even though there have been some very strong returns in the stock market, stocks are actually cheaper than their historical average. The strong earnings reports from companies are the result of cost-cutting, and the next step is putting to work the cash they have on their balance sheets to start growing the companies.

Mr. Christenson noted that there have been sharp rebounds in some areas of the stock market. Consumer discretionary stocks were up almost 28% in 2010, which is back above its pre-financial crisis high. Managers who lagged their benchmarks in 2010 lagged because they did not expect to see such a strong rebound in certain sectors like consumer discretionary that are sensitive to recessions and the overall market.

Mr. Christenson next described the international equity market environment. The MSCI ACWI ex. U.S. index had a return of 11.6% in 2010 while the MSCI EAFE (U.S. Dollar) index was up 8.2%. These returns are lower than the U.S. markets because of weak European economies. The predictions are that emerging countries have much higher growth outlooks for 2011 than

developed countries, partially because they are currently operating with lower debt than a number of developed countries.

Mr. Caprio then presented the December 2010 flash report. The ERS portfolio has a market value of approximately $1.86 billion in assets through December 2010. Mr. Caprio then discussed current allocations of asset classes in the ERS portfolio versus target allocations. The ERS portfolio is about 2% underweight to its target allocations in fixed income, real estate, and private equity. The portfolio is about 2% overweight to its target allocation in U.S. equities.

Mr. Caprio next described the performance of the ERS Fund. The return of the total Fund composite was 12.2% gross of fees for 2010. The returns of the fixed income composite, the U.S. equity composite, and the international equity composite all exceeded the benchmark in 2010. Marquette plans to provide rankings of the ERS Fund versus its peers at the next Board meeting.

Mr. Caprio then reported on the December 2010 manager returns. Most ERS managers have performed close to their benchmarks. Marquette will continue to monitor the managers who are underperforming and develop a further course of action.

Mr. Caprio then stated that Marquette recommends rebalancing the ERS portfolio because ERS is slightly overweight to equities. Marquette will continue to naturally rebalance the portfolio by funding cash flow from class assets where ERS is overweight. Marquette also recommends moving $8 million from AQR Small-Cap Value Equity and $2 million from Fiduciary Management Small-Cap Value Equity into Mellon Capital Fixed Income.

In response to a question from Dr. Peck, Mr. Caprio stated the reasoning behind the recommendation is to continue rebalancing the portfolio back to the individual target allocations for each manager.

In response to a question from Ms. Bedford about moving funds from AQR to Mellon Capital as opposed to JPMorgan, Mr. Caprio explained that Mellon Capital is 2% below its target allocation while JPMorgan is at its target allocation. Marquette recommends that ERS move funds to the most underweight manager.

The Pension Board unanimously approved rebalancing the portfolio by moving $8 million from AQR Small-Cap Value Equity and $2 million from Fiduciary Management Small-Cap Value Equity into Mellon Capital Fixed Income. Motion by Ms. Bedford, seconded by Mr. Cohen.

In response to a question from Mr. Loeffel about funding, the Chairman stated that the actuary assumes and uses a return of 8% to calculate ERS contributions. The investment timeframe is generally 30 years or more.

The Chairman then addressed the Investment Manager Interview Schedule for 2011. He asked what was to be done with AQR, who was scheduled for the now-cancelled February 16, 2011 Pension Board meeting. Mr. Caprio suggested that AQR and the other investment managers be reassigned to the following month's slot, but that the schedule is just a draft and will be updated when there are changes.

The Chairman suggested scheduling similar managers for the same meeting just to become familiar with them. Mr. Grady then stated that it would be helpful to bring in the small-cap managers together, and then the mid-cap managers together. Mr. Huff stated that bringing in BNY Mellon was also discussed at a previous Board meeting.

7. Investment Committee Report

Dr. Peck reported on the January 3, 2011 Investment Committee meeting. She stated that the Investment Committee continues to monitor GMO's underperformance. In the event any action must be taken with GMO, Marquette Associates educated the Investment Committee on international equity so that the Investment Committee may make an informed decision about a replacement manager.

8. Audit Committee Report

There was no Audit Committee Report because the January 6, 2011 meeting was cancelled.

9. Administrative Matters

The Chairman discussed conferences and educational sessions, indicating that Messrs. Sikorski and Stuller requested approval of the AFSCME

Pension Trustee Training Conference in Maryland. Additionally, approval was requested for the U.S. Pensions Summit held in Illinois.

The Chairman then indicated that other conferences for the Board to consider approving include the World Research Group 4th Annual Emerging Managers, Trends and Best Practices conference, and a Harvard University Pension Retirement Security & Strategies for Investment Management conference.

The Pension Board voted unanimously to approve the attendance of any interested Pension Board member at: the AFSCME Pension Trustee Training Conference on February 6-9, 2011 in Linthicum, Maryland; the U.S. Pensions Summit on July 18-20, 2011 in Wheeling, Illinois; the World Research Group 4th Annual Conference, Emerging Managers, Trends, and Best Practices on March 29 and 30, 2011 in Chicago, Illinois; and the Harvard University 2011 Pensions, Retirement Security and Strategies for Investment on March 16-18, 2011 in Cambridge Massachusetts. Motion by Dr. Peck, seconded by Mr. Cohen.

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee, and Investment Committee agendas. The Chairman requested that anyone who wants to add an item to the agenda let either the Chairman or Mr. Schroeder know so the item can be discussed at the agenda planning meeting.

10. Disability Matters

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to item 10 for considering the financial, medical, social, or personal histories of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories, and 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 7-0 to enter into closed session to discuss agenda items 10, 11, and 12. Motion by Ms. Bedford, seconded by Mr. Cohen.

(a) Applications

(i) Anthony Young, ADR

Upon returning to open session, the Pension Board discussed Anthony Young's accidental disability pension. The Medical Board recommended that the Pension Board grant Mr. Young's accidental disability pension application if an appropriate vacant position within ERS could not be found.

In open session, the Pension Board unanimously approved accepting the Medical Board's recommendation to grant an accidental disability pension application. Motion by Ms. Bedford, seconded by Mr. Stuller.

(ii) Diana Vaden, ODR

In open session, the Pension Board discussed Diana Vaden's ordinary disability pension. The Medical Board recommended that the Pension Board deny Ms. Vaden's ordinary disability pension application.

In open session, the Pension Board unanimously approved accepting the Medical Board's recommendation to deny an ordinary disability pension application. Motion by Ms. Bedford, seconded by Mr. Cohen.

(iii) Dyan Ramos, ODR

In open session, the Pension Board discussed Dyan Ramos' ordinary disability pension. The Medical Board recommended that the Pension Board grant Ms. Ramos' ordinary disability pension application.

In open session, the Pension Board unanimously approved accepting the Medical Board's recommendation to grant an ordinary disability pension application. Motion by Mr. Cohen, seconded by Mr. Stuller.

11. Pending Litigation

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

The Pension Board took no action on this item.

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

The Pension Board took no action on this item.

(c) *ERS v. Lynne Marks*

The Pension Board took no action on this item.

12. Report on Compliance Review

The Pension Board took no action on this item.

13. Adjournment

The meeting adjourned at 10:25 a.m.

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