EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE DECEMBER 21, 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
Linda Bedford (Vice Chair)
Keith Garland
Mickey Maier (Chairman)
Dean Muller
Guy Stuller

Member Excused
Dr. Sarah Peck
Rex Queen
David Sikorski

Others Present
Marian Ninneman, CEBS, CRC, Interim ERS Manager
Mark Grady, Deputy Corporation Counsel
Dale Yerkes, ERS Fiscal Officer
Vivian Aikin, ERS
Annette Olson, ERS
Monique Taylor, ERS
Ray Caprio, Marquette Associates, Inc.
Tim Burdick, Marquette Associates, Inc.
Scott Brown, Morgan Stanley
Rick Lindquist, AON
Dennis Dietscher, Interim Director, Milwaukee County Risk Management
Mark Sarnowski, Milwaukee County Employee
Sandra Welsher, Former Milwaukee County Employee
Lesley Schwartz-Nason, Former Milwaukee County Employee
Steven Huff, Reinhart Boerner Van Deuren s.c.
Steve Schultze, *Milwaukee Journal Sentinel*

3. Minutes — November 16, 2011 Pension Board Meeting

The Pension Board reviewed the minutes of the November 16, 2011 Pension Board meeting. Mr. Grady proposed a revision to the minutes.

The Pension Board unanimously approved the minutes of the November 16, 2011 Pension Board meeting after changing the third motion on page 15 to read as follows: "The Pension Board voted 6-1 to approve an authorization to Marquette to conduct a search for mid-cap growth managers, or mid-cap value managers if the Pension Board decides to revise the asset allocation to include mid-cap value. Motion by Dr. Peck, seconded by Ms. Bedford, with Mr. Muller opposed." Motion by Ms. Bedford, seconded by Mr. Garland.

4. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, November 2011

Ms. Ninneman presented the Retirements Granted Report for November 2011. Forty-one retirements were approved in November, with a total monthly payment amount of $57,999. Of those 41 retirements, 28 were normal retirements, 12 were deferred, and one was deferred early. Seventeen retired under the Rule of 75 and one retired under 55+30. Additionally, 15 retirees chose the maximum option, and 27 were District Council 48 members. Twenty-one retirees elected backDROPs in amounts totaling $2,668,061. Of these 21 backDROPs, 2 were over $400,000, 3 were over $200,000, and 11 were under $200,000. The largest backDROP was $486,000 and the smallest was $12,000.

Ms. Ninneman stated that ERS is anticipating higher retirement numbers in January and February because of a change to Medicare Part B.

In response to questions from Mr. Garland, Ms. Ninneman stated there is currently a retirement backlog. Employees seeking to retire as of December 31, 2011 will not be processed until the end of February. Additionally, ERS staff is stressed with performing up to four retirement appointments per day and processing final calculations, though ERS Fiscal is taking pressure off by helping with final reviews and setting up disbursements.

In response to a comment from Mr. Garland about recent complaints that employees are receiving confusing retirement numbers from the V3 system, Ms. Ninneman responded that ERS is aware of the complaints. In the system's Member Self Service, employees can create multiple estimates based on various criteria under which they want to retire, which may lead to different numbers. There were also issues with the 25% retention bonus, which have been resolved. The system at this point is clean; ERS is running two manual estimates and ERS Fiscal is running a third to verify that the system is correct.

(b) ERS Monthly Activities Report, November 2011

Ms. Ninneman presented the Monthly Activities Report for November 2011. ERS had 7,887 retirees at the end of November, with a monthly payout of $13,929,633.

Ms. Ninneman then stated that there are 442 retirements year-to-date and ERS expects to be just under 500 retirements at year end, almost double from last year. ERS conducted 34 appointments in November, and there are 12 legal issues, the majority from employees concerned whether their pensions were calculated correctly.

In response to questions from the Chairman and Mr. Grady, Ms. Ninneman confirmed that other than the increase in the number of retirements, the retiree benefit disbursement numbers are consistent with past years.

(c) Liability Insurance Renewal

Ms. Ninneman introduced Rick Lundquist from AON, the broker for ERS, and Dennis Dietscher from Milwaukee County Risk Management, who discussed the liability insurance renewal.

Mr. Lundquist first provided background on AON, which was founded by a Wauwatosa native and that currently has 61,000 employees in 120 different countries. AON believes size is critical when it comes to fiduciary coverage because it allows AON to obtain top quality management and staff to handle client need.

Mr. Lundquist stated that AON stayed with current insurance carriers AIG, Chubb, and Axis, each with $10 million in coverage. There is a $150,000 retention for indemnifiable claims. The premium will likely be less than last year because AIG was able to provide a small discount.

Mr. Lundquist then stated that it is important from a fiduciary standpoint for the Milwaukee County Retirement System to stay within certain limits and retention parameters in relation to its peers.

ERS is currently at about the third quartile with a limit of $30 million, which is $10 million over the median. This is a good ranking when the number of plan participants is between 10,000 and 25,000. Retention, qualified retirees, and survivors are a little lower than the peer base.

Mr. Lundquist continued that ERS plan assets are close to about the $2 billion mark, right at the median and just slightly below the average for its peers. Benchmarking data comes from AON directly; AON does not buy or subscribe to benchmarking data because it has a large enough pool to provide its own.

In response to a question from the Chairman, Mr. Lundquist stated that the current market for fiduciary liability insurance is flat because of natural disasters, and insurance companies are not realizing big returns.

Mr. Dietscher then stated that ERS claims are being held in check. An insurer can offer slight decreases in premium when it sees that everything is in control and that everything is handled professionally and as required.

(d) <u>Member Election</u>

Ms. Ninneman stated that Mr. Queen's seat is coming up for election. Mr. Queen took over for Mr. Stuller when Mr. Stuller retired, so it is a partial term. The primary election will be held February 3–6, and the final election, if necessary, will be held February 17–20. Election notices have gone out. Currently, 3 individuals have taken out nomination papers. Votenet will handle the online and the telephonic voting to generate the user IDs and passwords; Milwaukee County will not be involved. An outsourced fulfillment center will mail the user IDs and passwords to all eligible Milwaukee County employees. ERS is also trying to obtain assistance from another County department, like Audit, to cover incoming phone calls from employees experiencing problems during the election.

In response to a question from Mr. Garland about the mechanism in place for employees who do not receive their user ID and password in the mail, Ms. Ninneman stated that e-mail blast issues from the last election have been resolved. A confirmation e-mail from IMSD states that the employee distribution list ERS now has includes everyone who is on Lotus Notes. PR messages are sent to inform employees of the election and the candidates, and employees will receive a notice when the user IDs and passwords are sent, along with contact information if the employee does not receive the information.

In response to several questions from the Board regarding eligible voters and notification, Ms. Ninneman stated that active members currently on the payroll as of the election date are eligible to vote. Additionally, employees who do not have access to Lotus Notes receive notification of the election and the candidates through a department posting of the e-mail blasts by the department head. These same employees will also receive their user IDs and passwords in the mail. Ms. Ninneman stated that she will verify this information, as well as follow up with the department heads to ensure the e-mail blasts are posted.

(e) Co-Development Cost Comparison Report

Ms. Ninneman discussed the co-development cost comparison. The co-development team is working with Vitech to assume responsibility for making changes to the system in order to realize significant cost savings. For the fourth quarter, an additional savings of about $195,000 was realized. Because the co-development team can now create specifications and perform testing and verification, the Vitech technical team is no longer required for it, which results in faster implementation of enhancements and fixes at a significant savings.

Ms. Ninneman stated that ERS has developed good contacts and working relationships with organizations that have implemented the V3 system, several of which are also using the co-development concept. ERS plans to collaborate with those organizations and use that information exchange to continue to increase efficiencies and reduce costs.

In response to a question from Mr. Stuller, Ms. Ninneman stated that the four-person co-development team is contracted from the Joxel Group and has the required skill set to write code for the system. This arrangement has resulted in cost savings and faster turnaround. The Chairman then stated that no internal solution was found to accomplish this.

In response to several questions from Mr. Stuller and Mr. Garland, Ms. Ninneman stated that all members of the co-development team are dedicated exclusively to the co-development project except for the project manager, who may work on other projects at the same time. The existing contract with Joxel includes a fixed fee cap, regardless of the hours it takes the co-development team to complete the work. This work is tracked and recorded in weekly status reports and timecards.

In response to a question from Ms. Bedford, Ms. Ninneman stated that the Joxel Group cannot renegotiate fees during the contract period even if the work is much more than originally anticipated.

(f) Fiscal Officer

Mr. Yerkes first discussed the 2012 budget. The only difference from the 2012 budget presented in November is the transfer of $50,000 from outside services to outside consultants in order to keep the pension plan running.

In response to a question from Mr. Stuller, Ms. Ninneman stated that under the County budget process, Employee Benefits is being moved back under Human Resources as of the first of the year. ERS was tasked with reducing salaries and fringe, so the budget analyst chose four positions to be eliminated as of the end of the year. Two of the positions are clerical assistants, one is the V3 coordinator, and one is an administrative specialist.

In response to questions from Mr. Stuller, Mr. Grady and Ms. Ninneman confirmed that the County's budget calls for no additional expenditure for contract workers. This expenditure is paid for by ERS, but then charged back to the County as part of administration. Mr. Grady also added that ERS asks the County to pay a contribution every year, which the actuary calculates; this expenditure is just an expense that is part of that contribution. The County budget does not show an increase in contractual expenditures to offset the loss of personnel just like it does not show anything for the investment manager fees. Those are paid for out of the County contribution calculation.

In response to a question from Mr. Stuller, Mr. Grady stated that the employees who occupy the four eliminated positions will have layoff recall rights under civil service rules.

In response to questions from Mr. Garland, Ms. Ninneman stated that DAS decided which positions were eliminated and that those four employees are long-term employees. Mr. Grady stated that civil service rules allow for bumping within the same classification; however, there was no one in ERS with lower seniority in the same classification.

Mr. Garland then questioned the logic of laying off employees at a time of need in ERS and then bringing in temporary staff because ERS cannot handle the workload. In response to questions, Ms. Ninneman stated that eliminating the four positions could further push the backlog beyond February.

In response to a question from Mr. Stuller, Ms. Ninneman stated that the four employees who currently occupy the eliminated positions could not serve on the co-development team because they lack the necessary skill set.

In response to a question from Mr. Muller, the Chairman stated that ultimately the County pays for everything and it is reasserting its right to manage the personnel side of the budget. ERS management asked the County whether it could try to develop a strategy to meet the dollar budget requirements while still managing the process and the employees.

In response to questions from Mr. Muller and Mr. Stuller, the Chairman stated that there is a pure net reduction in labor whether it is staff or outside consultants no matter how it is paid for. Part of this involves a shift from employees to outside consultants, but there is a net reduction.

Mr. Stuller then stated that he understands the cost savings associated with the decision to eliminate the positions. However, the savings would eventually be lost because of the need to obtain additional services from Joxel to cover the workload ERS could not handle.

In response to a question from Mr. Grady, Ms. Ninneman stated that ERS does not anticipate that the pace of retirements in 2012 will reach the same level as 2011, barring any major changes to benefits.

In response to general discussion by the Board, Mr. Grady stated that if the Board does not agree with what the County is doing it should express that to the Executive and County Board.

Ms. Ninneman then stated that the main objective for hiring temporary employees to fill the vacancies is to make sure that ERS does not lose any ground in its processing.

In response to questions from Mr. Garland, Ms. Ninneman stated that one of the positions created in 2011 was the pension information systems specialist, a highly technical position. That person is in place, trained, and has the knowledge and capacity to manage the system. Additionally, existing staff is currently undergoing certified retirement counseling training and has the system training to process pensions. However, when a system fix is needed, the staff does not have the skill set required for programming or coding.

The Chairman then acknowledged Annette Olson, the current ERS coordinator whose position will be eliminated. Ms. Olson stated that she is a 15-year employee of Milwaukee County who oversees the management of the ERS system database by approving pension checks, confirming calculations, managing staff, monitoring daily workload, and working directly with the co-development team, coordinating the Ordinances and the day-to-day assignments with them.

Ms. Olson stated that her concern is who will complete her tasks once her position is eliminated. ERS has fulltime temporary staff consultants from the Joxel Group who are working with the system and have access to personal information. Given recent issues with Social Security numbers being exposed by temporary staff, Ms. Olson noted potential security concerns because many of Ms. Olson's duties have been transitioned to one of the temporary staff.

In response to a question from Mr. Garland, Ms. Olson stated that she could handle the position currently occupied by one of the temporary staff. She has been part of the programming of the system and knows the mechanics of it. While she has no programming background, she was part of the group that first programmed the benefits into the system. Additionally, she was part of the team that launched the Ceridian System, which is why she was asked by the County to move to ERS.

The Chairman then asked for a motion to approve the 2012 Pension Fund Budget.

In response to a question from Mr. Muller, Mr. Yerkes stated that legal fees increased $250,000 because of the situation with the IRS. Mr. Grady added that there have been a number of suits recently that legal counsel is handling, and ERS has a $150,000 per claim retention on its insurance policy. Fees will most likely increase. Mr. Grady also noted that the cost of Corporation Counsel, Mr. Grady's office, is decreasing.

In response to a question from Mr. Muller, Mr. Yerkes stated that the rental space item is the rent paid for the Retirement Office in the courthouse.

In response to a question from Mr. Muller, Mr. Yerkes stated that the IMSD charges are allocated charges of the County for using ERS computers. IMSD is the Information and Management Services Division, or the IT department for the County and the city.

In response to a question from Mr. Muller, the Chairman stated that the travel and education items are for the Board and staff to attend conferences and seminars, such as the International Foundation, for certification and education.

In response to a question from Mr. Garland, Mr. Grady stated that the Board has to approve the budget. Any reservations about the budget could be added as an agenda item for discussion at a future Board meeting.

The Chairman then requested that the Board approve the budget in order to continue to do business. A strategy could later be determined to discuss any concerns about budget items.

Mr. Garland stated that he would like to address the budget topics at the next Board meeting.

The Pension Board voted 4-1, with Ms. Bedford, and Messrs. Muller, Garland, and Maier approving, and Mr. Stuller dissenting, to approve the 2012 ERS Budget. Motion by Ms. Bedford, seconded by Mr. Muller. The motion failed to pass because it lacked the necessary five votes as required by Ordinance section 201.24 (8.5).

Mr. Stuller stated that his dissenting vote is because he does not like the budget, specifically contractors performing the work versus County employees, and how associated costs are reflected and paid.

Mr. Grady stated that not approving the budget is a breach of fiduciary duty to the Board because ERS cannot run without a budget. Mr. Grady suggested that Mr. Stuller approve the budget, but then make a motion to amend the items he does not like.

Mr. Grady then stated that a special session of the Pension Board will need to be called next week to discuss the 2012 Budget.

Mr. Yerkes then discussed the ERS cash flow report for the first quarter of 2012. This cash flow does not yet include contributions from the deputy sheriffs because Mr. Yerkes is unsure of when that will start and prefers to have the cash flow a little under rather than a little over. The contribution rate for other employees is 4.7%.

Mr. Yerkes then stated that the UBS Trumbull Real Estate capital call should be approved today; UBS will call the full $15 million on January 3, 2012. There is $13 million from CRA, with another $2 to $3 million from cash. For the lump sum forecast, there is $4 million per month for January, February, and March, which is much less than the lump sum distributions or payments due to the Medicare Part B reimbursement window closing earlier this year.

Mr. Yerkes continued that after UBS Trumbull, ERS has about $4.5 million committed to American Realty. Once that $4.5 million is called, the restructuring that Marquette began almost three years ago will be complete.

In response to questions from Mr. Garland, Mr. Yerkes confirmed that existing County employees are contributing 4.7%, which appears as a $550,000 monthly contribution amount on the cash flow report. ERS receives an approximate $270,000 check every other week from the County payroll, and the deputy sheriffs will be added sometime in 2012.

In response to a question from Mr. Garland, Ms. Ninneman stated that ERS started creating budget formulas through the first quarter of 2012 for projection purposes in order to manage cash flow.

In response to a question from the Chairman, Mr. Yerkes stated that ERS has plenty of cash through December, but that assets need to be sold to generate cash flow for the first quarter of 2012.

In response to a question from Mr. Grady, Mr. Yerkes confirmed that ERS is requesting $30 million in the first quarter; $5 million in January, $10 million in February, and $15 million in March.

In response to a question from Mr. Garland, Ms. Ninneman stated that ERS is anticipating the retirement of long-term employees who have potential for larger pensions and backDROPs. These are the employees currently retiring as of December 31, 2011 and into January of 2012, and the retirements will be processed in January into February.

Mr. Grady then stated that another factor is the timing of cash flow from the County in terms of contributions and lump sums. Contributions are loaded later in the year. Earlier, as ERS pays out benefits, the checking account is drawn down so the contributions coming from the County in January are not visible.

The Pension Board unanimously approved the liquidation of assets to fund cash flow of $5 million for January 2012, $10 million for February 2012, and $15 million for March 2012. The amounts should be withdrawn from investments designated by Marquette. Motion by Ms. Bedford, seconded by Mr. Stuller.

Mr. Yerkes next discussed the portfolio activity report, stating that November funding came from the Mellon Capital Management Bond portfolio at $15 million.

5. Investments

(a) Morgan Stanley

Scott Brown of Morgan Stanley distributed a booklet containing information on the Prime Property Fund, of which he is the Managing Director.

Mr. Brown first provided an overview of the fund, which has been in existence for 38 years and which has had the same portfolio management team for 10 years. The fund is an open end real estate vehicle designed to provide a very stable, income-oriented real estate return. The structure of the portfolio maintains a strong concentration of high-quality assets from preferred markets in the United States. The fund has a strong track record, outperforming the index on a 1- and 3-year basis, and has a strong sponsor in Morgan Stanley Real Estate. There are 15 offices globally and about $40 billion in assets under management, of which the Prime Property Fund is about $9 billion. It is the largest fund and the flagship fund under the Morgan Stanley banner.

Mr. Brown continued by stating that as of the end of the third quarter, the equity of the fund is just over $6.3 billion. The fund contains 232 different assets and 175 different investors. Despite a difficult economy, it is just under 94% leased, which speaks to the overall quality of the portfolio, and well-diversified in office holdings, apartment holdings, retail, industrial, self storage, hotel, and a small percentage of land where apartments will eventually be built. The comparison to the overall average of the index is being able to tactically deal with overweight and underweight in the different sectors in which the fund is invested. There is also a strong concentration to the gateway markets in the U.S. Approximately 66% of the investment is in these seven preferred markets; northern California, southern California, Chicago, Washington D.C., south Florida, Boston, and New York. Markets with employment and job growth are the markets that can be cashed through the quickest, as well as markets that in general have formed a very large supply. The fund invests in properties that can perform best through the ups and downs of a given market cycle.

In response to a question from the Chairman, Mr. Brown stated that there is an overweight in self storage relative to the market because self storage has gained institutional acceptance over the last few years. It is not currently in the asset class that is captured within the index, but there is a small allocation because it is becoming more accepted as being an institutional quality sector in which to invest.

Mr. Brown then discussed portfolio leased status. Though it bottomed out at the end of 2009, there has been strong growth across each of the different sectors, from 91% to 97% overall. Income growth has also been realized, which is how value is created for properties. Creating more income creates more value for shareholders and, again despite a difficult economy, net operating income increased from 2½% last year to over 4½% this year, and that performance is favorable to competitors.

Mr. Brown then stated that in terms of office assets, the fund has high-quality, urban-oriented high rise office properties in New York, Washington D.C., Boston, Chicago, downtown San Francisco, and Los Angeles. These types of office properties perform best through the cycle. In terms of retail assets, the fund contains five major regional malls, some of the most productive centers in the country located in places like San Diego and Miami. There are strong sales groups and strong income trends within the retail portfolio, which has helped differentiate the fund from its peer funds.

In response to a question from Ms. Bedford about AMLI, Mr. Brown stated that the apartment portfolio is comprised of a public REIT that was privatized under Amway. The fund owns over 20,000 units and the operating company that manages and leases those properties. The benefit of that is brand and internet presence; 60% of the leasing is done online, and if the collection of assets owned are not branded, it is very difficult to capture that segment of demand. Sites are owned or under control in Chicago, Atlanta, Austin, Dallas, Houston, Denver, Seattle, and southern California, and just recently south Florida.

Mr. Brown then continued that in terms of industrial assets, northern New Jersey and southern California represent 15% of the portfolio. If northern California, the Baltimore-Washington corridor, Seattle, and south Florida are included, that percentage increases to over 90% of the portfolio.

In response to a question from Ms. Bedford as to what point property is acquired, Mr. Brown stated that the fund does not deal with the actual take out lending. Most often, the properties purchased are already completed and have been in operation for many years. Infrequently, particularly with multifamily dwellings, properties are built, but not often because the fund is a low risk fund. Assets from 0 to 10 years old are more favorable. In the preferred markets, there is always acquiring and selling to try to find the best way to generate the best overall performance with the fund.

Mr. Brown then discussed capital structure. Leverage is relatively low at 31% with a target range of 25% to 35%. At this part of the interest rate cycle, long-term debt is locked in at 4.5% on a 10-year basis, which is attractive since average duration is extended, debt maturities are manageable, and there are no liquidities. Additionally, there is a $500 million untapped line of credit, so liquidity is borrowed very carefully.

Mr. Brown stated that the investor profile for the portfolio is predominantly U.S. public and private pension plans. The REIT structure allows for foreign and diversified investors. Strong growth has been realized, from 54 investors when Morgan Stanley became manager of the vehicle to 175. Coming out of the downturn, the number of investors has increased from 132 to 175, and growth continues. How well that relates to portfolio performance is the most important item to mention.

Mr. Brown then discussed portfolio performance. ERS first invested in September 2010. Over the last year, a 19.8% before fee return and an 18.4% after fee return was realized. Although it is unlikely these numbers will continue annually, the good news is that there was a strong downturn in 2009, so investment timing was excellent. The portfolio has outperformed the benchmark and should continue to outperform.

In response to a question from the Chairman regarding pricing outlook, Mr. Brown stated that on a relative basis, the returns for real estate look attractive. If the outlook for the other asset classes like stocks and bonds continues to look muted next year, real estate should be in position to grow a strong return. A 5% to 6% income return is anticipated with a 2% to 3% range of appreciation; 8% to 10% overall is a more reasonable expectation than the 19% last year. Prices today are still below replacement cost, and that tends to be the governor of prices; people want to build a product because there is a margin to be made. The recovery environment will be slow and will not dramatically shift to a point where there is a lot of new supply.

In response to a question from Mr. Muller as to how to interpret the PRIME Change Since Peak graph on page 33 of the report, Mr. Brown stated the real estate peak was December 2007, with a dramatic downturn over the course of 2008 and 2009 and recovery in 2010. The timing, again, for ERS entry into the fund was excellent going into the third quarter of 2010. As far as fund recovery from the downturn, December 2007 pricing was 100 cents on the dollar. Pricing fell to about 72 cents on the dollar, and is now back to only about 83 cents on the dollar. While returns have been strong over the course of 2010 and 2011, the fund is not back to peak performance, or close to it. Peak performance is also not expected in the near future. Share price has risen from $9,000 a share in 2009 to $11,000 a share today, which is still far from the share price in the fourth quarter of 2007.

In response to a question from Mr. Muller, Mr. Brown stated that industrial assets are predominately in the distribution warehouse business. It varies across the regional distributors to more national distributors in a given market.

In response to a question from Mr. Muller, Mr. Brown stated that one factor that triggers the investment process is the ability to complete a negotiated transaction with a seller in distress. Approximately $1.5 billion over the last 12 months was purchased and roughly $500 million was sold. Morgan Stanley tries to buy on a directly negotiated basis, and many recent investments were written up at a bargain price because of post-appraisal negotiations. Morgan Stanley is an active portfolio manager, buying and selling and taking advantage of allocations, providing good pricing to try to roll it all together for outperformance for its investors.

In response to a question from Ms. Bedford regarding Morgan Stanley's core business strategy, Mr. Brown stated that it is a large financial services firm that includes an investment securities division, a retail brokerage, and an investment management business. As Morgan Stanley has gone through the downturn and with a new CEO, the company is much more client centric, focused on being the manager for third parties.

(b) UBS

The Chairman stated that UBS was unable to attend the December Board meeting, but confirmed with Mr. Caprio that UBS would try to attend the January Board meeting.

(c) Marquette Associates Report

Ray Caprio of Marquette Associates introduced Tim Burdick, the Chief Investment Officer at Marquette Associates, stating that Mr. Burdick oversees the top-down asset allocation strategy.

Mr. Caprio distributed and discussed the monthly report.

Mr. Caprio first discussed the fixed income portfolio, which is a large component of the ERS Fund at about 30%. In traditional investment grade bonds, some are indexed to the very top benchmark, the BarCap Aggregate. The BarCap Aggregate is comprised of treasury bonds, corporate bonds, commercial mortgage-backed securities, and agency bonds. There is good diversification across the broad fixed income spectrum, with a blend of active and passive managers in the Pension Fund. Bonds have had a positive year, which is a result of decreasing interest rates. Nearly all returns in fixed income this year have come from appreciation. Given that interest rates went from over 3.0% at the start of the year to below 2.0%, going forward there is little expectation for high returns in fixed income because of the low yield environment. At some point, there will be upward pressure on interest rates, either directly through the Fed or from investors oscillating between their expectations of economic growth. Achieving an 8% rate of return by holding higher allocations in current fixed income environments will be difficult. Because of this, over the past three years Marquette has promoted adding allocations to alternative investments like private equity, core infrastructure, private real estate, and hedged equity to seek lower volatility and lower correlation to the traditional public markets. As a result, the Pension Board has added 30% of the assets to alternative investments in an effort to seek better long-term risk adjusted performance.

Mr. Caprio then discussed the U.S. and non-U.S. equity portfolios. The European debt crisis has caused a large difference in performance in U.S. and non U.S. markets. The non-U.S. benchmarks have significantly underperformed the U.S. benchmarks. The riskier asset classes, such as emerging markets and non U.S. small-cap, were hurt the most. However, on a relative basis, ERS's international composite outperformed the broad index MSCI ACWI ex. U.S. This can be attributed to active managers positioning the portfolios more defensively.

Mr. Caprio then discussed Fund performance, reporting that the Fund is a little over $1.7 billion. U.S., international, and hedged equities make up about 50% of the Fund, with the remainder in bonds, real assets, and private equities. Marquette's philosophy is that over 90% of ERS's performance will come from asset allocation, not active management. Based on that philosophy, Marquette seeks to employ an optimal portfolio for each asset class and sub asset class on a risk-adjusted basis over a full market cycle. For U.S. equity, there is a 60% target to large-cap stocks with a value tilt, 20% small target to mid- and small-cap equity. Overall, the portfolio is constructed to overweight small-cap and mid-cap, relative to the broad benchmark Wilshire 5000. Research reflects this approach more consistently beats the markets over full market cycles.

Mr. Caprio next discussed the annualized total Fund performance, stating that total Fund composite is down 1%, with a flat year-to-date return. The number to focus on is the 3-year number, however, and 11.7% is definitely in the top quartile. Timing was part of this success, but also some of the decisions made to remove assets from traditional markets, like stocks and bonds. U.S. equities returned 17%, and the broad U.S. stock market is up 15.2%. Excluding active management, small- and mid-cap stocks have performed a lot better over this 3-year period. Factoring in active management, there has been good performance from Boston Partners and Artisan, as well as both small-cap managers, which has added to outperformance. Overall, U.S. equity is down 1.2%, so this strategy of overweighting small- and mid-cap will not work in every environment. With international, there is relative outperformance, although on an absolute basis international has not performed as well. With real estate, Morgan Stanley has been the best performing asset class of 2011, up 12.2% for the third quarter, and it looks like it will finish at around 15% for the year. While traditional markets are struggling with political and economic turmoil, the real asset components for the portfolio are doing well.

Mr. Caprio then discussed the investment managers, reporting that there are a significant number of outperforming managers for the month. Reinhart Partners, however, continues to underperform relative to the mid-cap benchmark, and this was discussed at the Investment Committee meeting in conjunction with the asset allocation study.

The Chairman then stated that year-to-date, hedged equity is trailing on an absolute basis, domestic equity in particular. Hedged equity was added to try to moderate a market downturn, yet the strategy does not appear to be working.

In response to the Chairman's statement, Mr. Caprio commented that the first and second quarter started very strong. At that time, managers like ABS and K2 were significantly increasing their exposure to market and moving more toward long over short. This occurred at the end of the second quarter when the market was just peaking, so the managers missed the gain. As the market sold off toward the end of the second quarter and into the third, the managers were slow to reduce their exposure. Mr. Burdick added that K2 and especially ABS have a fairly significant international component, so there is a large global factor to be considered, as well.

Mr. Caprio then stated that global managers have really narrowed their portfolios down to more concentrated allocations, whereas before the portfolios were much more broad.

Mr. Caprio next discussed Marquette's asset allocation analysis of the mid-cap space, which includes the impact to the total portfolio. Marquette identified two potential portfolio changes in addition to the current ERS portfolio, which is about 50% large-cap, 30% mid-cap, and 25% small-cap value. In Portfolio A, Marquette modeled shifting 2½% of the 5% mid-cap growth into mid-cap value. In Portfolio B, Marquette shifted all 5% of mid-cap growth into mid-cap value. Marquette then showed how the two portfolios would impact the Fund overall on an annualized long-term basis from a return perspective, and the impact on volatility. The analysis projected that the current portfolio would earn about a 7.91% average annualized return over a 10-year period. Those returns increase to 7.97% in Portfolio A and to 8.02% in Portfolio B, so as more value is added to the portfolio, return increases. Marquette's research, which involves back-testing a portfolio through years of data, supports that an all-value stock portfolio would have beaten the market over the last 30 years. Marquette is not comfortable placing an all-value portfolio in the Pension Fund because value cycles can be significantly unpredictable, so removing the value bias by adding some growth is more prudent to an overall portfolio construction. Typically, when return is expected to be higher, so is expected volatility, unless you are adding uncorrelated asset classes. Marquette determined that the current portfolio has a 9.76% average annualized 10-year volatility. This volatility increases to 9.84% in Portfolio A and to 9.93% in Portfolio B, so there are equal amounts of risk and return. Different aspects of asset allocation outside of this return must also be considered, like interest rate risk, pure risk, valuation, and market cap. An all-value portfolio deviates significantly from the benchmark Wilshire 5000 by style and valuation, so a risk factor must be determined. Naturally, tilting significantly one way or the other will affect risk. As a result of the asset allocation analysis, Marquette observes the changes from mid-cap growth to mid-cap value do not show a statistically significant change to the current portfolio. Marquette's recommendation is to stay with the current portfolio, which maintains a 5% allocation to mid-cap growth.

The Chairman stated that the analysis does show an increase in return and volatility, albeit in very small percentages. The Chairman then noted that another effect on the portfolio is a tilt from a 50-50 balance of growth and value to a shift to value.

Mr. Caprio then stated that how to proceed with the assets invested with Reinhart Partners needs to be determined. In a recent discussion with Reinhart, Marquette was informed that Reinhart will be closing its mid-cap growth product as of January 31, 2012. The product will no longer be offered to current or new clients. Based on this information, Marquette recommends that the money be terminated from Reinhart and moved to some sort of passive strategy until an RFP for a replacement can be issued.

In response to a suggestion from Ms. Bedford to shift the money allocated to Reinhart over to Artisan and avoid the RFP process, Mr. Caprio stated that is certainly an acceptable alternate plan, but that it may be good to issue an RFP. If Artisan is the best manager as a result of the RFP, then Artisan can be selected.

The Chairman then stated that the decision at hand is to either accept Marquette's recommendation to stay with the current asset allocation or potentially make a change to add a mid-cap value component to the portfolio. The asset allocation analysis indicates the implications of that decision. The Board needs to discuss this decision in order to understand what is happening in the mid-cap space. At that point, the Board can then discuss the specifics of the Reinhart portfolio.

Mr. Caprio commented that Marquette holds Reinhart in high regard but is concerned that the portfolio could go unmanaged or undermanaged until the end of January, thus a decision should be made to terminate their portfolio and decide on a temporary solution until an RFP is completed for a new manager, regardless of asset allocation at this meeting.

Mr. Muller then suggested that in the interim, the Board proceed with the index route and a search for a mid-cap value and growth vehicle, which should include Artisan.

In response to questions from Mr. Caprio and the Chairman, Mr. Muller confirmed that he was referring to Portfolio A. He then stated that he is not recommending that the asset allocation for two portfolio items be changed at this point. That decision can be determined after the search data is received.

After general discussion by the Board on mid-cap value and growth and related risk factors, volatility, and performance, the Chairman confirmed with Mr. Muller that Mr. Muller's suggestion is to search for the best mid-cap growth and value managers to be found and then set the asset allocation based on that search.

Mr. Burdick stated that Marquette generally prefers that asset allocation be decided first because Marquette's studies show 90% of a portfolio return is driven by overall asset allocation.

In response to a question from Ms. Bedford, the Chairman stated that Reinhart Partners officially closes the space as of January 31, 2012. The portfolio managers will be taken off mid-cap growth and moved to the mid-cap value team. Reinhart will not be actively looking for mid-cap growth stocks or evaluating mid-cap growth holdings. Mr. Caprio added that Reinhart will watch the portfolio during the transition period and if the stock reached the price target, they will sell, but they will not replace it.

In response to a question from the Chairman, Mr. Caprio confirmed that Marquette's recommendation is to stay with the current portfolio. Mr. Caprio then recommended that iShares be used as an interim ETF for the money currently allocated to Reinhart Partners.

The Chairman then suggested that if Mr. Muller recommends Portfolio A, that Mr. Muller should make a motion proposing it.

After general discussion by the Board about the motion, Mr. Muller moved that the Pension Board search for mid-cap value and mid-cap growth managers, including Artisan in the search.

The Chairman then asked for a second to Mr. Muller's motion. However, a second was not received and the motion died for lack of a second.

In response to a question from Mr. Stuller, the Chairman stated that the asset allocation analysis was discussed in the Investment Committee meeting. The Committee did not reach a consensus, so the information was brought to the Pension Board.

Mr. Stuller stated that he intended to then make a motion to stay with the current asset allocation and authorize Marquette to initiate an RFP process for mid-cap growth according to current asset allocation. Ms. Bedford stated that she would second the motion.

Mr. Caprio then requested that a decision be made on Reinhart Partners. Marquette recommended that iShares be used as an interim ETF for the money currently allocated to Reinhart Partners. The ticker is IWP, which is a mid-cap growth ETF managed by iShares. The expense ratio on an annualized basis is 0.25%. Marquette also recommended that the Fund use one of its current transition managers to liquidate the portfolio and allow Marquette to work directly with that manager. Marquette will send the manager the portfolio information, ask the manager to analyze the cost and then liquidate the portfolio in the most cost-effective manner. The manager will be able to broker the transactions to maintain costs.

The Chairman then stated that since the transition manager has been preselected, the only motion is to liquidate Reinhart and reinvest the proceeds, pending the search results.

The Pension Board unanimously approved liquidating Reinhart Partners and reinvesting the proceeds in the iShares IWP ETF. Motion by Mr. Stuller, seconded by Ms. Bedford.

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

The Chairman reported on the December 5, 2011 Investment Committee meeting.

The Investment Committee first discussed the private equity portfolio, comparing it to presented model assumptions. Included in the discussion was a calendar year commitment schedule.

The Investment Committee then discussed the private equity RFP and review process. The RFP was publicly posted that week, with responses due by January 16, 2012.

The Investment Committee next discussed the asset allocation analysis and mid-cap search.

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

Mr. Garland reported on the December 6, 2011 Audit Committee meeting.

The Audit Committee first reviewed the 2012 ERS Budget.

The Audit Committee then discussed the timeline for the annual report. The schedule created is similar to last year.

The Audit Committee next discussed the interest calculations on participant account withdrawals. 5% simple interest, not compound interest, is used starting the date the money is received from the participant.

The Audit Committee then discussed OBRA 1099s, specifically how ERS should complete 1099s for closed estates and non-returned but uncashed checks. ERS will void the check in the system and keep track of to whom the check was payable.

The Audit Committee next discussed the liability insurance renewal.

The Audit Committee then discussed pension eligibility due to misconduct. The rules in place on the date of termination are followed.

The Audit Committee then reviewed the Ordinance amendment to the definition of employee relating to State employees, which has since been adopted by the County Board.

The Audit Committee next discussed the employee member election. Mr. Grady revised draft documents for the Department of Administration that specifically exclude ERS employees from running for and holding a Pension Board seat.

The Audit Committee concluded with a discussion on the additional Pension Board seat for DSA. Mr. Grady will draft a document that will need to go to the County Board in order to bring on a deputy sheriff.

8. <u>Proposed IRS OBRA Amendments</u>

Mr. Huff distributed two documents to the Board that explained proposed OBRA Ordinance amendments as well as the proposed OBRA Ordinance amendments in order to comply with the IRS OBRA determination letter and OBRA audit reviews.

Mr. Huff stated that the normal process for proposed Ordinance amendments involves the County Board requesting that the Pension Board provide an opinion on Ordinance amendments within 30 days. The proposal under discussion involves reversing that process and having the Pension Board make the recommendation to the County because these are Ordinance amendments which can only be made by the County Board, but which are required for the tax qualification of OBRA.

In response to a question from Mr. Grady, Mr. Huff confirmed that the same process was followed recently for the State employee Ordinance.

Mr. Huff then stated that the Pension Board should review the proposed Ordinance amendments and, if the Board thinks the amendments are appropriate for the County Board to adopt, the Board should suggest to the County Board that they be adopted by the County Board during the next cycle. The reason for adoption during the next cycle is that the Ordinance amendments are required for three reasons. One, to comply with the Internal Revenue Code. A duty of the Pension Board is to keep OBRA tax-qualified under the Internal Revenue Code. Two, to comply with a condition in a favorable determination letter from the IRS. The IRS has issued a favorable determination letter for OBRA, but it is conditioned upon adoption of these amendments within 90 days of the date of the letter, and the 90 days expires in early February 2012. In other words, the amendments need to be adopted by the County Board at the early February meeting. Three, the changes are required by the IRS audit of OBRA. All changes are required under the Internal Revenue Code; none are discretionary. Almost all the changes are technical in nature and many of them have no impact whatsoever on OBRA. OBRA is operating in compliance with many already. There is no practical adverse impact to any of the changes.

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

The Pension Board recommends enactment of the proposed Ordinance amendments to sections 203(2.12), (2.4), (4.4), (4.5), (7.1), (7.2), (9.3), (10.7), and (11.3) of the Milwaukee County Code of General Ordinances amending OBRA to comply with required legislative and regulatory changes and to clarify the operation and administration of OBRA, and waives the balance of its 30 day comment period provided for under section 201.24(8.17) of the Milwaukee County Code of General Ordinances. The Employees' Retirement System ("ERS") Manager estimates that implementation of the proposed Ordinance amendments would not result in additional cost to the System. The Pension Board believes that it is in the best interests of ERS for the County Board to adopt Ordinance amendments which maintain tax compliance of the retirement plans.

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

9. <u>Administrative Matters</u>

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee, and Investment Committee agendas. The Chairman stated that revisiting the full asset allocation will be added as an agenda item, and then requested that anyone with future topic suggestions should voice them. Those topics will be discussed at the next agenda planning meeting.

The Chairman then suggested taking action on a few upcoming educational opportunities for the Pension Board members. The Board discussed the educational value of the conferences.

The Pension Board unanimously approved the attendance of any interested Pension Board member at any 2012 International Foundation conference. Motion by Mr. Garland, seconded by Mr. Stuller.

Mr. Muller then requested attendance at the IMCA Consultants Conference. IMCA is a credentialing organization for advisors, and this particular conference contains topics relevant to the responsibilities of a portfolio manager, such as manager search selection and asset allocation. Attendance will count toward the maintenance of Mr. Muller's CIMA (Certified Investment Management Analyst) certification.

The Pension Board unanimously approved the attendance of any interested Pension Board member at the IMCA Consultants Conference, January 30–31, 2012, New York. Motion by Mr. Muller, seconded by Mr. Garland.

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 11, 12, and 13 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 5-0 to enter into closed session to discuss agenda items 10, 11, 12, and 13. Motion by Ms. Bedford, seconded by Mr. Garland.

10. Disability Matters

(a) Applications

(i) Mark Sarnowksi, ODR

The Pension Board discussed Mr. Sarnowski's ordinary disability pension. The Medical Board stated that Mr. Sarnowski is permanently unable to perform the job functions of his position.

In open session, the Pension Board unanimously approved granting the ordinary disability pension application based on the Medical Board's determination. Motion by Ms. Bedford, seconded by Mr. Stuller.

11. Claim Appeal

(a) Sandra Welsher

In open session, Ms. Welsher introduced herself and then provided an overview of her pension appeal.

Ms. Welsher stated that her last day of employment was January 13, 2011. She notified ERS of her retirement and received a pension estimate in the amount of $3,278.72. On January 25, 2011, she completed the paperwork. She worked with two ERS staff members, one of whom informed Ms. Welsher that the estimate was "accurate to within $50." Additionally, that because of vacation, Ms. Welsher would be on the books until March 21, 2011. Her first pension check was received in June 2011 and because it was not exactly for one month, it was difficult for Ms. Welsher to determine her salary and retirement benefits at that time. Her second pension check was for $2,635. At that time, Ms. Welsher had moved her residence and lost her paperwork. She contacted the ERS staff member with whom she worked on her retirement paperwork, who agreed to send another estimate sheet. This estimate was dated June 8, 2011 and was for $2,635, a difference of $643 from the original estimate. Ms. Welsher then contacted Ms. Ninneman, who informed Ms. Welsher that she was not entitled to that difference, and then sent Ms. Welsher a letter stating that due to an error in the initial estimate from ERS, Ms. Welsher's pension amount was now $2,635.38.

Ms. Welsher stated that she retired with an estimate amount of $3,278. She is aware that it was an estimate, but appealed because she received a different amount.

In response to a question from Ms. Bedford, Ms. Welsher stated that she wants to receive the higher pension amount. Ms. Welsher stated that during the time prior to March 21, 2011, she could have rescinded her retirement and gone back to work. She said she was never advised that there was an error in the pension calculation.

In response to a question from the Chairman as to whether Ms. Welsher is asserting that she is entitled to a retention bonus, Ms. Welsher stated that she is asking for her pension amount to be reviewed because she feels she is short the $643 per month from the original estimate, which is much more than the possible $50 variance originally described to her.

The Chairman then stated that the Board can only provide the benefits Ms. Welsher is entitled to under the Plan.

Ms. Welsher then stated that she believes that if an employee retires using an ERS estimate, and that amount is later less than the actual pension by more than the $50 variance, the employee should be notified prior to the deadline for reconsidering retirement.

In response to questions from Mr. Huff, Ms. Welsher confirmed that her last day of employment was January 13, 2011, that she was on the books due to vacation until March 21, 2011, that she received her first estimate on January 11, 2011, and that she went in to sign papers on January 25, 2011. Ms. Welsher also confirmed that she did not have the estimate at the time she stopped working because she was on vacation.

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board unanimously voted to deny Ms. Welsher's appeal, consistent with the discretion assigned to the Pension Board by Ordinance section 8.17 to interpret the Ordinances and Rules of Employees' Retirement System of the County of Milwaukee ("County ERS"), based on the following facts and rationale:

1. Sandra Welsher commenced membership in ERS on or about January 23, 1989.

2. Ms. Welsher's last working day was January 13, 2011. However, she remained a County employee until March 2011.

3. Ms. Welsher met with the Retirement Office on January 25, 2011 to review her retirement materials. Prior to that meeting, Ms. Welsher received a Pension Estimate Form from the Retirement

Office stating that her estimated monthly pension benefit was $3,278.72 ("initial estimate"). The Pension Estimate Form states, in part: "[t]he information contained in this document is only an estimate of future benefits. Actual benefits may vary depending upon various factors. Your final pension will be determined by the ordinances and rules established by the Pension Board."

4. Ms. Welsher claims that she was told at the meeting that her actual pension benefit would be "within $50.00 (dollars) either way" of the initial estimate.

5. Ms. Welsher retired effective March 2011. She received her first pension benefit check in May 2011, which included more than one month's benefit. Upon receipt of the June 2011 check, Ms. Welsher contacted the Retirement Office about the amount of the benefit and how it was calculated. Ms. Welsher claims that the Retirement Office informed her that the check was in the correct amount, but could not explain how the amount was calculated. Ms. Welsher asserts that she was unable to find her initial Pension Estimate Form and requested that the Retirement Office send her a copy. The Pension Estimate Form Ms. Welsher received in response to her request for a copy of her initial estimate showed a monthly pension benefit of $2,635.38 ("revised estimate").

6. Upon receipt of the revised Pension Estimate Form, Ms. Welsher again called the Retirement Office for an explanation regarding the difference in benefit estimates between the initial estimate received in January 2011 ($3,278.72) and the revised estimate received in June 2011 ($2,635.38). Following their telephone conversation, Marian Ninneman sent Ms. Welsher a letter stating that an error occurred in the initial estimate because the "retention incentive bonus" described in Ordinance section 201.24(5.15) was incorrectly included in that estimate. Ms. Ninneman explained that Ms. Welsher's benefit estimate was revised to reflect an amount calculated without the retention incentive bonus.

7. The Retirement Office cannot and does not calculate final pension benefit payment amounts until a member actually terminates County employment because only then does the Retirement Office have a final termination date to use in completing a final service credit calculation.

8. On October 11, 2011, Ms. Welsher sent a letter appealing the change in the amount of her benefit to the Pension Board.

Ms. Welsher's appeal was included on the November 2011 Pension Board meeting agenda, but no action was taken at that meeting.

9. Ordinance section 201.24(5.15)(2) provides for a final average salary bonus for individuals whose initial membership in ERS began prior to January 1, 1982. Ms. Welsher became a member of ERS on January 23, 1989. Accordingly, Ms. Welsher's membership date does not qualify her for the retention incentive bonus based on the terms of Ordinance section 201.24(5.15).

10. The Pension Board finds that Ms. Welsher is ineligible for the retention incentive bonus in Ordinance section 201.24(5.15) because her membership date occurred after that required by the Ordinance. Accordingly, Ms. Welsher's benefit should not include the retention incentive benefit.

11. Ms. Welsher alleges that she relied upon the initial estimate in her decision to retire, and that she would not have retired had she known the actual amount of the benefit. However, Ms. Welsher stated in her letter requesting Pension Board review that her last work day was January 13, 2011. The initial Pension Estimate Form is dated January 11, 2011 and was mailed to Ms. Welsher prior to her January 25, 2011 meeting with the Retirement Office. Accordingly, Ms. Welsher likely made the decision to retire prior to receiving her initial estimate and did not appear to rely on the estimate in her decision to retire. Additionally, there is no evidence before the Pension Board that Ms. Welsher requested to resume employment with the County after being notified of her actual benefit. Furthermore, Ms. Welsher was advised on the Pension Estimate Form that the initial calculation she received was an estimate, that the actual benefit might vary, and that her final pension would be determined based on the Ordinances and Rules.

12. Ms. Welsher is being paid a benefit based on her service and the Ordinances and Rules. The Pension Board must administer ERS based on the Ordinances and Rules as stated. To do otherwise jeopardizes the qualification of ERS under the Internal Revenue Code. Therefore, Ms. Welsher cannot receive the increased pension benefit, despite the initial estimate she received, because she is ineligible for the benefit enhancement.

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

(b) Lesley Schwartz-Nason

In open session, Ms. Schwartz-Nason introduced herself and then provided an overview of her pension appeal.

Ms. Schwartz-Nason stated that she is asking the Board to reconsider her request to retire under Option 7. She received a letter from Ms. Ninneman that stated that when Ms. Schwartz-Nason had her Option 7 retirement approved in 2004, she was unable to include years of service through 2011 in the retirement benefit.

Ms. Schwartz-Nason stated that she eventually retired under emergency circumstances, signing the paperwork on Monday, June 27, 2011, with her first day of retirement on Tuesday, June 28, 2011. She came in to ERS on August 2, 2011 to do the paperwork and at that time signed a document stating she understood she could not change her beneficiary or any benefit options after the retirement date.

Ms. Schwartz-Nason then stated that, in her view, her retirement under Option 7 and her personal circumstances would not cause any undue hardship to ERS. Her husband is in full support of her decisions and understands the implications of retirement under an Option 7 retirement with 5% beneficiary. She stated that her decision to ask for this option was based on the recommendation of a financial advisor she trusted and believed to be highly reputable and knowledgeable of her personal circumstances.

Ms. Schwartz-Nason stated that she is asking the Board to reconsider her retirement under Option 7 because she believes if she was not allowed to retire under Option 7, this should have been pointed out to her at the time she actually retired and not after.

In response to questions from Mr. Garland, Ms. Schwartz-Nason confirmed that she was not told at her appointment that she could not retire under Option 7. Furthermore, her file contained the document that approved her ability to retire under Option 7 in 2004.

The Chairman then stated that the Board has all the necessary paperwork to review, but it is his understanding that the ERS rules relating to Option 7 changed between 2004 and 2011. The Board would need advice of counsel to determine the implications.

In response to questions, the Chairman stated that either the Board would take action at the meeting today or it will be referred to a future meeting if the Board could not come to an agreement.

The Board discussed the matter in closed session.

After returning to open session, the Pension Board voted 4-1, with Ms. Bedford, and Messrs. Muller, Garland, and Maier approving, and Mr. Stuller dissenting, to deny Ms. Schwartz-Nason's appeal. Motion by Ms. Bedford, seconded by Mr. Muller. The motion failed to pass because it lacked the necessary five votes as required by Ordinance section 201.24 (8.5).

In response to questions, the Chairman stated that the Board will lay the appeal over until the next meeting since the required number of votes could not be reached for a decision. In the meantime, the denial of the Option 7 benefit with all service through 2011 stands. However, Ms. Schwartz-Nason could submit an application for Option 7, as specified in the letter she received from ERS, pursuant to the current ERS rules. Among other things under current rules, Ms. Schwartz-Nason would need to show the Board the retirement purpose for a 5% benefit.

12. Pending Litigation

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

The Pension Board took no action on this item.

(b) *ERS v. Lynne Marks*

The Pension Board took no action on this item.

(c) *Christine Mielcarek v. ERS*

The Pension Board took no action on this item.

(d) *Lucky Crowley v. ERS*

The Pension Board took no action on this item.

(e) *Renee Booker v. ERS*

The Pension Board took no action on this item.

(f) *Jo Ann Schulz v. ERS*

The Pension Board took no action on this item.

13. Report on Compliance Review

The Pension Board took no action on this item.

14. Adjournment

The meeting adjourned at 12:20 p.m.

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