EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE NOVEMBER 17, 2010, 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)
Jeffrey Mawicke
Dr. Sarah Peck
Guy Stuller
Donald Weber

Members Excused
Linda Bedford (Vice Chair)
Donald Cohen
David Sikorski

Others Present

Mark Grady, Principal Assistant Corporation Counsel
Gerald Schroeder, ERS Manager
Dale Yerkes, ERS Fiscal Officer
Steven Huff, Reinhart Boerner Van Deuren s.c.
Robert Parise, JPMorgan Asset Management
Steven Weddle, JPMorgan Asset Management
Brett Christenson, Marquette Associates, Inc.
Ray Caprio, Marquette Associates, Inc.
Ken Loeffel, Retiree
Yvonne Mahoney, Retiree
Cathleen Ward, Spouse of Chuck Ward
Joan Zeiger, Retiree Subchapter 36 of AFSME Council 48
Peter Meschke, Retiree Subchapter 36 of AFSME Council 48
Steve Schultze, Reporter, *Milwaukee Journal Sentinel*

3. Minutes — October 20, 2010, Pension Board Meeting

The Pension Board reviewed the minutes of the October 20, 2010, Pension Board meeting.

The Pension Board unanimously approved the minutes of the October 20, 2010, Pension Board meeting. Motion by Mr. Weber, seconded by Mr. Garland.

4. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, October 2010

Mr. Schroeder presented the Retirements Granted Report for October 2010. Nineteen retirements were approved in October with a total monthly payment amount of $23,548. Seven retirees elected backDROPs in amounts totaling $525,978.

Mr. Schroeder indicated that ERS normally processes one retirement per day. Recently, ERS began scheduling two pre-retirement planning sessions per day. Starting in mid-November 2010, ERS began scheduling three sessions per day.

(b) ERS Monthly Activities Report, October 2010

Mr. Schroeder presented the Monthly Activities Report for October 2010. ERS had 7,507 retirees at the end of October 2010 and paid out $12,482,091 in benefits for October 2010. Mr. Schroeder stated that in October all ERS retirees received their pension benefit through the use of direct deposit.

Mr. Schroeder then discussed an update regarding pension statements sent to employees. ERS sent 5,699 pension statements using the V-3 system and also reissued 9 statements because of faulty data. ERS received 50 inquiries regarding pension statements. ERS included CETA credit on the pension statement for the first time. Most of the problems ERS experienced with the data were related to information in Ceridian. ERS uses information from the Ceridian system and cleans up the data if it is inaccurate.

Mr. Schroeder next presented a V-3 update. Change orders are needed to prepare enhancements to the V-3 system. Mr. Schroeder indicated he stopped change orders from October 2010 to December 2010. ERS is currently considering the change order priority for

2011. In response to a question from the Chairman, Mr. Schroeder stated that enhancements related to the Ordinance amendments for the multiplier decrease from 2% to 1.6% for current member future service and new hires, and the retirement age increase to 64 years for new hires will be complete on December 16, 2010. Change orders for these Ordinance amendments will be paid for with funds allocated earlier in 2010. Once complete, calculations related to these Ordinance amendments will be automated.

Mr. Schroeder indicated that ERS is developing a disaster plan in the event of a V-3 system failure so that there is a backup system to serve ERS members and retirees. While V-3 data is secure, ERS is looking at other issues. In response to a question from the Chairman, Mr. Schroeder stated that while ERS had a disaster plan in place, the plan did not include things such as the issuance of checks through the V-3 system. In response to a question from the Chairman, Mr. Schroeder noted that ERS is using both internal and external expertise in the development of the disaster plan.

Mr. Schroeder stated that ERS also plans to implement the V-3 call center feature through a demonstration project in the first quarter of 2011. The V-3 call center has the ability to log caller and ERS staff information and track the resolution of calls.

Mr. Schroeder also described the training tool that trains ERS staff on changes to ERS Ordinances. This eliminates the need for ERS to have a trainer onsite.

Mr. Schroeder indicated that there are two upcoming audits for ERS. First, the County Audit Department will conduct an internal audit on ERS payments, documentation, checks and balances, and controls. The County Audit Department is fully trained on navigating the V-3 system. Second, Baker Tilley plans to start its upcoming audit with a preliminary visit on January 12 and 13. Baker Tilley plans to come for two weeks onsite during April 2011. In the past, Baker Tilley has examined under 100 cases. Baker Tilley also wants to be trained on navigating the V-3 system.

In response to a question from Mr. Stuller, Messrs. Schroeder and Grady stated that the October pre-retirement workshop was cancelled because ERS lost the use of the facility. The workshop is rescheduled to January 27, 2011, at 1:00 p.m. in Wilson Park. Mr. Schroeder noted that he offered one-on-one sessions covering everything in the pre-retirement workshop to anyone who would like to retire. He has also offered the pre-retirement folder of materials to anyone who requests one.

(c) Waivers

Mr. Schroeder reported that ERS received four waivers from Maria Ledger, Executive Director of Family Care. In response to a question from Mr. Weber regarding the timing of the waivers, Mr. Grady explained that waivers can be obtained when employees are promoted to certain County positions. In response to a question from the Chairman, Mr. Grady stated that waivers can also be obtained from new hires to these positions.

The Pension Board voted 5-1, with Mr. Stuller dissenting, to accept the waivers. Motion by Dr. Peck, seconded by Mr. Garland.

(d) Fiscal Officer/Cash Flow Report

Mr. Yerkes distributed a Portfolio Activity report for October 2010 showing the change in the balance of ERS investments with each manager and a 2011 Pension Fund Budget report showing changes from the preliminary budget.

Mr. Yerkes first discussed the Portfolio Activity report for October 2010. ERS funded the JPMorgan Infrastructure investment with \$60 million on October 4, 2010, sourced with \$30 million from CRA Real Estate and \$30 million from JPMorgan fixed income. At the recommendation of Marquette Associates, ERS drew down its investment with Robeco to fund October cash flow because ERS was overweight to its investment with Robeco and to U.S. equities.

Mr. Yerkes next presented the 2011 Pension Fund Budget report, showing changes from the preliminary budget that the Pension Board reviewed at its October 2010 meeting. He indicated the budget now reflects the County Executive's final budget. He noted there are other changes from the preliminary budget. The first change is that ERS added \$300,000 to capital purchases because ERS anticipates a V-3 programming change relating to employee contributions. In response to a question from Mr. Grady, Mr. Yerkes stated that the \$300,000 figure is just an estimate at this point.

Mr. Yerkes indicated that another change reflected in the current budget is that salaries and benefits decreased about \$106,000, mainly because County charges for fringe benefits decreased. The Legacy Healthcare and Pension budget item also decreased about $31,000 while amortization and depreciation increased about $30,000 from the increase in capital expenditures. Outside services also increased about $9,000, which includes an additional $5,000 for advertising. Part of the amount allocated to advertising will be used to advertise for the ERS Manager position because Mr. Schroeder plans to retire in 2011. The other budget item increased about $10,000 because the County included a charge for unemployment benefits.

Mr. Yerkes stated the current budget also reflects decreases from the preliminary budget of about $4,000 for space rental and about $5,000 for mail room services. Another change reflected in the current budget is that the IMSD charge from the County increased about $38,000 from the preliminary budget. In response to a question from Mr. Weber, Mr. Yerkes indicated that IMSD is the County's computer department. The increase reflects the proper charge for personal computers and a network charge. The Chairman indicated that ERS does not have staff to perform network administration and software installation. Mr. Yerkes stated that administrative expenses decreased approximately $60,000 in total from the preliminary budget. Mr. Yerkes asked the Pension Board to approve the 2011 Pension Fund Budget.

The Pension Board voted 4-1-1, with Dr. Peck and Messrs. Garland, Mawicke and Maier approving, Mr. Stuller dissenting, and Mr. Weber abstaining, to approve the 2011 Pension Fund Budget. Motion by Dr. Peck, seconded by Mr. Garland. The motion failed to pass because it lacked the necessary five votes as required by Ordinance section 201.24 (8.5).

5. <u>Investments</u>

(a) <u>JPMorgan Infrastructure Fund Manager Report</u>

Robert Parise and Steven Weddle of JPMorgan Asset Management distributed copies of a JPMorgan Infrastructure Investments Fund report.

Mr. Parise stated that he is responsible for the ERS infrastructure and fixed income investments with JPMorgan Asset Management. He indicated that Steven Weddle is a member of the Infrastructure Investments Group. Mr. Weddle stated that JPMorgan's core investment and asset management team has hundreds of years of infrastructure experience in the aggregate.

Mr. Weddle presented an overview of the JPMorgan Infrastructure Investments Fund ("Infrastructure Fund"). The Infrastructure Fund has 10 investments in North America, U.K., Australia, and Continental Europe. The Fund has a diversified portfolio with investments in regulated gas distribution, regulated electricity distribution, contracted natural gas and wind power, regulated water and wastewater, seaports, and airports. The Fund initially invested in transportation and regulated assets because they have less volatility. The target return of the Fund is 10% to 12% net IRR over 5 to 7 years. The target yield of the Fund is 6% to 8% over 5 to 7 years.

In response to a question from Dr. Peck, Mr. Weddle indicated that the publicly-held wind and electric power utilities in which the Fund is invested are locked into long-term contracts.

Mr. Weddle indicated that the Infrastructure Fund has an open-ended structure. It accepts money on a quarterly basis, which provides for some liquidity. The Fund currently has $3.5 billion in committed capital and $3.2 billion in invested capital. JPMorgan is in the process of raising additional capital for future attractive investments.

Mr. Weddle stated that the Infrastructure Fund's investment strategy seeks to maximize cash flow over the long-term which creates benefits for investors. First, there is not a blind pool but a diversified portfolio of ten quality assets. Second, the Fund is a good match for investors' long-term liabilities. The Fund also offers some liquidity from its open-ended structure and mitigates reinvestment risk to investors. JPMorgan plans to hold Fund assets for a very long period of time. The absence of artificial sale dates is attractive to operators, governments and regulatory authorities.

Mr. Weddle discussed the benefits of the Infrastructure Fund's diverse group of assets. First, as the number of assets in the portfolio increases, cash flow volatility decreases. Second, the currency impact decreased as the Fund invested in assets in additional currencies. These factors demonstrate that ERS chose an attractive time to invest in the Fund.

Mr. Weddle then described some themes regarding the Infrastructure Fund's assets. The Fund invested mainly in regulated and contracted assets. Also, the Fund is either a majority owner of assets or a majority owner in a consortium that acquired assets — which allows JPMorgan to control and thus add efficiencies to assets. For regulated assets, a strategy for the Fund is to acquire local distributing companies which have growth potential.

Mr. Weddle stated that the Infrastructure Fund acquired SouthWest Water Company on September 13, 2010. The SouthWest Water Company was a NASDAQ listed company that JPMorgan took private. In response to a question from the Chairman, Mr. Weddle indicated that the Fund paid a 10% premium in taking the SouthWest Water Company private. Mr. Weddle stated premiums for pending deals to take companies private range from 10% to 20%.

Mr. Weddle indicated that Dragados SPL is a pending investment for the Infrastructure Fund. Dragados SPL is the twelfth largest global port and is located in southern Europe. The Fund plans to partner with the Dutch pension fund APG, which will be a minority co-investor. This will be the Fund's first Euro-denominated investment, with a purchase price of approximately €300 million. In response to a question from Mr. Christenson, Mr. Weddle stated that the target IRR for SouthWest Water Company is 15% to 16%, while the target IRR for Dragados SPL is 16% to 18%.

In response to a question from Mr. Christenson, Mr. Weddle indicated that large pension funds with bigger infrastructure staffs are interested in directly owning assets with the Infrastructure Fund and they also invest in infrastructure funds.

In response to a question from the Chairman, Mr. Weddle noted that JPMorgan anticipates growth and diversification of the Infrastructure Fund in the future. Mr. Weddle believes the Fund's open-ended structure will contribute to growth. In response to a question from the Chairman regarding growth opportunities, Mr. Weddle stated that federal, state and local governments will continue to look to the private sector to assist with new construction and maintenance of utilities.

In response to a question from Dr. Peck regarding what JPMorgan is doing to cultivate talent as the Fund grows, Mr. Weddle noted that there will be more opportunities to move team members to active management. JPMorgan will cultivate the talent of existing team members and draw upon their breadth of experience. Also, professionals want to work for JPMorgan, which helps to bring in experienced, seasoned talent.

(b) Marquette Associates Report

Brett Christenson and Ray Caprio of Marquette Associates, Inc. distributed both quarterly and monthly reports.

Mr. Caprio presented the October monthly report. He indicated the asset allocation transition is almost 100% complete. Through October, ERS investments are roughly in line with their target allocations.

Mr. Caprio described the market values of ERS investments through October 2010. The ERS portfolio has a market value of just over $1.8 billion in assets through October 2010. The ERS portfolio has 31% allocated to fixed income, 24.3% allocated to U.S. equity, 19.4% allocated to international equity, 10.1% allocated to long-short equity, 5% allocated to real estate and 7% allocated to infrastructure. In response to a question from the Chairman, Mr. Christenson indicated that Marquette is not recommending any rebalancing at this time.

Mr. Caprio then discussed the performance of the ERS fund. The return of the ERS fund is 2.1% gross of fees for October 2010 and 9.3% gross of fees year-to-date. The ERS fund had a return of 7.8% gross of fees for the third quarter of 2010. The ERS fund has outperformed the policy benchmark on a 3-year, 4-year, 5-year, 7-year and 10-year basis. The fixed income composite performed in line with the benchmark for October 2010 and has outperformed the benchmark over most time periods. The domestic equity composite slightly underperformed the benchmark for October 2010, but year-to-date has outperformed the benchmark. The international equity composite outperformed the benchmark both for October 2010 and year-to-date. The long-short equity composite outperformed the benchmark for October 2010. The return of the infrastructure composite was 1% in October 2010, which came from currency volatility in October.

Mr. Caprio next reported on the October 2010 manager returns. Most managers are outperforming the benchmarks for October 2010. Most managers have also performed well year-to-date, with the exception of Reinhart Partners and GMO large-cap value. The

Investment Committee recently discussed with GMO the reasons behind their underperformance of the benchmark.

Mr. Christenson described the current asset allocation of the ERS fund versus its peers. The ERS fund has an allocation to U.S. equities of 24% versus an allocation of 38% for the median public pension fund. ERS is underweight to U.S. equities versus the median public pension fund because Marquette recommended the lower allocation to reduce volatility of ERS. The ERS fund's allocation to international equities is 6% overweight to the median public pension fund. Also, the ERS fund's allocation to long-short equity is 10% overweight to the median public pension fund. Long-short equity investments usually preserve capital better in a down market, but in a very strong up market they may only capture 50% to 70% of the gains.

In response to a question from the Chairman, Mr. Christenson indicated that the size of the median public pension fund is approximately $200 million and there are approximately 200 public funds in that universe. Mr. Christenson noted that a comparison to funds greater than $1 billion is also available.

Mr. Christenson then discussed the fund's rankings for the past quarter. The ERS fund versus total public funds ranked in the 63rd percentile. The ERS fund versus funds over $1 billion ranked in the 61st percentile. Mr. Christenson explained that on these reports the lower the number, the better the ranking. The main reason ERS was above the 50th percentile for the quarter was that the equity markets were strong and ERS is underweight to long-only equities. He also noted the fund's rankings year-to-date. The ERS fund versus total public funds ranked in the 32nd percentile. The ERS fund, compared to funds over $1 billion, ranked in the 43rd percentile.

Mr. Christenson described a couple of managers who are underperforming. Reinhart Partners has a return of -4.3% versus -3.9% for the benchmark on a three-year basis and a return of 0.8% versus 1.8% for the benchmark on a four-year basis. The ranking for Reinhart Partners on a four-year basis is in the 86th percentile. Reinhart Partners outperformed the benchmark on a five-year basis. Marquette Associates will bring Reinhart Partners to the next Investment Committee meeting to discuss its performance.

Mr. Christenson stated that another manager that is underperforming is GMO. While the GMO large-cap value fund is outperforming the benchmark year-to-date, it is underperforming the benchmark on a three, four and five-year basis. Mr. Christenson stated it is very important to take a long-term view with the ERS portfolio. He indicated that if managers cannot outperform their benchmarks on a long-term basis, ERS should hold them accountable.

Dr. Peck stated that styles go in and out of favor. She indicated ERS should try to avoid replacing a manager because the style is out of favor where the style could come back into favor because that in effect is selling low and buying high. Mr. Christenson noted that sometimes managers will underperform for two or three years and then make it all back in a short time period.

Mr. Christenson stated that Marquette recommends that ERS place the GMO large-cap value fund on alert based on the ERS Statement of Investment Policy. This means that Marquette will notify GMO that it is on alert for underperformance on a three and four-year basis and that Marquette will continue to monitor GMO's performance. Over the next two to four quarters, Marquette will make a further recommendation to either place GMO on notice and move to eventually replace GMO or to take GMO off of alert. In response to a question from Mr. Garland, Mr. Christenson indicated that in 2008 the GMO large-cap value fund performed poorly and GMO has not rebounded to capture lost earnings. Mr. Christenson noted that if GMO starts to outperform the benchmark, Marquette would recommend extending the alert status and giving GMO additional time.

The Pension Board unanimously agreed to accept Marquette's recommendation to place the GMO large-cap value fund on alert based on the ERS Statement of Investment Policy. Motion by Dr. Peck, seconded by Mr. Stuller.

The Chairman indicated that ERS has made progress in achieving its goal to increase returns and reduce risk by diversifying the portfolio. Mr. Christenson indicated that on a three-year basis, the ERS fund has the returns of the median public fund and has less risk than the median public fund.

Mr. Christenson then discussed the target ranges of ERS asset classes. Marquette recommends that ERS adopt the proposed new target ranges stated in red in Exhibit I on page one of the monthly report. Specifically, Marquette proposes the following new target ranges around target allocations for ERS asset classes: 27%-37% for fixed income; 13%-33% for domestic equity; 13%-23% for international equity; 5%-15% for long-short equity; 4%-10% for real estate; 5%-9% for infrastructure; and 1%-5% for private equity. ERS had wider ranges during the transition to the new asset allocations but ERS is now very close to its target allocations. Mr. Christenson noted that it is important to keep tight target ranges after achieving target allocations. Marquette would recommend rebalancing if actual allocations are outside of the target ranges. In response to a question from the Chairman, Mr. Grady indicated that any rebalancing requires Board action.

The Pension Board unanimously agreed to accept Marquette's recommendation to adopt the proposed new target ranges as stated above. Motion by Mr. Stuller, seconded by Mr. Mawicke.

6. Investment Committee Report

Dr. Peck reported on the November 1, 2010, Investment Committee meeting. She indicated that in addition to some of the issues discussed earlier by Marquette, the Investment Committee also discussed securities litigation monitoring. Securities litigation monitoring is conducted by law firms that may ask their clients to serve as lead plaintiffs in class actions. However, because serving as lead plaintiff can impose costs on ERS staff when the securities litigation monitoring firms request information and because the ERS custodian monitors securities litigation and files claims and claims of ERS are unlikely to be large enough to justify a claim separate from class actions, the Investment Committee was not in favor of retaining a firm to engage in securities litigation monitoring for ERS.

Mr. Grady further explained the reasons why the Investment Committee was not in favor of retaining a firm to engage in securities litigation monitoring for ERS. He indicated that the ERS bank custodian monitors class actions, files claims for ERS in class actions where ERS receives notification, and accepts the class action settlements into the ERS fund. If ERS retained a firm to engage in securities litigation monitoring on its behalf and ERS became the lead plaintiff, ERS would incur the risk of a lead plaintiff. While some funds smaller than ERS engage in securities litigation monitoring, Mr. Grady believes it is currently inappropriate for ERS. Mr. Grady does not believe ERS is well-suited for securities litigation monitoring because of its size and lack of in-house staff. Therefore, Mr. Grady recommended that ERS not retain a firm to engage in securities litigation monitoring on its behalf.

Mr. Grady indicated that the Pension Board only needs to vote on this issue if the Board wants to retain a firm to engage in securities litigation monitoring on behalf of ERS. Otherwise, Mr. Grady can inform securities litigation monitoring firms that ERS is not interested in their services. The Chairman stated that securities litigation monitoring would be a distraction for ERS at this time.

7. Audit Committee Report

Mr. Stuller reported on the November 4, 2010, Audit Committee meeting. The Audit Committee first discussed the RFP Re-issuance list of major services contracted by ERS. Mr. Grady indicated that he is working on an RFP for legal services for the Audit Committee's review. An RFP for actuarial services is also due in 2011. The goal is to prepare the RFP process for actuarial services with a contract start date of July 1, not January 1. The contracts for investment custodial services and investment consulting services are not due until 2013. Mr. Grady stated that banking services may not require an RFP because ERS spends a small amount of money on those services. Mr. Schroeder noted that the Audit Committee endorsed an RFI for banking services. In response to a question from the Chairman, Mr. Schroeder indicated that ERS staff can send out the RFI for banking services.

In response to a question from Mr. Weber regarding the distribution of the RFPs, Mr. Grady indicated that ERS advertises the RFPs as well. He stated that the Audit Committee recommended that the Pension Board approve the issuance of RFPs for legal services and actuarial services.

The Pension Board unanimously agreed to accept the Audit Committee's recommendation to approve the issuance of RFPs for legal services and actuarial services. Motion by Mr. Stuller, seconded by Mr. Garland.

In response to a comment from Mr. Garland regarding the frequency of RFPs for major services, Mr. Grady indicated that a County Ordinance did not require the Pension Board to issue RFPs every five years until recently. In response to a question from Mr. Garland, Mr. Grady indicated contracts for major services should have a five year endpoint and ERS should follow current Ordinance requirements regarding length of contracts.

The Audit Committee next discussed whether to send a notification to deferred vested members eligible for early retirement. Mr. Schroeder stated that the Audit Committee discussed how the V-3 system is not currently programmed to send a notification to deferred vested members eligible for early retirement. He indicated there is a cost involved to program the V-3 system to send this notification. The Audit Committee recommended expanding the annual pension statement starting in 2011 to include a general reminder that deferred vested members can apply for an early reduced retirement benefit. The Audit Committee recommended not incurring costs to reprogram the V-3 system for these notifications.

The Audit Committee then discussed the PSO notification. Mr. Schroeder indicated the Audit Committee discussed sending the PSO notification to active employees who have reached normal retirement age encouraging them to complete the PSO form. An employee with no spouse and no signed PSO form risks having no pension benefits left to his or her beneficiary if the employee passes away. The V-3 system is able to send the PSO notification to employees at no additional cost. The Audit Committee recommended sending an individualized notice to eligible employees 60 days prior to their eligibility to retire notifying them of their eligibility to retire and encouraging them to complete the PSO form.

The Pension Board unanimously agreed to accept the Audit Committee's recommendation to send an individualized notice to eligible employees 60 days prior to their eligibility to retire notifying them of their eligibility to retire and encouraging them to complete the PSO form. Motion by Mr. Stuller, seconded by Mr. Garland.

The Audit Committee next discussed management fees and investment costs. Specifically, the Audit Committee discussed how management fees of managers may not be properly reflected in ERS's investment costs for investment managers who charge fees against assets managed. ERS will compile a more accurate breakdown of manager fees in 2011.

The Audit Committee also discussed the security of records in the ERS office. Mr. Schroeder indicated that many security measures are in place for active member and retiree records. The security measures align access to an employee's position and authority. ERS also has a locked and secured records room. Another security measure is that only County staff are located in the records room and no temporary staff are in the records room. Additionally, records are signed in and out of the records room. Other security measures include: restricted computer access; retraining of staff on ethics, open records and confidentiality of files; and all staff signed statements that they would follow the security measures.

The Chairman also noted that the Audit Committee recommended that the next ERS Communicator newsletter address the recent breach of confidentiality concerning member information. In response to a question from Mr. Loeffel, Mr. Schroeder stated that there is no evidence yet that any of the 27 affected individuals have experienced a monetary loss from the breach of confidentiality of their information.

The last item the Audit Committee discussed was the ERS Rule change for the employee election. Mr. Grady indicated the ERS Rule relating to the employee election process needs to be updated to accommodate the electronic voting method. He indicated he will probably present the revised Rule for approval at next month's Board meeting.

8. Administrative Matters

The Chairman noted the ERS 2011 Board and Committee Meetings Schedule is finalized. He indicated Board members should mark their calendars accordingly.

The Chairman suggested taking action on a few upcoming International Foundation training conferences. He indicated the conferences include the Public Employee Benefit Conference, the Investments Institute, and the Annual Employee Benefits Conference. Dr. Peck indicated that the Wharton School is having a conference on international investing in July 2011. Mr. Grady indicated the Wharton School conference could be placed on next month's Board agenda.

The Pension Board voted 5-1, with Mr. Weber dissenting, to approve the attendance of any interested Pension Board member at the IFEBP Public Employee Benefit Conference on March 7-8, 2011, in San Antonio, Texas. Motion by Mr. Stuller, seconded by Mr. Garland.

The Pension Board voted 5-1, with Mr. Weber dissenting, to approve the attendance of any interested Pension Board member at the IFEBP Investments Institute on April 11-13, 2011, in Las Vegas, Nevada. Motion by Mr. Stuller, seconded by Mr. Garland.

The Pension Board voted 5-1, with Mr. Weber dissenting, to approve the attendance of any interested Pension Board member at the IFEBP 57th Annual Employee Benefits Conference on October 30 to November 2, 2011, in New Orleans, Louisiana. Motion by Mr. Stuller, seconded by Mr. Garland.

The Pension Board discussed additions and deletions to the agendas of the Pension Board, Audit Committee, and Investment Committee. The Chairman suggested securities litigation costs under the Audit Committee agenda could now be removed. Dr. Peck asked that Reinhart Partners be added to the Investment Committee agenda. Mr. Grady indicated that the topic of judges with a conflict of interest could be removed from the full Pension Board agenda.

9. <u>Disability Matters</u>

Mr. Mawicke moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to item 9 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, 13, 14 and 15 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board voted by roll call vote 5-1, with Mr. Weber dissenting, to enter into closed session to discuss agenda items 9, 10, 11, 12, 13, 14 and 15. Motion by Mr. Mawicke, seconded by Mr. Garland.

(a) <u>Applications</u>

(i) <u>Chuck Ward, ODR</u>

Upon returning to open session, the Pension Board discussed Chuck Ward's ordinary disability pension. The Medical Board recommended that the Pension Board grant Mr. Ward's ordinary disability pension application.

In open session, the Pension Board voted 5-0-1, with Mr. Weber abstaining, to approve accepting the Medical Board's recommendation to grant an ordinary disability pension application. Motion by Mr. Stuller, seconded by Mr. Garland.

10. <u>Lucky Crowley Claim Appeal-ERS Rule 207</u>

Lucky Crowley is an ERS member who timely commenced a buy-in prior to the sunset of ERS Rule 207 and made his first and only payment in December 2006. Upon receiving Mr. Crowley's buy-in request, ERS informed him that he could elect to make four annual payments beginning February 5, 2007, and continuing each February 5th thereafter with the last payment due February 5, 2010. ERS sent a second letter after receiving Mr. Crowley's first payment in December 2006 stating that the next payment was due by February 5, 2008. ERS Rule 207 provides that "an employee may elect to pay the buy-in amount to the system in up to four (4) equal, annual installments."

Mr. Crowley described why he believed he should be allowed to complete a purchase of service credit under ERS Rule 207. He indicated ERS Rule 207 states that he must make four equal, annual installment payments but it does not say the payments must be made consecutively. Mr. Crowley noted that he interprets this requirement so that he just has to make four installment payments before he retires. In response to a question from the Chairman, Mr. Crowley indicated he interprets the word "annual" to mean he must "make at least one payment within a given year" and each payment must be for 25% of the amount due. Mr. Mawicke stated that a reason to require the money within four years rather than at any time before retirement is that ERS needs the money as soon as possible to invest it in order to pay for the enhanced benefit.

The Chairman clarified that ERS sent Mr. Crowley two letters outlining the timeline for completion of payments under ERS Rule 207. Mr. Crowley responded that he only received one letter. Mr. Schroeder stated that ERS sent two letters to Mr. Crowley and had telephone conversations with him.

The Chairman noted that the Pension Board's interpretation of ERS Rule 207 must be consistent with past practice. In response to a question from Mr. Grady, Mr. Schroeder stated that the past practice of the Pension Board and ERS has been that four equal annual installment payments means payments in four consecutive years. The Chairman indicated that in his experience "annual" means once per year, every year in order. He noted that five annual payments on a mortgage means the payments must be made once a year, every year, consecutively.

In response to a question from Mr. Mawicke, Mr. Grady stated that Mr. Crowley attempted to make his second payment after February 5, 2010. Mr. Huff stated that the present state of the record with the IRS is that if ERS allows a member to make a payment and get credit after four years, the IRS will disqualify the plan for tax purposes.

In open session, the Pension Board voted 4-2, with Dr. Peck and Messrs. Weber, Mawicke and Maier approving and Messrs. Stuller and Garland dissenting to deny Mr. Crowley's appeal to be allowed to complete a purchase of service credit under ERS Rule 207 because he did not complete all payments within four consecutive years, as required by ERS Rule 207. Motion by Dr. Peck, seconded by Mr. Weber. The motion failed to pass because it lacked the necessary five votes as required by Ordinance section 201.24 (8.5).

Mr. Grady indicated that because Ordinance section 201.24 (8.5) requires five votes for a motion to pass, Mr. Crowley's appeal will be placed on the December Pension Board agenda. Mr. Garland requested both to see copies of the letters ERS sent to Mr. Crowley and for legal counsel to provide further advice.

11. <u>Shirley Duley Claim Appeal-Beneficiary Designation</u>

The Pension Board reviewed Shirley Duley's appeal of the Retirement Office's determination that Ms. Duley not receive a survivor pension benefit related to ERS member Harvey G. Stielow. Mr. Stielow was a member of ERS who retired in 1977. At the time of his retirement, Mr. Stielow selected an Option 3 form of benefit. Mr. Stielow completed a Designation of Benefits form, designating his wife, Dolores Stielow, as his beneficiary. The form also named two contingent beneficiaries, Ms. Duley and Sharon Pawlowski. Mr. Stielow received a pension benefit from ERS until his death on June 21, 2009. Upon his death, Ms. Stielow was entitled to monthly pension benefit payments for her lifetime as Mr. Stielow's beneficiary. Ms. Stielow died on August 2, 2009. ERS made a payment to Ms. Duley for Ms. Stielow's July and August pension benefit on September 30, 2009. Ms. Duley requested payment of a beneficiary pension benefit related to Mr. Stielow's membership in ERS because Mr. Stielow listed her as a contingent beneficiary on his Designation of Benefits form.

As provided in Ordinance section 201.24(7.1), the Option 3 form of benefit pays to the member a "reduced pension payable during his life, with the provision that after his death it shall continue in the same amount during the life of and shall be paid to such beneficiary as he shall have nominated by written designation duly executed and filed with the board at the time of retirement." ERS has actuarial tables which compute the benefit based on the life expectancy of the member and the beneficiary at the time the benefit is selected. There is no provision for payment of the benefit after the death of the beneficiary. After that date, benefits cease. ERS Rule 1013(2) provides that members electing a form of benefit under which benefits may continue to a beneficiary after the member's death must designate a beneficiary in writing, and members being paid a benefit pursuant to Option 1 and Option 6 may change the designation of the named beneficiary at any time. ERS Rule 1013 excludes Option 3 as an option for which a member may change the beneficiary.

In open session, the Pension Board voted 5-1, with Mr. Stuller dissenting, to deny Ms. Duley's appeal for receipt of a survivor pension benefit as a contingent beneficiary of ERS member Harvey G. Stielow because members selecting an Option 3 form of benefit under Ordinance section 201.24(7.1) may not designate contingent beneficiaries. ERS Rule 1013(2) provides that members electing a form of benefit under which benefits may continue to a beneficiary after the member's death must designate a beneficiary in writing, and members being paid a benefit pursuant to Option 1 and Option 6 may change the designation of the named beneficiary at any time. A contingent beneficiary is akin to a change in the beneficiary, and ERS Rule 1013 excludes Option 3 as an option for which a member may change the beneficiary. Motion by Mr. Mawicke, seconded by Dr. Peck.

12. <u>Application of the City-County Transfer Provisions to the Re-Employment of a Retired Member</u>

The Pension Board took no action on this item.

13. <u>Benefit for Deferred Vested Member under section 201.24(6.3), M.C.G.O.</u>

The Pension Board took no action on this item.

14. <u>Pending Litigation</u>

(a) <u>*Mark Ryan, et al. v. Pension Board*</u>

The Pension Board took no action on this item.

(b) <u>*Travelers Casualty v. ERS & Mercer*</u>

The Pension Board took no action on this item.

15. <u>Report on Compliance Review</u>

The Pension Board took no action on this item.

16. <u>Adjournment</u>

The meeting adjourned at 11:55 a.m.

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