

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE FEBRUARY 15, 2012 PENSION BOARD MEETING

1. Call to Order

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

2. Roll Call

Members Present

Linda Bedford (Vice Chair)

Keith Garland

Mickey Maier (Chairman)

Dean Muller

Dr. Sarah Peck

Dave Sikorski

Guy Stuller

Patricia Van Kampen

Member Excused

Rex Queen

Others Present

Marian Ninneman, CEBS, CRC, ERS Manager

Mark Grady, Deputy Corporation Counsel

Matthew Hanchek, Interim Director of Employee Benefits

Kimberly Walker, Corporation Counsel

Dale Yerkes, ERS Fiscal Officer

Monique Taylor, ERS

William J. Supple, Robeco Boston Partners

Robert J. Maurer, Robeco Boston Partners

Ray Caprio, Marquette Associates, Inc.

Nat Kellogg, Marquette Associates, Inc.

Lesley Schwartz-Nason, Former Milwaukee County Employee

Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Chairman's Report

The Chairman welcomed Patricia Van Kampen, the newest member of the Pension Board. Ms. Van Kampen stated that she worked for 36 years at Northwestern Mutual Life and one of its subsidiaries in the investment department, primarily in equities. She participates on various other community boards, particularly with investment committees. She said she is very happy to be part of the Pension Board. The Chairman noted his appreciation to have Ms. Van Kampen, with her investment background, as part of the Investment Committee as well as the Pension Board.

The Chairman then announced that Dr. Peck was reappointed and will continue to serve on the Pension Board.

4. Minutes—December Pension Board Meetings

The Pension Board reviewed the minutes of the January 18, 2012 Pension Board meeting.

The Pension Board voted 7-0-1, with Ms. Bedford, Dr. Peck, Messrs. Garland, Meier, Muller, Stuller, and Sikorski approving, and Ms. Van Kampen abstaining, to approve the minutes of the January 18, 2012 Pension Board meeting. Motion by Mr. Garland, seconded by Mr. Stuller.

The Chairman stated that Ms. Van Kampen abstained from the vote because she was not present at the previous meeting.

5. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, January 2012

Ms. Ninneman presented the Retirements Granted Report for January 2012. Ms. Ninneman noted that these individuals are actually 2011 retirees who retired in December but received their first pension check at the end of the month following retirement. Therefore, Ms. Ninneman explained the numbers are appropriately placed in 2012. Thirty-nine retirements from ERS were approved in January, with a total monthly payment amount of \$53,035. Of those 39 ERS retirements, 32 were normal retirements, 6 were deferred, and 1 was a deferred early retirement. Thirty members retired under the Rule of 75. Additionally, 14 retirees chose the maximum option, and 11 retirees chose the 100% Joint and Survivor Annuity. Twenty-eight of the retirees were District Council 48 members. Twenty-three retirees elected backDROPs in amounts totaling \$2,526,413.

Ms. Ninneman stated that the increase in the retirements of District Council 48 members is likely due to the cessation of the Medicare Part B reimbursement program at the end of 2011.

(b) ERS Monthly Activities Report, January 2012

Ms. Ninneman presented the Monthly Activities Report for January 2012. Combined, ERS and OBRA had 7,850 retirees at the end of January, with a monthly payout of \$12,797,881.

Ms. Ninneman then stated that "Customer Service" is a new category on the Monthly Activities Report. Ms. Ninneman stated that in January 2012, the staff answered 647 phone calls, 103 email inquiries and serviced 62 walk-ins. While the ERS staff is busy, Ms. Ninneman noted that the backlog is decreasing and staff members are no longer working on Saturdays. In response to a question, Ms. Ninneman stated that staff is keeping track of the number of phone calls and emails received. She noted that the numbers are only first-time phone calls or emails and do not include repeat phone calls or follow-up emails.

Ms. Ninneman then stated that ERS Fiscal is fully integrated into ERS's calculation process and that each payment proceeds through a series of checks to ensure the payments being sent are accurate.

Beginning in March 2012, Ms. Ninneman noted that every first-time retiree will receive a letter congratulating them on their retirement and providing a breakdown of their benefit. Ms. Ninneman explained that this process allows the retirees to see the numbers before they receive their first check and address any questions or concerns they may have.

Ms. Ninneman then provided an update regarding the ERS staff positions. She stated that the position of ERS Coordinator will be posted and will hopefully be filled by the end of April. Additionally, Ms. Ninneman stated that there is a possibility that they can have one of the positions they lost in the budget filled by transferring a vacant position from Life and Health Benefits to ERS. However, Ms. Ninneman explained that the remaining three positions they lost will require a position creation process. In response to a question, Ms. Ninneman explained that she is going to submit the reports required to begin the position creation process, but the issue of funding the positions remains.

(c) Pension Board Employee Elections

Ms. Ninneman then discussed the Pension Board employee elections held February 3rd through February 6th. Ms. Ninneman stated that VoteNet handled all aspects of the election, including the submission of user IDs and passwords to enable employees to vote and troubleshooting during the election period.

Ms. Ninneman noted, however, that ERS received a number of paper ballots. Ms. Ninneman explained that employees were allowed to use paper ballots, instead of internet or phone voting, but were instructed to complete the ballot, seal it and place it into a sealed box at the Retirement Office. Despite the instructions, Ms. Ninneman stated that ERS received a number of unsealed ballots. Ms. Ninneman confirmed that she requested that both candidates submit in writing any concerns they may have with the acceptance of unsealed ballots, and she did not receive a complaint from either candidate. In response to questions, Ms. Ninneman stated that an employee's name, clock number and date of birth are on the ballot, but no signature is required. The unsealed ballots were accepted because the person at the counter was filling in and did not know to ask about the sealing of the ballots. Mr. Garland expressed his concern that, going forward, unsealed ballots should not be accepted by the Retirement Office.

In response to a question from Ms. Bedford, Ms. Ninneman stated that there was a link on the voting website that allows an employee to download a paper ballot. Mr. Grady explained that the downloadable forms are blank forms that require employees to fill in their names, clock numbers and dates of birth. In response to a question from the Chairman, Mr. Grady explained that while most employees do not have access to clock numbers, theoretically, a few employees would have the ability to print out a number of ballots and fill-in other people's information in order to vote for a particular candidate. Mr. Grady clarified that there is no indication that this occurred in this election, but stated that the Audit Committee should discuss how to handle the issue of paper ballots going forward. Mr. Grady further stated that the current issue is whether to accept the unsealed ballots in this election.

The Pension Board unanimously approved the inclusion of the unsealed paper ballots in the February 2012 employee election. Motion by Mr. Garland, seconded by Ms. Bedford.

(d) Fiscal Officer

Mr. Yerkes first discussed the ERS cash flow report for February 2012. Fifteen million dollars was transferred to UBS Trumbull Realty, and cash needs for January 2012 came out of the cash overlay margin account in the amount of \$5 million. Mr. Yerkes also noted that he was expecting \$4 million from K2 in February 2012 but received it in January 2012 instead. Mr. Yerkes stated that with the exception of the protective service employees, all ERS members are making a contribution into ERS, for an estimated total employee contribution of \$9.4 million per year.

In response to a question, Mr. Yerkes stated that the \$2000 figure in the projected cash flow report is the combination of small amount receipts, such as payment for open records requests.

In response to a question from the Chairman regarding the winding down of securities lending, Mr. Yerkes stated that securities lending is averaging approximately \$63 to \$64 million, which is a little less than last year. Mr. Yerkes explained that it is difficult to forecast because the interest rates are unknown.

Mr. Yerkes next discussed the portfolio activity report, stating that in December 2011 Reinhart Partners was notified to stop trading. In early January 2012 all of those assets were transferred to JPMorgan Transition, which purchased the iShares Russell Midcap Growth. Mr. Yerkes reported that CRA Real Estate was also transferred into the "Closed Account Category" and explained that they have about \$50,000 in accrued dividends which could take several months to two years to recoup because of tax issues. Mr. Yerkes also stated that UBS Trumbull called \$15 million on January 3, 2012.

6. Investments

(a) Robeco Boston Partners

Robert Maurer of Robeco Boston Partners distributed a booklet containing information on the investments managed by Robeco Boston Partners for ERS. Mr. Maurer then introduced himself, stating that he is the relationship manager for ERS working closely with William Supple who is in charge of the Taft-Hartley and Public Sector funds at the firm.

Mr. Maurer provided an overview of the company. Robeco Boston Partners is part of the Robeco Bank group, one of the top 25 banks in the world. Boston Partners is the wholly-owned global money

management arm of Robeco Bank. Boston Partners manages large cap value equity for ERS. Mr. Maurer stated that large cap value equity comprises \$6.8 billion of the \$19.5 billion in assets under management by Boston Partners.

Mr. Maurer then introduced Mr. Supple to discuss ERS's investments with Boston Partners. Mr. Supple first discussed the history of Boston Partners' partnership with ERS. Mr. Supple explained that Boston Partners split from Boston Company in April 1995, and ERS began its relationship with Boston Partners in July 1995. In response to a question from the Chairman, who noted that ERS generally requires three years' history prior to investing, Mr. Supple noted that ERS had been investing with Boston Company prior to the split and was provided presentations to decide which branch it would continue with once the split occurred. Mr. Supple stated that ERS decided to continue with Boston Partners.

Mr. Supple next discussed the make-up of Boston Partners and noted that the most junior portfolio manager has been with the company for 10 years. Boston Partners' portfolio managers have an average of 22 years' experience. Mr. Supple explained that the entire group meets twice a week, on Tuesdays and Fridays, to discuss ERS's portfolio. On Tuesdays, they discuss potential new ideas that might be available for use in the portfolio, and on Fridays they discuss whether those ideas would be better than the currently-held stocks.

Mr. Supple then discussed the large cap value investments in more detail. The performance since inception has been 9% annualized return versus a 7.71% primary benchmark and 6.96% general benchmark of the S&P 500. The beginning assets in August 1995 were \$35,157,263. Over the past 16 years ERS took out \$70,518,173. Between market returns and dividends, ERS has thus far gained a total of \$160 million, leaving a balance at the end of December 2011 of approximately \$125 million.

Last year the return was 1.4%. Mr. Supple explained that the market was focused on things such as the European sovereign debt crisis and not really focused on company fundamentals. Many of the stocks traded by Boston Partners are good companies, which has been a good opportunity for ERS because it allowed Boston Partners to purchase companies that are valued lower than they deserve. Mr. Supple stated his belief that this will be positive over the course of time. While there is some concern over the European markets, Boston Partners is currently not overly-concerned with the U.S. markets. In the U.S., employment seems to be growing and construction has broadened and started to grow.

In response to question from Ms. Bedford, Mr. Supple clarified that the uptick in construction growth is geographical. Las Vegas, Florida and California are overbuilt, but those still remain potential growth areas. The main point, Mr. Supple explained, is that there is employment growth and some interest in lending.

Mr. Supple then gave an overview of how ERS's portfolio has done year-to-date. Mr. Supple stated that the portfolio is up 8-1/2% for the year, with the Russell 1000 value benchmark at about 6.8%. Accordingly, Mr. Supple explained that the portfolio is ahead of the index. The market so far this year seems to have come back and is focused a bit more on company fundamentals and less on the issues occurring in Europe.

Mr. Supple then explained the investment philosophy of Boston Partners. ERS's portfolio contains 87 stocks. In determining what stocks to purchase, Boston Partners looks for three characteristics. First, is valuation – buying less expensive companies than compared to the broad market. Boston Partners makes sure that the PE ratios and the price-to-book are less than the overall market. The second characteristic is fundamentals, meaning that the company must be fundamentally sound. In making this determination, Mr. Supple explained that they look at items such as cash flow, persons in management, capital management, and operating return on operating assets. Boston Partners likes higher quality companies. Mr. Supple stated that the companies in ERS's portfolio have an average of 35% operating return on operating assets versus the comparable Russell 1000 value at 22% and the S&P 500 at 32%. Accordingly, Boston Partners owns very strong operating companies for ERS. Mr. Supple highlighted the long-term earnings per share growth, which is at 12.4% versus 9.7% and 11% for the value input in the overall market. The third characteristic Boston Partners looks for is a catalyst. They seek to identify what is going to unlock the value in a certain company. Mr. Supple explained that if they have a great low-priced portfolio and really good companies, they still need the market at some point to figure out that these companies are better than their value so that stock prices can increase. This is why Boston Partners looks for a catalyst. For example, 80% of the companies in ERS's portfolio either meet or beat the expectations that analysts have for their earnings. Boston Partners also looks at other aspects to determine catalysts, such as divesting of product lines or buying new product lines, but they identify the catalyst before they purchase the stock and then monitor it.

Mr. Supple then discussed the make-up of ERS's portfolio as of December 31, 2011. The ten largest holdings equal 29% of the portfolio and include mostly recognizable names. Consumer services did very well. The catalyst identified for a number of these companies was an increase in advertising, especially for some of the traditional advertising mediums. The finance sector also did well. Some credit card companies they purchased did well, as did a student loan provider. Mr. Supple explained that there is an ongoing revenue stream from servicing student loans that is under-realized by the market. The area that did not perform well was underweighted utilities, which lost about 1%. Mr. Supple explained that dividend stocks last year were very sought after and utilities have dividends. Boston Partners loves dividend-paying stocks, but not utilities because they are so highly regulated.

Mr. Supple then discussed some additional services Boston Partners could provide to ERS. In response to a question from the Chairman regarding succession planning, Mr. Supple explained that they have co-manager teams for most strategies so that if one manager leaves or takes an extended vacation, there is another individual familiar with the account to take over. Mr. Supple also explained that the head individual on ERS's account is relatively young and likely not leaving the firm anytime soon. However, if he did leave, there is a co-manager with 16 years' experience ready to take over.

In response to a question from Ms. Van Kampen, Mr. Supple explained that Boston Partners tends to underperform in markets where there is a dislocation of fundamentals, giving the example of the tech bubble in the late 1990s. Boston Partners tends to perform well relative to the benchmark, however, in markets that are going down. Additionally, Mr. Supple explained that if markets bounce back after a downturn, they do not snap back as fast because those are not the stocks they own.

(b) Marquette Associates Report

Ray Caprio and Nat Kellogg of Marquette Associates distributed and discussed the January 2012 monthly report and 4th Quarter 2011 report.

Mr. Caprio first discussed the asset allocations of ERS as compared to other public pension funds as of December 31, 2011. Mr. Caprio noted that this has changed since Marquette was hired and implemented several alternative asset classes in real estate, infrastructure and private equities, as well as hedged funds.

Marquette also reduced the fixed income last year and increased private equity.

Mr. Caprio then highlighted the annualized performance of ERS in 2011. Overall, ERS finished the year at 0.4% gross of fees, ranking in the 64th percentile, slightly worse than the median. The overweight to international equity was the main driver of the below median performance for 2011. However, Mr. Caprio noted that ERS's risk, as measured by standard deviation, over the three-year annualized time frame ranks in the 26th percentile, which is very good and reflects the lower volatility of ERS versus other public pension funds. The performance alone will not always place ERS in the top quartile as a result of Marquette's focus on risk-adjusted performance. Additionally, over the last three years, Marquette has been implementing more alternative investments which inherently are structured as LP's, commingled funds, and often are closed end. These investments are reported net of fees. When grossing back those funds, the 2011 calendar year performance improves by 36 basis points to 0.7% which is ranked approximately in the 58th percentile. Mr. Caprio then pointed out that the U.S. equities portfolio is down 1.1% and the benchmark is positive 1.1%. Mr. Caprio explained that the portfolio had some relative underperformance, and the things that worked the last three years did not work in 2011 (e.g., overweight to small-cap and mid-cap stocks). Additionally, Mr. Caprio noted that a couple of managers hurt the total fund with relative underperformance of their benchmarks (e.g., Reinhart Partners underperformed the benchmark by 6%). Mr. Caprio stated that asset allocation drives 90% of the total fund performance, while individual managers do not typically impact the total performance. However, significant underperformance, as is the case with Reinhart, does make a difference. Mr. Caprio stated that the portfolio is currently in a much better position moving forward as far as risk-adjustment performance.

Mr. Caprio then presented the January 2012 flash report. Mr. Caprio stated that the stock market is up between 4% and 6% on the U.S. side, emerging markets are up 11% and international markets are up about 7%. Mr. Caprio started the report with the fixed income, noting that it is slightly underweight to the target, about 27.6% versus 29%. Mr. Caprio stated that there is really no need to rebalance at this time. Marquette will naturally rebalance the fund by taking the monthly benefit payments from where the fund allocations are overweight to the target.

Mr. Caprio discussed the performance of the fund. He stated that the fund was up 3.3% for the month. Fixed income was up 0.9%, U.S. stocks were up 5.9%, international was up 6.8%, and hedge funds were up 2.8%. Real estate going forward is going to be valued quarterly, not monthly, so there was no monthly return this month. With regard to infrastructure, Mr. Caprio explained that the month-to-month fluctuation was likely based on currency, but assets are valued quarterly. There is a positive appreciation there with 60 basis points.

Mr. Caprio then discussed the managers. Mr. Caprio highlighted Artisan Partners – mid cap growth – which was up 10.7% compared to the benchmark up 7.3%. On small-cap, AQR was up 7.3%. On the international side, Mr. Caprio stated that Barings continued to turn things around, up 7.1%, mostly due to the emerging markets. The Chairman noted that GMO has been on the watch list for a while due to long-term underperformance and, while it appeared that they had turned a corner, they are down again. In response to a question from the Chairman, Mr. Caprio agreed that the three-year figure was concerning and stated that GMO is on alert but could be moved to on-notice. The Chairman stated that GMO should be on the Investment Committee agenda, and the Committee should come back to the Board with a formal recommendation. Mr. Caprio then stated that the hedge funds did fairly well this month, although the managers are watching them closely. Real estate does not have values for this month, and IFM is up 1% in infrastructure. In response to question from the Chairman regarding private equities, Mr. Kellogg stated that performance for private equities was pretty good for 2011, and most private equity portfolios were somewhere between 8% and 12%. Mr. Kellogg noted that venture funds did particularly well.

Mr. Caprio then discussed a new fee proposal from one of the fund's infrastructure managers, JP Morgan, consisting of two fee options. Mr. Caprio explained that this change was an effort to maintain its competitive edge in the market. Mr. Caprio stated that both proposals are lower than the fees currently paid by ERS. Mr. Caprio explained that ERS's current agreement provides two extra years of soft lock-up for a total of 6 years, no incentive or performance fee, and a flat 2% management fee. This agreement results in fees of approximately \$1,200,560. Mr. Caprio explained that Option 1 maintains the 6-year soft lock-up (with 4-1/2 years left in lock-up) with a tiered management fee based on amounts in the fund and a 15% incentive fee with a 7% hurdle. Mr. Caprio used the example of 9% return (2% over the 7% hurdle), which would result in an

incentive fee of \$180,048 plus management fees of approximately \$905,434. Mr. Caprio noted that if JP Morgan did not meet the 7% hurdle, then incentive fees would be \$0. Option 2 is very similar to Option 1 but has a slightly lower management fee scale and a 10 year hard lock-up (with 8-1/2 years remaining). Mr. Caprio explained that a soft lock-up allows ERS to get its money out by paying a fee. With a hard lock-up, ERS cannot get its money until after the lock-up period has expired. In response to question from Dr. Peck, Mr. Caprio stated that the break-even point between the current fee schedule and Option 1 is 10-1/2% and the break-even point between Option 1 and Option 2 is 11-1/2% - 12%. In response to a question from the Chairman, Mr. Caprio noted that the fund currently yields about 6-1/2% and ERS receives good distributions in the form of income from the yield. In response to a question from the Chairman, Mr. Caprio stated that Marquette is more comfortable with Option 1 because ERS can maintain current returns and enjoy a lower fee. Mr. Grady stated that there is no question that the Board should agree to Option 1 because it is the same lock-up with a lower fee, but the question is whether the Board wants to agree to Option 2 with a longer lock-up period, but slightly reduced fees. Dr. Peck stated that while Option 2 provides more attractive fees, ERS is giving up liquidity which could be problematic if rebalancing or performance issues arise. The Chairman noted that this fund represents 3-1/2% of the portfolio. Mr. Muller stated that he favors Option 2, but Option 1 is acceptable.

The Pension Board unanimously approved renegotiating the fees with JP Morgan in accordance with Option 1. Motion by Mr. Stuller, seconded by Mr. Garland.

7. Investment Committee Report

Dr. Peck reported on the February 6, 2012 Investment Committee meeting.

The Investment Committee reviewed the information received from the Request for Proposal ("RFP") for private equity funds. Responses to the RFP were received from 27 organizations. Marquette summarized the information from the 27 organizations and the Investment Committee decided to call back four firms to interview. Dr. Peck stated that the decision was made based on the performance fees and whether their asset class management styles were complimentary to the existing private equity managers.

The Investment Committee then discussed the mid-cap growth RFP and review process.

The Chairman stated that ERS has been with Adams Street for a long time and has been happy with them. However, the Chairman explained that they are a large company private equity manager and they invest in large buyout funds. The Investment Committee is looking to diversify and invest in the smaller and midsize buyout funds. The Chairman stated that the Investment Committee will conduct half-hour interviews with the four firms and come to the Board with a recommendation.

8. Audit Committee Report

Mr. Garland reported on the February 1, 2012 Audit Committee meeting.

The Audit Committee first discussed the Protective Survivorship Option and Retirement Application forms. The Committee decided that two separate retirement forms should be drafted, one for Options 1 and 6 and one for Options 2 through 5. The Audit Committee will provide comments on the revised forms when received.

The Audit Committee next discussed whether an Option 6 benefit could be paid to an estate. The Committee determined that the benefit could be paid to an estate.

The Audit Committee then discussed the rules regarding refunds for optional ERS members' contributions. The Audit Committee determined that it would consider at the next meeting changes allowing a member to request both distributions at the same time.

The Audit Committee next reviewed the status of ERS staff positions. Ms. Ninneman explained that the four ERS staff positions were abolished in the budget process and would require a position creation process. Additionally, positions must still be funded. Ms. Ninneman explained that even though the Pension Board can supply the money for the positions, the County reimburses that amount. Ms. Ninneman will review the budget to determine whether a fund transfer is possible.

The Chairman then suggested that the Board determine its position on the use of paper ballots in future elections. The Chairman explained that voting could be completed strictly by phone and internet using VoteNet, or the Board could decide to allow the use of paper ballots in addition to the use of VoteNet.

The Chairman stated that three years ago the Board approved the use of VoteNet for electronic voting over the phone and internet. Mr.

Garland noted that paper ballots have only recently become an issue. In response to a question from Mr. Garland, Ms. Ninneman stated that VoteNet did not have any problems during this election.

Mr. Garland expressed his concern for employees who did not receive their voter user ID and passwords in the mail and suggested that there be a place for them to retrieve the information. Ms. Ninneman explained that ERS could likely instruct VoteNet to do that. Mr. Sikorski commented that he misplaced his user ID and password. After an email, VoteNet unlocked his information and he was able to vote online. Mr. Sikorski explained that all VoteNet needed was his clock number. In response to a question from Mr. Garland, Ms. Ninneman stated that the user IDs and passwords were mailed to the addresses listed with payroll rather than emailed because not everyone has access to email.

Dr. Peck stated that her initial reaction is to eliminate the paper ballots because it gets too many people involved in the process, whereas VoteNet is a third-party vendor process. Mr. Sikorski stated that he likes the paper ballots, and a number of people he works with liked the voting booths that would travel around and allow employees to vote. In response to a question from Mr. Sikorski, Mr. Grady stated that voter turnout has never been very strong, but that it has gone down a bit more in recent years. Mr. Grady also noted that the use of VoteNet is less expensive than the previous portable voting booth system.

Mr. Stuller commented that there should be a provision for absentee early voting. The Chairman noted that there is a four-day voting period. Mr. Stuller stated that it could still be an issue for people who do not have access to a telephone or the internet. The Board then discussed how to address employees who may not have access to a phone or the internet during the four days of voting. Dr. Peck stated that if ERS extended the voting period to two weeks it would provide more than enough time for employees to vote.

After further discussion, the Chairman suggested that this issue be placed on the agenda and discussed in full by the Audit Committee.

The Chairman then stated that the results of the election had been processed, and Monique Taylor won the election.

9. Administrative Matters

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

Chairman stated that Reinhart Partners can be taken off the Investment Committee list. The Chairman then stated that anyone with future topic suggestions should voice them.

The Chairman noted two upcoming educational opportunities for Pension Board members – the 10th Annual Harvard Pension Project Conference taking place March 28 through March 30, 2012 and the Mastering Due Diligence for Alternative Investments Conference in New York taking place April 3 through April 12, 2012. Mr. Garland noted that attendance at the Harvard Conference is by invitation only.

The Pension Board unanimously approved the attendance of any interested Pension Board member at either conference. Motion by Mr. Garland, seconded by Ms. Bedford.

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 items 10, 11, 12, and 13 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, 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 8-0 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) David Beihoff - ADR

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

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

(b) Steven Dabrowski - ODR

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

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

(c) Robert Morgan - ADR

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

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

(d) Peter James Schneider - ADR

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

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

(e) Edna Wilson - ADR

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

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

11. Claim Appeal

(a) Lesley Schwartz-Nason

In open session, the Chairman stated that Lesley Schwartz-Nason had come before the Board in December 2011 to appeal the denial of the use of the Option 7 form of benefit. The Chairman stated that Ms. Schwartz-Nason is asking for the 5% beneficiary annuity that was approved by the Pension Board in 2004 for her retirement in 2004 to be applied to her service through her retirement in 2011. The Chairman continued that Ms. Schwartz-Nason explained her position to the Board in December 2011, and the Board voted 4 to 1 to deny her appeal, which is insufficient to make a decision. The Chairman then invited Ms. Schwartz-Nason to provide any additional information she would like the Board to consider.

Ms. Schwartz-Nason stated that in January 2012 she underwent a complete physical examination from a doctor and she was issued a clean bill of health. She noted that her husband was in support of her request but due to a fall he was unable to be at the meeting. Ms. Schwartz-Nason explained that she was asking for this special consideration due in part to her husband's medical issues and the extra \$46 per month she would receive with a smaller beneficiary benefit would be very helpful. Ms. Schwartz-Nason further explained that she is financially responsible and has paid off the mortgage on her house and deposited her backDROP and deferred compensation into an IRA. Ms. Schwartz-Nason then stated that she considered retiring in 2004 when she initially requested the use of Option 7, but changed her mind. She explained that she believed that she was given approval to utilize the Option 7 form of benefit whenever she retired. She then stated that she signed emergency retirement papers on Monday, June 27, 2011. On the Application for Retirement form she certified that all options had been explained

to her and she understood that she could not change her beneficiary or benefit option after her retirement for any reason. Ms. Schwartz-Nason stated that she met with a retirement counselor and received a letter from Ms. Ninneman confirming her retirement, and no one informed her that the use of her 2004 approval in 2011 was problematic.

The Pension Board then discussed the matter in closed session.

In open session, the Pension Board voted 7-1, with Dr. Peck, Mses. Bedford, Van Kampen, and Messrs. Muller, Garland, Sikorski and Maier approving, and Mr. Stuller dissenting, to deny Ms. Schwartz-Nason'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 ("ERS"), based on the following facts and rationale. Motion by Ms. Bedford, seconded by Dr. Peck.

1. In September 2004, Lesley Schwartz-Nason sent a letter to the Pension Board stating that she planned to retire in the 2004 calendar year and requested approval from the Pension Board to elect an Option 7 form of pension benefit with a 5% survivor benefit.
2. The Pension Board approved Ms. Schwartz-Nason's request at its meeting on September 15, 2004, according to the Ordinances and Rules in effect in 2004.
3. Ms. Schwartz-Nason did not retire in 2004.
4. Pursuant to Ordinance section 201.24(5.1), the normal form of benefit for an ERS member is an annuity paid to the member over his or her lifetime. The Ordinances and Rules allow members to receive benefits in one of six optional forms. Pursuant to Rule 1013(1)(d), a member may also apply to the Pension Board to receive a benefit in any other form permitted by Ordinance Section 201.24(7.2) ("Option 7").
5. In December 2004, the Pension Board adopted Rule 1035 clarifying the requirements for a member to apply for an Option 7 form of benefit. Rule 1035(g) states that the Pension Board will generally deny Option 7 benefit requests that provide for a survivorship benefit of less than 25%, but it reserves the right to exercise discretion in reviewing any Option 7 request.

6. In 2006, ERS Rule 1013(1)(d), which provides for Option 7, was amended to provide that the Pension Board "will generally deny any such request on the grounds that the standard six (6) optional forms of benefit...provide sufficient options to members and that any other form of benefit subjects the system to unnecessary administrative expense and burden."

7. In 2011, Ms. Schwartz-Nason applied to retire with the 2004 Option 7 form of benefit applied to her compensation and service earned through 2011. In accordance with Rule 1040, permitting the Pension Board to delegate the authority to approve members' retirements to the ERS Manager, subject to the Pension Board's right to review, amend or overturn approvals, Ms. Schwartz-Nason's application was approved by the ERS Manager and her benefit commenced.

8. At its October 19, 2011 meeting, pursuant to ERS Rule 1040, the Pension Board reviewed the Retirements Granted report, which included Ms. Schwartz-Nason's retirement. Generally, unless there are questions from the Pension Board regarding a retirement, the retirements granted by the ERS Manager are approved by the Pension Board. However, the Pension Board removed Ms. Schwartz-Nason's retirement from the general approval for further consideration. After a subsequent discussion regarding her benefit, the Pension Board voted "to approve the modification of Lesley Schwartz-Nason's pension benefit to comply with current ERS Ordinances and Rules, and to offer an opportunity for Ms. Schwartz-Nason to accept the modification, appeal the decision, or apply for a 5% survivor benefit under the current ERS Rules."

9. The Pension Board directed that Ms. Schwartz-Nason's benefit be modified to a 25% survivor annuity, one of the normal forms of benefit available under Ordinance section 201.24(7.1) and Rule 1013(1)(a)-(c). Members may elect a 25% survivor benefit under Rule 1013(1)(a), which is the normal benefit form that most closely resembles the 5% survivor benefit. The adjustment to a 25% survivor benefit will result in a modification to Ms. Schwartz-Nason's monthly pension benefit and alter the amount of the backDROP payment she received. The Pension Board took this action to ensure that Ms. Schwartz-Nason continued to receive a pension benefit without interruption while waiting for any further direction from her.

10. A letter sent to Ms. Schwartz-Nason on November 14, 2011 explained that her benefit must be modified to comply with the current Ordinances and Rules and requested that Ms. Schwartz-Nason (1) accept the adjustment to a 25% survivor benefit; (2) appeal

the decision of the Pension Board to the Pension Board for reconsideration; or (3) apply for an Option 7 form of benefit with a 5% survivor benefit under the requirements of the current Rule 1035.

11. Ms. Schwartz-Nason sent a letter to the Retirement Office dated November 28, 2011, appealing the decision of the Pension Board. As stated in her letter, the basis of Ms. Schwartz-Nason's appeal is "(1) [the] understanding that the September 15, 2004 unanimously approved granting of retirement under Option 7 did not apply exclusively to retirement in 2004 (2) [that the] decision to apply for retirement under Option 7 was based on the recommendation of a trusted and highly reputable financial advisor knowledgeable of personal circumstances and spousal consent (3) [that] it was and is felt that there would be no undue hardship placed upon the county pension fund (4) [the] 'Application for Retirement['s]'... statement...'**I understand that I cannot change my beneficiary or pension option after retirement for any reason!**'..." (emphasis in original.)

12. Ms. Schwartz-Nason's election of an Option 7 form of benefit from 2004 does not conform to the requirements for receipt of an Option 7 form of benefit in 2011. To apply for a benefit, members must follow the Rules adopted by the Pension Board such as Rule 1035 and its requirements. Rule 1035 requires that individuals applying for an Option 7 form of benefit must complete an application with spousal consent, when necessary, provide a bona fide retirement purpose for the application, and proof of the applicant's good health demonstrated through examination by a physician. In addition, the Pension Board may require the individual to demonstrate fiscal responsibility to manage the Option 7 benefit requested. The Pension Board finds that allowing Ms. Schwartz-Nason to commence an Option 7 pension benefit in 2011 for service through 2011 which does not meet the requirements of the current Ordinances and Rules will create an operational violation for ERS. Failure to operate ERS according to the terms of the Rules can jeopardize the tax qualified status of ERS.

13. With regard to Ms. Schwartz-Nason's first basis for appeal, the Pension Board finds that Ms. Schwartz-Nason's Option 7 benefit was approved by the Pension Board based on the understanding that Ms. Schwartz-Nason would retire shortly thereafter. The benefit calculations performed were made according to her salary and service at that time. Because Ms. Schwartz-Nason wishes to include the service credit she accrued during her additional years of employment, the new retirement benefit calculation takes into account the 2011

service credit, in addition to differences in age and life expectancy. Allowing Ms. Schwartz-Nason to use an Option 7 form of benefit outside of the Rule requirements could jeopardize the tax exempt status of ERS.

14. Ms. Schwartz-Nason's second argument on appeal is that her decision to apply for retirement with a 5% survivor annuity was based on a recommendation from a financial advisor. The Pension Board finds that this argument does not address an issue relevant to the appeal. The Pension Board would consider this information if it were reviewing an application to retire with an Option 7 form of benefit. However, Ms. Schwartz-Nason has not satisfied all requirements for an Option 7 form of benefit request according to Rule 1035 as effective in 2011. The Pension Board also notes that it has previously stated that it will generally deny requests for survivorship benefits of less than 25%, and an Option 7 application by Ms. Schwartz-Nason at this time would be reviewed according to that general rule.

15. In her appeal letter, Ms. Schwartz-Nason also claims that her request is not an undue hardship on ERS. The Pension Board, however, has previously determined differently and amended Rule 1013(1)(d) to specifically state that the standard six optional forms of benefit are sufficient and that "any other form of benefit subjects the system to unnecessary administrative expense and burden." Pursuant to Rule 1013(1)(d), the Pension Board finds that Ms. Schwartz-Nason's Option 7 request subjects the system to unnecessary administrative expense and burden.

16. Ms. Schwartz-Nason's final claim on appeal is that she should receive her benefit in the optional form because the retirement application accepted by the Retirement Office includes a statement that a member cannot change his or her "beneficiary or pension option after retirement for any reason." However, the statement on the form quoted by Ms. Schwartz-Nason provides that a member is not allowed to change his or her pension option after retirement. In this case, the member is not attempting to change her benefit option; rather, the Pension Board is changing the member's form of benefit and benefit payments to comply with the Ordinances and Rules. The Pension Board finds it has the authority to review, amend or overturn approvals of retirements and to correct errors in payment in order to maintain its tax qualified status.

17. Based on the facts of the appeal, the findings made by the Pension Board, and the Ordinances and Rules, Ms. Schwartz-Nason's appeal is denied.

Mr. Garland questioned whether the Board should allow Ms. Schwartz-Nason the ability to reapply to request a 5% beneficiary option form of benefit pursuant to the current Ordinances and Rules. The Chairman noted that Ms. Schwartz-Nason will need to know what information she needs to bring before the Board in her application. In response to a question, Mr. Grady stated that the Pension Board has discretion regarding whether or not to allow her to reapply under the current Ordinances and Rules. Mr. Grady stated that her pension can be recalculated and it is a question for the Board to decide whether there is a legitimate purpose to be served in allowing Ms. Schwartz-Nason to reapply.

Mr. Grady asked if the Board would like to include a deadline for Ms. Schwartz-Nason to begin the Option 7 application process, if she chooses to reapply. Mr. Garland clarified that Mr. Grady meant a deadline to begin the application process, not a completion deadline.

The Pension Board voted 7-1, with Dr. Peck, Mses. Bedford, Van Kampen, and Messrs. Muller, Garland, Sikorski and Stuller approving, and Mr. Maier dissenting, to allow Ms. Schwartz-Nason to apply for an Option 7 form of benefit under Rules 1013 and 1035 with a deadline to submit the application by thirty (30) days after a letter is sent to her by the Retirement Office notifying her that she will be allowed to apply for a 5% beneficiary option.

The Chairman noted that he is opposed to allowing Ms. Schwartz-Nason to reapply because he does not believe that she can meet the standard to receive an Option 7 form of benefit and does not want to provide her with false hope.

Mr. Garland requested that discussion of the Option 7 form of benefit and application procedure be placed on the Audit Committee agenda.

12. Report on Compliance Review

The Pension Board took no action on this item.

13. 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) *Lucky Crowley v. ERS*

The Pension Board took no action on this item.

(d) *Renee Booker v. ERS*

The Pension Board took no action on this item.

(e) *Jo Ann Schulz v. ERS*

The Pension Board took no action on this item.

(f) *Stoker v. ERS*

The Pension Board took no action on this item.

14. Adjournment

The meeting adjourned at 11:50 a.m.

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