EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE JANUARY 18, 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
Keith Garland
Mickey Maier (Chairman)
Dean Muller
Dr. Sarah Peck
Rex Queen
Dave Sikorski

Member Excused
Linda Bedford (Vice Chair)
Guy Stuller

Others Present
Marian Ninneman, CEBS, CRC, ERS Manager
Mark Grady, Deputy Corporation Counsel
Dale Yerkes, ERS Fiscal Officer
Vivian Aikin, ERS
Brett Christenson, Marquette Associates, Inc.
Ray Caprio, Marquette Associates, Inc.
Wayne Wallace, UBS Realty Investors LLC
Jay Butterfield, American Realty Advisors
Paul Scritsmier, Milwaukee County Employee
Yvonne Mahoney, Retiree
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Chairman's Report

The Chairman noted that the annual meeting will be moved from February, when it traditionally has taken place, to April. Depending on the agenda and whether there is business to discuss, a Pension Board business meeting may be held immediately after the annual meeting, similar to last year.

The Chairman then stated the annual meeting will most likely take place at the Italian Community Center.

The Chairman then confirmed that the next regularly scheduled Pension Board meeting is February 15th. After general Board discussion, the Board agreed.

4. Minutes—December Pension Board Meetings

The Pension Board reviewed the minutes of the December 21, 2011 and December 28, 2011 Pension Board meetings.

The Pension Board voted 5-0-1, with Messrs. Garland, Meier, Muller, Queen, and Sikorski approving, and Dr. Peck abstaining, to approve the minutes of the December 21, 2011 Pension Board meeting. Motion by Mr. Garland, seconded by Mr. Queen.

The Pension Board voted 5-0-1, with Messrs. Garland, Meier, Muller, Queen, and Sikorski approving, and Dr. Peck abstaining, to approve the minutes of the December 28, 2011 Pension Board meeting. Motion by Mr. Garland, seconded by Mr. Queen.

Dr. Peck stated that she abstained from the votes because she was unable to attend either meeting.

5. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, December 2011

Ms. Ninneman presented the Retirements Granted Report for December 2011. Thirty retirements from ERS were approved in December, with a total monthly payment amount of $44,573, and one retirement from OBRA was approved. Of those 30 ERS retirements, 21 were normal retirements, 7 were deferred, and 2 were deferred early. Seventeen retired under the Rule of 75. Additionally, 16 retirees chose the maximum option, and 19 were District Council 48 members. Thirteen retirees elected backDROPs in amounts totaling $1,344,883. All backDROPs for the last month were under $150,000, one of the lowest backDROP months of the year.

Ms. Ninneman stated that a higher number of retirees are choosing the maximum option, which means the pension benefit ceases upon death; no beneficiaries continue to receive survivor benefits after the member's death.

(b) ERS Monthly Activities Report, December 2011

Ms. Ninneman presented the Monthly Activities Report for December 2011. ERS had 7,887 retirees at the end of December, with a monthly payout of $13,307,337.

Ms. Ninneman then stated that there were 517 retirements year-to-date. Four ERS staff members process retirements and in total spend approximately 8 to 10 hours on each retirement, meeting with the employees and processing final calculations. There were 41 appointments in December, which averages out to more than 3 appointments per day. More employees are scheduling meetings, but there are also no-shows and cancellations.

In response to questions from the Chairman and Mr. Grady, Ms. Ninneman stated that there are 70 appointments scheduled for January, with the high number resulting from the changes to Medicare Part B reimbursement. ERS needs to determine how many of those 70 are December 31, 2011 retirees. Some members will actually retire in December but not be processed until January, or even February because the meetings will not be held until later this month. Therefore, though the Activities Report reflects 517 retirements year-to-date, that number will most likely increase. Once the processing of the emergency retirements is complete, ERS expects that the retirement volume will decrease to a more normal level of close to 30 retirements per month.

Ms. Ninneman then stated that the number of deferred retirements is increasing on a monthly basis, but the rest of the report closely matches the numbers for the past two years.

In response to a question from Dr. Peck, Ms. Ninneman confirmed that the numbers for record maintenance have decreased considerably over the past few years because of the amount of work done to scan and image documents.

(c) Retirement Statistics Fourth Quarter/Year End Report

Ms. Ninneman noted that in terms of retirement statistics, 517 retirements were processed in 2011, with an average retirement age of 59 and average years of service of 20. The highest number of retirements fell under the DC 48 category at 291, followed by the non-represented category at 131.

(d) Co-Development Year End Report

Ms. Ninneman stated that since the co-development team was put in place in April 2011, over $500,000 has been saved. There were originally 21 pending change orders with Vitech, which the co-development team has considerably reduced, and ERS's goal for 2012 is to further reduce that number to zero. The co-development group will perform all system modifications to continue the cost savings.

Ms. Ninneman then stated that the co-development team is currently working on the banking interfaces for the Buck files, the actuarial valuation, the external audit, and the healthcare and prescription drug program.

(e) Individual Retirement Meeting Survey Fourth Quarter/Year End Report

Ms. Ninneman distributed the ERS Retiree Exit Survey Fourth Quarter results. ERS received a higher than normal amount of average and lower ratings, which ERS will discuss with staff to determine ways to improve the retirement experience. ERS believes that some employee issues related to leaving County employment. Despite these issues, all comments were positive, even when rankings were low. Overall, retirees have had positive experiences, ranking the staff as professional, knowledgeable, and helpful throughout the retirement process.

(f) Fiscal Officer

Mr. Yerkes first discussed the ERS cash flow report for January. The contributions from the deputy sheriffs are still not included in the forecast but will be added when the first payment is received.

In response to a question from the Chairman, Mr. Yerkes stated that assets from the Reinhart Partners account were liquidated in early January.

Mr. Yerkes next discussed the portfolio activity report, stating that December funding came from the Mellon Capital Management Bond portfolio at $15 million. The CRA REITs were sold to fund $15 million to UBS Trumbull on January 3, 2012. Additionally, all Reinhart stocks were sold by JPMorgan transitioning, and the ETF IWP was purchased in early January for that reason.

Mr. Yerkes concluded by noting that on the fourth quarter Milwaukee County ERS Check Register, the November 30 check in the amount of $59,000 to the Wisconsin State Treasury was for the members with whom ERS has lost contact. OBRA payments will also escheat to the State if the checks do not get cashed and members have been gone five years and cannot be found.

In response to a question from Mr. Muller, Mr. Yerkes stated that the checks written to the Joxel Group are for the co-development team and a separate consultant.

6. Investments

(a) UBS

Wayne Wallace of UBS distributed a booklet containing information on the UBS Trumbull Property Fund, stating that he is based in Hartford, Connecticut and assigned to portfolio services.

Mr. Wallace then provided an overview of the company. Global Real Estate U.S. is a separate business unit that is part of UBS global asset management. UBS is headquartered globally in London with about $62 billion in assets under management. In the U.S., UBS is headquartered in Hartford, Connecticut with $17.1 billion in assets under management. In assets by strategy, the Trumbull Property Fund, in which ERS is invested, is 69% of UBS's business. In assets by geographic region, assets are diversified by property type.

In response to a question from the Chairman, Mr. Wallace confirmed that the real estate assets in the Midwest are primarily concentrated in Chicago.

Mr. Wallace next discussed the UBS Trumbull Property Fund, or UBS TPF, in more detail. The fund is an open-ended core property fund invested solely in the U.S. At the end of September, the fund was $11.8 billion in gross assets, and the fourth quarter flash report indicated that it increased to $12.6 billion. There are 175 investments in the portfolio, with 293 investors. In terms of concentration, about $10.6 billion is invested by governmental and corporate pension funds. The fund also offers dividend income distribution, an option that can be changed on a quarterly basis; UBS can reinvest the dividend or ERS can receive it in cash. Additionally, since the beginning of the year, the minimum deposit increased from $1 million to $5 million. In terms of acquisitions, 30 transactions were performed in the past year at $2.3 billion gross and $1.6 billion net. Approximately 70% of that was in stabilized properties and 30% was in value-added. UBS has been low in value-added, with the fund in the 5% to 15% range, so UBS invested in some value-added transactions primarily in the apartment area, where it would make sense in terms of pricing and property.

In response to a question from Dr. Peck, Mr. Wallace stated that the apartment-to-condominium conversion trend has been a bit of a shadow market lately and he cannot say whether it will reverse. However, apartments have been performing very well.

Mr. Wallace then discussed portfolio distribution, stating that geographic distribution follows population and the gross national product of the country. UBS has significant concentrations in the east and the west. Compared to the benchmark, UBS is higher in the east and lower in the west. Overall, however, UBS is close to the benchmark. In terms of property types, UBS holds garden-style apartments from 2 to 400 units, or high-rise apartments ranging in price from $20 to $30 million on up. The office sector includes suburban offices to midtown high-rise offices. Retail ranges from super regional to companies like Target and Wal-Mart. Hotels include only full-service hotels. Industrial includes some light manufacturing, but the majority of it is in logistics, or warehouses. Overall, in terms of comparison with the benchmark, one of the characteristics of the fund is its concentration in apartments. It is very additive to an open-ended fund and generates a lot of income. It tends to have a lot of expenditure and be lower risk.

Mr. Wallace continued that the ten largest assets include CambridgeSide Galleria in Cambridge, Massachusetts and Galleria Dallas in Dallas, Texas, with new assets coming soon in places like Boston and Chicago. In terms of positioning, the portfolio is approximately 93% leased as of September 2011, with 7% of commercial leases expiring by the end of 2012. Value-added exposure was 6.1% at the end of September, and that increased in the fourth quarter.

Mr. Wallace then discussed UBS performance objectives. The first objective involves outperforming the NFI-ODCE index over a 3- to 5-year period. The fund underperformed in the short term, partly because TPF is a very conservative fund in terms of leverage. At the end of third quarter 2011, the fund was at 12.3%, up slightly in the fourth quarter at just over 13%. When there are large movements in returns, either down or up, lack of leverage really hurts returns. UBS prefers to focus on the longer term where it expects to outperform its benchmark in 3, 5, and 10 years. The second objective is to provide at least a 5% real rate of return, before management fees, over any 3- to 5- year period. In recent years, because of the big downturn, UBS has underperformed. However, since fund inception in 1978, UBS is within 5 basis points of that objective.

Mr. Wallace then discussed fund strategy for 2012, stating the focus will continue to be on acquisitions. UBS is looking to acquire more properties in the west, most likely in large office buildings, regional malls, and apartments, as well as some industrial. Asset management focus is still quite defensive in office and retail in terms of UBS strategy and more aggressive in hotels and funds.

In response to a question from the Chairman, Mr. Wallace stated that the decision to hold a property rather than sell is an analysis that the UBS asset management team performs. The analysis involves a number of factors: the market in which the property sits; the competition that the property could potentially be up against in the future; the age of the building; and the potential capital expenditure that UBS would need to put into it. Too, it is sometimes simply an offer that cannot be refused. Overall, however, the decision factors are primarily how much it will cost to keep the building and the amount of short- and long-term earnings.

Mr. Wallace concluded by stating that UBS has a very consistent core strategy. The UBS team is very experienced and has worked together a long time. The fund has a significant apartment allocation, which provides a competitive edge, and performance has been strong.

In response to a statement from the Chairman, Mr. Wallace confirmed that UBS drew down $15 million from ERS in January.

In response to a question from Mr. Muller, Mr. Wallace stated that in terms of performance during the 2008 downturn, everyone was in negative territory, but TPF outperformed most of its competitors, largely due to lower leverage and the number of investors wanting out of the fund as a result of allocation strategies.

In response to a question from Mr. Grady, Mr. Caprio stated that UBS was chosen as a real estate manager because they have a strong conservative core strategy and are one of the best performing long-term flagship funds. American Realty also has a conservative core strategy. Both managers are counterbalanced by Morgan Stanley, which in recent time periods had a little more leverage and a little more value-added.

In response to a question from Mr. Grady, Mr. Caprio agreed that the dollar amounts allocated between the three real estate managers are very different, but also stated that is something that can be balanced over time.

In response to a question from the Chairman, Mr. Wallace stated that the heavier weighting to office and apartments, with less to retail, could change if availability were better. Targets are set by the research group but, though UBS would like to increase allocation to retail, there is just nothing for sale.

(b) American Realty

Jay Butterfield, Managing Director of Fund Operations, distributed a booklet containing information on the American Core Realty Fund.

Mr. Butterfield first provided an overview of American Realty. Throughout its 23-year history, the firm has been a stable investment management group, owned by its senior investment professionals and not part of a larger investment management organization. The 57-employee firm is located in Los Angeles with offices across the country, and has $4.1 billion in assets under management. The core fund, in which ERS is invested, represents about $2.5 billion and is the primary focus. Overall, the firm manages 153 properties in office, retail, multi-family, and industrial, and American Realty has not deviated from that strategy. While there are some value-added products, the emphasis has been on core real estate management. American Realty recognizes its fiduciary responsibilities to clients and understands that real estate is complex. As a result, it is important to make sure the client has the detailed portfolio information needed to make decisions. The emphasis is on risk control, and American Realty is a relatively conservative investor, providing exposure to the asset class without an over-emphasis on one property type or one part of the country. American Realty aims relatively low on the risk return spectrum; from a leverage and exposure standpoint, risks are designed to be kept relatively low.

In response to a question from Dr. Peck, Mr. Butterfield stated that there are five principals with an economic interest to the firm. These five have successors-in-waiting that are ready to step into their roles if one of the five should leave. In terms of ownership transition, if an owner of the firm leaves, buyout permission exists for the remainder of the partners to retain the private ownership of the firm. Plans are in place for the potential successors to participate in the management of the fund.

Mr. Butterfield then provided an overview of the overall economy going into 2012 and how American Realty focuses on exposure to take advantage of upcoming opportunities. Overall, the economic situation for real estate is relatively benign. Although inflation and interest rates are low, a lot of money is flowing into real estate. This situation is not similar to the situation in 2007, but increasing leverage significantly and adding value-added acquisitions is something to be wary of currently. American Realty's focus is exclusively core. An increase in fundamental and employment growth needs to be seen, as well as demand from businesses to expand, before an excitement can be generated about raising rents and increasing value significantly going into 2012, 2013, and 2014. Over the last two years, there has been a flight to quality and returns have been above what is normally expected from core real estate. Because of this, American Realty expects an 8% to 9% return on a leveraged basis going into 2012. While quite different from the 15%, 16%, and 17% over the last few years, from a competitive standpoint it is a good return.

Mr. Butterfield continued that American Realty will not change its conservative strategy of focusing on well-leased, multi-tenant buildings. Employment growth has been stagnant and there currently does not seem to be a way to change the growth pattern of the economy from a fiscal or monetary standpoint. It comes down to businesses and consumers feeling more confident that they can spend money and expand business and therefore expand space. It may take two to three quarters before the European situation settles itself and positive economic growth is seen.

Mr. Butterfield then stated that in today's market environment, active management of existing assets is important; occupancy must be high, and patience is needed to avoid purchasing assets for too high a price because the temptation is to pay up for properties and put money to work. American Realty's philosophy, however, is to own the best property in the best location. The highest return will not always be realized, but the income growth will be steady.

In response to a question from the Chairman, Mr. Butterfield stated that American Realty considers sub-markets to be metropolitan areas and the areas within the 20 top major metropolitan areas that provide a particular advantage. There may be some markets where certain property types will perform better than others. For example, in San Francisco, office and retail generally performs better than industrial. However, in markets like Seattle and suburban Washington, D.C., multi-family is much stronger. It depends on the areas within markets.

Mr. Butterfield then discussed the core fund, which is a diversified, open-end fund. The focus has been combining a top-down, target market approach to a hands-on, bottom-up asset management approach. Ultimately, there will be value in managing the real estate hands-on rather than merely picking the right markets in which to invest. Owning the best property in a secondary or tertiary market will not meet with success. Owning a Class A property in the best market will lead to superior results. For these reasons and because American Realty focuses only on core, there is no value-added component. This is a decision that clients should make in terms of the allocations between core and value. American Realty has focused on income throughout the life of the fund. Occupancy at the end of the third quarter 2011 was 89% and stable at the end of the fourth quarter. Staggered lease rollovers are also strong—only 14% are rolling over this year, about a third of which are expected to be resolved in the first quarter. In terms of leverage, American Realty has generally been a lower leveraged player. At the end of the third quarter 2011, leverage was 60.2%. At the end of the year, because of acquisitions made during the fourth quarter, leverage was about 22%, which is where the fund should be.

Mr. Butterfield next discussed American Realty's strategy going into 2012. In terms of office, the strategy is to own the best in class, with a focus on transit-oriented properties. With retail, the strategy is to focus on needs-based shopping. Instead of larger malls or malls that focus on discretionary spending, the focus will be on grocery-anchored neighborhood shopping centers and places people go regardless of whether they are employed. Multi-family is currently overweight and fairly valued without a lot of upside, so the exposure there will be more neutral moving forward. Industrial has an underweight, so American Realty's acquisition strategy will be focused here going into the next year. As the economy starts to recover, even slowly, industrial will yield bigger benefits.

Mr. Butterfield then discussed ERS's account. The initial $30 million commitment was made in 2011. American Realty drew down $23 million as of September 30, and then another $2.4 million in October. As of September 30, the balance was $24 million. ERS also received more than $500,000 in distributions, which are paid out on a quarterly basis. Overall, for two full quarters, performance has been above long-term expectations.

In response to a question from the Board, Mr. Butterfield stated that American Realty has recently trailed the index, primarily because American Realty is significantly less leveraged than larger players in the index. American Realty expects the fourth quarter number to be around 2.7%, which will bring the total return up to approximately 15% for the year. This is higher than what is normally expected, as well as more stable in return. By comparison, in 2008, performance was down about 25%, significantly lower than the index and again primarily because of a lower leverage.

Mr. Butterfield next discussed property type diversification. The fund is underweight to industrials and even-weighted with multi-family. There is an overweight in office due to recent acquisitions, but the overweight will be corrected as the industrial portfolio is filled out. One of the most significant acquisitions made was the purchase of an office building in Cupertino, California. Additionally, there is a mix of single and multi-tenant properties in the office portfolio, which allows American Realty to raise rents over periods of time for the multi-tenants, if they roll over, but still provide stability in the portfolio on an ongoing basis.

Mr. Butterfield continued that in terms of geographic exposure, most is along the coasts and in the south. The largest exposure is in Washington D.C., one of the most stable markets in the country for all property types. Areas that American Realty is looking at include West Los Angeles, Seattle, San Francisco, East Bay, general suburban Chicago, and Boston. These are markets with a diverse employment base so there is no dependency on any one industry. Additionally, these are markets that have been showing some job and demographic growth.

Mr. Butterfield then stated that American Realty does not have an issue with borrowing money and there is plenty of capital available. The current entry queue is about $157 million. American Realty expects to draw down the balance of the ERS commitment in March 2012.

Mr. Butterfield noted that there has been a change in the valuation process. Previously, like most funds, American Realty valued its properties externally by an independent MAI appraiser once a year. Valuations and valuation updates were also done internally based on changes in the property, to the tenants, and in income. Starting in the third quarter of 2011, however, American Realty moved to 100% external valuations. The Altus Group, the former real estate valuation practice of PWC, was hired as an independent valuation manager. Full appraisals are still performed annually, but Altus will perform the restrictive scope appraisals, independent of American Realty.

Mr. Butterfield concluded by stating that the core fund acquired 13 core income-producing properties in select target markets in 2011. The focus, again, is continued risk control. American Realty pays out a 6% dividend per year, to be paid out or reinvested. Most clients reinvest the dividend, which is about 1 to 1½ percent gross per quarter. The watchwords going into 2012 will be "occupancy" and "income." Core real estate will not be earning 15% to 18% because as long as there is 2% return on treasury bonds, buying a property with a 5% rate of return is attractive. Real estate will continue to attract money, and much of that will be coming into the value-added section, which will push pricing up. American Realty will still be looking at a fair amount of capital flow into the core space, so value should maintain.

(c) Marquette Associates Report

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

Mr. Christenson first discussed the flash report, noting that assets are close to target allocation. The exception is private equity; Marquette is currently conducting a search for private equity investments which thus far has yielded approximately 20 RFP responses. Two of the products that have been on alert or under termination are now out of the portfolio; Reinhart Partners and ING Clarion, the public REIT, were liquidated. At this time, Marquette is not recommending any rebalancing changes.

In response to a question from the Chairman, Mr. Christenson confirmed that the asset allocation is now at the desired point that was decided three years ago in the asset allocation study.

In response to a question from Mr. Grady, Mr. Christenson stated that the personnel change at American Realty did lead to Marquette placing American Realty on alert.

In response to a question from Mr. Muller, Mr. Christenson stated that the REIT portfolio does not appear on the report because it was liquidated right before the end of 2011. The dollar amount actually appears in cash.

Mr. Christenson next discussed total Fund performance for 2011. The fixed income portfolio was up 7.4%, and the benchmark rose to

7.8% as a result of JPMorgan slightly underperforming. U.S. Equities was down 1.1%, but the benchmark was positive at 1%. The market for the asset class was up 1% because Reinhart Partners significantly underperformed for the year, resulting in a 60 basis point drag. The remaining difference in underperformance was an overweight to small- or mid-cap, with small-cap at a -5% range. International was down 13%, basically in line with the benchmark, and that was another 2.5% overall drag to the portfolio and the most significant setback. Long-short, the hedged equity portfolio, also really struggled, resulting in a drag on the portfolio despite only a 10% weighting. Marquette is meeting with these managers to review what happened in their portfolios. Both K2 and ABS had negative returns for the year, and the volatility of the markets and the high correlation between good and bad stocks made it difficult for long- short managers.

Mr. Christenson continued by stating that the best-performing asset class was real estate, with the portfolio up 13.4% for the year. The portfolio was not fully funded for the whole year, but a significant allocation was made that caught a lot of the upside. Morgan Stanley called money down last November and American Realty called money in the beginning of this year, so there was good exposure in real estate. Infrastructure was also up about 6.5% for the year. Overall, the equity markets were a drag on the portfolio and the alternatives to fixed income were positive, outside of the long-short.

Mr. Christenson then discussed the Fund managers for 2011. JPMorgan slightly underperformed at 7.8%, though was basically in line after fees. Boston Partners for large-cap value was up 1.3%. For mid-cap, Artisan Partners was down 0.8% and Reinhart was down almost 8% for the year. For the small-cap managers, the benchmark, or the Russell 2000 value, was down 5.5%. AQR was down 6.8%, and Fiduciary Management was down 3.8%. Overall, small-cap struggled, as did mid-cap, though to a lesser extent. On the international side, despite significant volatility in the European markets and despite the struggle of the international large-cap managers, both managers outperformed for the year. GMO, however, is still significantly underperforming on a three-year basis and has been on alert for a little over a year. Marquette believes GMO should continue to stay on alert because any significant poor performance would put GMO back under par. In terms of hedged equity, the numbers are disappointing and mostly in the negative. For the real estate portfolio, the numbers for American Realty are closer to 14% or 14.5%. Morgan Stanley achieved a 17.7% net return, demonstrating that the Board had good timing in selecting them. Their slightly higher leverage has benefited performance. Finally, for infrastructure, IFM was up 6.7%. Marquette has not yet received the numbers for JPMorgan but believes they will be in line. Private equity numbers have also not been received, but Marquette estimates a number in the mid-teens because private equity also had a very good year.

Mr. Caprio then discussed the ABS ownership change. ABS, a hedge fund manager, sold a 45% stake in its business to an investment bank. The key owners remain with ABS and are still owners in the firm, but with a smaller stake. Operationally, everything should stay the same in terms of strategy and philosophy. However, as a result of the ownership change, Marquette recommends that ABS be placed on alert and monitored.

In response to a question from Mr. Muller, Mr. Caprio stated that when a manager is placed on alert, Marquette informs the manager that if the reasons behind being placed on alert ultimately translate into poor performance, the manager could be terminated.

In response to a question from Dr. Peck, Mr. Caprio stated that ABS may have increased the bonus pool by 25% to 45% to ensure ABS could retain the necessary talent. Marquette does not believe the decision will impact the risk profile.

The Pension Board unanimously approved placing ABS on alert. Motion by Dr. Peck, seconded by Mr. Garland.

Mr. Caprio concluded by stating that Marquette is making a strong effort to provide its clients with as much market information as possible. Webinars are also available for clients to log in and listen to the material being presented. This month's report from Marquette includes webinar documentation that provides a market overview of 2011 as well as important information to consider in the portfolios.

In response to a question from the Chairman, Mr. Caprio stated that Marquette's view of 2012 basically concerns real assets and an infrastructure, real estate, and combination fee and hedge fund analysis. It is somewhat difficult at this point to determine the best products. Marquette's fixed income analysts are finding value in residential mortgage backed securities, which is a pretty small niche. Some of the hedge fund managers are focusing on their multi-strategy phase, but overall they are also fairly positive on U.S. equities.

In response to a question from Dr. Peck, Mr. Caprio stated that with regard to international, emerging markets look strong, with low debt and high growth. Additionally, dividend yields on developed countries are at historic highs, which typically is a sign that securities are undervalued. Throughout developed Europe, yields are higher in the 3.5% to 4% range. There is reason to be optimistic, but it may take time to turn around.

In response to a request from Mr. Muller, Mr. Caprio agreed to send the reports electronically in advance of the meetings.

The Chairman stated that while asset allocation is on the agenda, there is nothing specific to address. The asset allocation decision and policy from three years ago is now fully implemented. This year, after the mid-cap private equity and mid-cap growth searches are completed, a new asset allocation analysis will be performed. The process will start in the Investment Committee, but information will be brought to the Pension Board periodically.

7. Investment Committee Report

There was no Investment Committee report because the January 3, 2012 meeting was cancelled.

8. Audit Committee Report

Mr. Garland reported on the January 4, 2012 Audit Committee meeting.

The Audit Committee first discussed the Baker Tilly audit with the Baker Tilly team. The audit process will be the same as last year.

The Audit Committee next reviewed the timeline for the annual report, which will follow the same timeline as last year.

The Audit Committee then discussed contribution refunds and the way interest is calculated and applied. It was determined that further research and discussion will be necessary.

The Audit Committee next discussed ERS staffing. At a special session of the Pension Board, funds were added to the 2012 Pension Budget via an amendment in order to restore the four staff positions eliminated through the 2012 County Budget. The Committee requested that the critical positions be filled with temporary staff using a Milwaukee County staffing vendor. ERS will work with the new HR Director to re-create lost positions.

The Audit Committee then discussed the employee member election on February 3 through February 6 to fill one employee member Board seat. Two candidates have submitted nomination papers.

The Audit Committee next discussed the Deputy Sheriffs Association Pension Board seat. An Ordinance will be needed to designate one employee Pension Board seat to be filled by a member of the Deputy Sheriffs Association.

In response to a question from Dr. Peck regarding the reason behind replacing an employee seat with a deputy sheriff seat as opposed to just adding a deputy sheriff seat, Mr. Grady stated that did not know as he was not part of the labor negotiations for the contract. The wording of the contract is vague as to whether there were to be nine members or a tenth member added. Mr. Grady's understanding is that the County agreed the intention was not to expand the Board.

In response to a statement from Dr. Peck regarding potential issues with majority votes, Mr. Grady stated that an Ordinance has been proposed from administration to address several things, one of which is the voting requirement. At a high level, the proposal reduces the number of necessary votes from five to four. The amendment essentially states that a majority of those present is necessary, but no less than four votes is required for passage. For example, with five people present, a 4-1 vote would be sufficient. For six people, a 4-2 vote would be enough. For seven people, a 4-3 vote would be enough.

In response to a question from Mr. Muller, Mr. Grady stated that a nine-member Board would include three employee representatives, one retired employee, three seats appointed by the County Executive, and two seats appointed by the County Board Chairperson.

Mr. Garland stated that he was opposed to replacing a current Board seat versus adding a Board seat.

Mr. Grady then stated that he plans to draft an Ordinance amendment on the Pension Board elections for an upcoming County Board cycle.

The Audit Committee next reviewed changes to the ERS Activities Report. The format of the report will have more of a customer service focus. Additionally, on the bottom line, various innocuous items were removed.

The Audit Committee then discussed OBRA, noting that the IRS will issue a closing agreement on the OBRA audit.

The Audit Committee concluded by confirming that information requested from AFSCME was available on the ERS Web site.

9. Administrative Matters

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

The Chairman then noted two upcoming educational opportunities for the Pension Board members. The International Foundation is sponsoring the 2012 Trustees and Administrators Institute, which includes a New Trustees program and an Advanced Trustees program. Both take place in Lake Buena Vista, Florida, on February 13, 2012, through February 15, 2012.

The Chairman moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to item 10 for considering the financial, medical, social, or personal histories of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories, and that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 10, 11, and 12 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board voted by roll call vote 6-0 to enter into closed session to discuss agenda items 10, 11, and 12. Motion by Dr. Peck, seconded by Mr. Garland.

10. Disability Matters

(a) Applications

(i) Amy Slack, ADR

In closed session, the Pension Board discussed Ms. Slack's accidental disability pension. The Medical Board stated that Ms. Slack is not permanently unable to perform the job functions of her position.

In open session, the Pension Board unanimously approved accepting the Medical Board's recommendation to deny an accidental disability pension application. Motion by Mr. Sikorski, seconded by Dr. Peck.

(ii) Sarah Bell, ADR

In closed session, the Pension Board discussed Ms. Bell's accidental disability pension. The Medical Board stated that Ms. Bell is not permanently unable to perform the job functions of her position.

In open session, the Pension Board unanimously approved accepting the Medical Board's recommendation to deny an accidental disability pension application. Motion by Mr. Sikorski, seconded by Dr. Peck.

11. Claim Appeal

(a) Paul Scritsmier

The Pension Board discussed the matter in closed session. Mr. Scritsmier presented information to the Board in closed session, including medical information. He then left the closed session.

In open session, the Pension Board unanimously voted to deny the December 31, 2011 retirement effective date for Paul Scritsmier, 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. Paul Scritsmier is an ERS member who appealed the Retirement Office's decision not to grant his retirement request effective December 31, 2011.

2. Mr. Scritsmier signed an Emergency Retirement Application member Acknowledgement document, an application for Retirement and an Emergency Retirement Benefits Enrollment Form on December 28, 2011. These documents state that Mr. Scritsmier was applying for a retirement date of December 31, 2011.

3. On Friday, December 30, 2011, Mr. Scritsmier submitted a handwritten note to the Retirement Office rescinding his December 28, 2011 retirement request. In addition to stating his contact

information and the date, the request states: "To: Whom it may concern. I am rescinding my application for retirement."

4. On Saturday, December 31, 2011, Mr. Scritsmier sent an email to Theresa Velazquez, a Retirement Office employee with whom he had been working on his retirement, requesting that his retirement request be reinstated. In her response email on January 3, 2012, Ms. Velazquez stated: "In order to retain the Medicare Reimbursement, employees need to be terminated by or before 12/30/2011 and retired by 12/31/11. Because you rescinded your application for retirement on 12/30/2011, you were not terminated in time. I apologize if you feel confused about the process; I did explain that if you continued working you would loose [sic] that benefit."

5. Mr. Scritsmier reported to his department and worked his scheduled shift on January 1, 2012.

6. On January 3, 2012, Mr. Scritsmier submitted a letter to the Retirement Office requesting that his "original retirement request be honored since it was submitted within the proper timeframe." He argued that allowing his original retirement request is appropriate because "this process is not immediate; and after the payroll department receives the retirement request it would take several days to process the request anyway. I feel that in this amount of time, my original retirement request could be accommodated." Mr. Scritsmier also stated that he believes he met his obligations in meeting the retirement deadline, even though it caused confusion.

7. On January 9, 2012, Marian Ninneman, Interim ERS Manager, sent a letter to Mr. Scritsmier denying his request for retirement effective December 31, 2011. Ms. Ninneman's letter advised Mr. Scritsmier of his appeal rights and he appealed the Retirement Office's denial to the Pension Board.

8. Ordinance section 201.24(2.19) defines "retirement" to mean "termination of employment after a member has fulfilled all requirements for a pension. Retirement shall be considered as commencing on the day immediately following a member's last day of employment..." Mr. Scritsmier worked for the County on January 1, 2012. Mr. Scritsmier could not be considered retired within the requirements of Ordinance section 201.24(2.19) any sooner than January 2, 2012 because he worked on January 1, 2012.

9. Although there was potential confusion over Mr. Scritsmier's decision to retire, then rescind, then reinstate – all at year end – no

decision by an employee can change the fact that "retirement" cannot occur earlier than a member's last day of work.

10. Mr. Scritsmier contends that the Retirement Office should be able to accommodate his original retirement request because the County payroll would need several days to process a retirement so his retroactive retirement would not have a practical impact. The Pension Board must administer ERS according to the Ordinances and Rules. The Ordinances and Rules do not allow members to select retroactive retirement dates.

11. Mr. Scritsmier could not have been considered a rehired retiree under Ordinance section 201.24(11.2). The County did not follow any process to rehire Mr. Scritsmier on January 1, 2012.

Motion by Dr. Peck, seconded by Mr. Queen.

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) *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.

13. Adjournment

The meeting adjourned at 11:15 a.m.

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