

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE JUNE 16, 2010 PENSION BOARD MEETING

1. Call to Order

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

2. Roll Call

Members Present:

Linda Bedford (Vice Chair)
Keith Garland
Mickey Maier (Chairman)
Jeffrey Mawicke
Marilyn Mayr
Dr. Sarah Peck
David Sikorski
Guy Stuller

Members Excused:

Donald Cohen

Others Present:

David Arena, Director of Employee Benefits, Department of Administrative Services
Mark Grady, Principal Assistant Corporation Counsel
Gerald Schroeder, ERS Manager
Dale Yerkes, Assistant Fiscal Officer
Monique Taylor, ERS Clerical Specialist
Bess Frank, Ad Hoc Oversight Committee
Steven Huff, Reinhart Boerner Van Deuren s.c.
Robert Parise, JPMorgan Asset Management
John Nicely, JPMorgan Asset Management
Ray Caprio, Marquette Associates, Inc.
Ken Loeffel, Retiree

3. Reports of ERS Manager and Assistant Fiscal Officer

(a) Retirements Granted, May 2010

Mr. Schroeder presented the Retirements Granted Report for May 2010. He reported that 43 retirements were approved in May with a total monthly payment amount of \$70,097. Of those 43 retirements, 36 were normal retirements, six were deferred vested retirements and one was a disability retirement. He noted that 21 retirees elected backDROPs, in amounts totaling \$2,365,998.

Mr. Schroeder stated the average number of retirements is about 20 per month. He indicated that retirements continue to run high and there were double the average number of retirements in May 2010.

(b) ERS Monthly Activities Report, May 2010

Mr. Schroeder presented the Monthly Activities Report for May 2010. He indicated that ERS had 7,371 retirees at the end of May 2010. He stated that ERS paid out \$14,263,545 in benefits for May 2010. Mr. Schroeder noted ERS normally pays out about \$12 million in benefits each month.

Mr. Schroeder indicated he would present two updates to the Board. He first provided an update regarding the retiree election for this year. Retirees will be able to vote via the telephone. ERS made nomination papers available on June 1, 2010. He indicated ERS sent notices to all 7,000-plus retirees informing them of the voting process, the need to vote, and the process for submitting nomination papers to be a candidate in the retiree election. However, Mr. Schroeder noted that only one retiree submitted nomination papers to ERS with the nomination period ending June 30, 2010. The retiree election is scheduled for August 27 through August 30 to allow voting for four days, including a weekend.

Mr. Schroeder discussed the retiree election process if ERS only receives one submission of nomination papers to be a candidate in the retiree election. He indicated he does not believe ERS Ordinances and Rules address this issue. In response to a question from Mr. Stuller, Mr. Schroeder stated the online system does not allow write-in votes.

In response to a question from the Chairman, Ms. Mayr noted that the candidate who has submitted nomination papers attended the last REMCO meeting. The Chairman encouraged retirees to submit nomination papers to be a candidate in the retiree election. He noted that the Board can decide how to conduct the retiree election at the July meeting after determining if more than one candidate submits nomination papers.

Mr. Schroeder next provided an update regarding the progress on ERS records over the last 18 months. ERS completed the process of culling, scanning, and filing the files. ERS now uses one records room in room 210 with 28 file cabinets instead of the two rooms with 60 file cabinets ERS previously used. Mr. Schroeder indicated the records room will have a new sprinkler system and better security to protect the files. He noted the records room will also contain partitioned work space for ERS staff to utilize when reviewing files.

(c) Assistant Fiscal Officer/Cash Flow Report

Mr. Yerkes presented ERS's cash flow report. He indicated ERS no longer sweeps interest and dividends into the general account. He noted the total additions are only a little over \$500,000 a month when there is no County contribution. Mr. Yerkes stated that most of the \$500,000 figure represents Medicare reimbursements from the County. He reminded the Board that the County's contribution for the year ends in July with the last \$1 million contribution. Therefore, Mr. Yerkes reported he expects to request monthly cash flow draws of \$10 million or \$15 million for the remainder of 2010. Mr. Yerkes stated ERS needs cash flows of \$15 million in July, \$15 million in August and \$15 million in September.

The Pension Board unanimously approved the liquidation of assets to fund cash flow of \$15 million in July, \$15 million in August and \$15 million in September. The amounts should be withdrawn from investments designated by Marquette. Motion by Dr. Peck, seconded by Mr. Stuller.

Mr. Yerkes then presented an update regarding the annual audit and annual report. He stated ERS expects to provide an almost final annual report to the auditors in a few days. In response to a question from the Chairman regarding auditors' inquiries concerning

derivatives and foreign currency, Mr. Yerkes stated that these inquiries were due to the overlay investment program.

4. Minutes – May 19, 2010 Pension Board Meeting

The Pension Board reviewed the minutes of the May 19, 2010 Pension Board meeting.

The Pension Board voted 6-0-1, with Ms. Mayr abstaining, to approve the minutes of the May 19, 2010 Pension Board meeting. Motion by Dr. Peck, seconded by Mr. Stuller.

5. Investments

(a) JPMorgan Fixed Income Manager

Robert Parise and John Nicely of JPMorgan Asset Management distributed a report. Mr. Parise noted that Mr. Nicely is a portfolio manager from the Columbus fixed income team.

Mr. Nicely first provided an overview of JPMorgan Asset Management. Over the past 16 months JPMorgan Asset Management has added about 10 investment professionals on the credit risk management side of operations.

Mr. Nicely then discussed preliminary performance of the fixed income portfolio through May 2010. The fixed income portfolio underperformed slightly year-to-date. The one-year number is up 75 basis points over the benchmark. Since inception on October 31, 2005, the portfolio is up almost 50 basis points over the benchmark.

Mr. Nicely presented a snapshot of the portfolio. He indicated JPMorgan is currently positioning the portfolio a little bit shorter. He stated that the portfolio has a higher average credit quality position than the benchmark. In response to a question from Dr. Peck regarding option adjusted spread, Mr. Nicely indicated that the portfolio has an advantage on a spread basis long-term both because the portfolio is underweight to Treasuries versus the benchmark and because the portfolio has a bias to spread product. He noted JPMorgan believes it is reducing risk because the portfolio has an average credit quality of AAA.

Mr. Parise stated that the portfolio is highly diversified with 700-plus securities. He indicated JPMorgan Asset Management makes many small investment decisions to spread out risk.

Mr. Nicely then discussed where JPMorgan Asset Management has been positioning the portfolio. He noted JPMorgan has decreased the mortgage exposure of the portfolio. He stated JPMorgan has also added some Treasury exposure recently.

In response to a question from Mr. Caprio regarding how JPMorgan manages risk with mortgage-backed securities, Mr. Nicely stated JPMorgan has a bias to CMOs. Mr. Nicely indicated the CMO allocation is about 32% versus an allocation of about 13% for pass-throughs. CMOs help protect cash flow.

In response to a question from the Chairman regarding JPMorgan's response to the recent mortgage crisis, Mr. Nicely indicated that JPMorgan has built in more spread stress testing to be prepared for extreme cases as well. Mr. Parise also stated that JPMorgan learned from the mortgage crisis that it had robust and good risk management processes in place. Mr. Parise indicated that JPMorgan has also confirmed that the seasoned mortgages it was buying were the right type of mortgages to be buying. Mr. Parise noted important reasons why JPMorgan buys seasoned mortgages are that they have already been through the prepayment cycle and are less likely to default.

In response to a question from the Chairman regarding credit ratings, Mr. Nicely stated JPMorgan uses its own internal rating system.

(b) Marquette Associates Report

Ray Caprio of Marquette Associates, Inc. distributed its monthly report.

Mr. Caprio discussed the U.S. economic environment in May 2010. He indicated that the unemployment rate fell to 9.7% in May. He noted that the duration of unemployment for the current unemployed workforce is reaching an all-time high at close to 24 weeks of unemployment time. He stated the duration of unemployment has not been that high since the 1940s. Mr. Caprio commented that the duration of unemployment will likely continue because job creation in the private sector is not sustained.

Mr. Caprio then described the fixed income market environment in May 2010. There was a flight to quality in the fixed income markets in May 2010. There were declines in high yield assets. The noninvestment-grade bonds had negative returns in May. The only high positive returns were in U.S. Treasuries and government bonds.

Mr. Caprio discussed the equity markets in May 2010. He noted that within the U.S. equity markets, value underperformed growth. He stated that the international equity markets performed worse than the domestic equity markets. He indicated that the international equity markets were down double-digit returns across the board.

Mr. Caprio described the performance of the international equity markets in May 2010. He reported that the MSCI EAFE (in US \$) index had a -12.1% return year-to-date versus the MSCI EAFE (Local) index which had a -4.3% return year-to-date. He indicated that in the international markets there is exposure not just to market movement but also to currency movement. He noted that currently the Euro and various other currencies across the world are depreciating versus the dollar. Mr. Caprio stated that a good sign is that the MSCI Emerging Markets index is only down 8.8% in May and year-to-date is one of the best performing international asset classes. He indicated ERS has diversification in international equities by getting exposure to both small cap and emerging markets.

Mr. Caprio then discussed the hedge fund market environment. He stated that hedge funds protect capital more in months like May when the market was down, but return less in months like April when there was a bull market. He indicated hedge funds return about 70% of the upside in a bull market. He noted that on a ten-year basis the HFRX Hedged Equity index outperformed the S&P 500.

Mr. Caprio then presented the May 2010 flash report. He reported that ERS's portfolio is down to a market value of a little over \$1.7 billion in assets under management through May. He indicated ERS's portfolio is still overweight in fixed income where it is holding money until it funds its investments in real estate and an additional investment in infrastructure with JPMorgan. Mr. Caprio noted that ERS has funded both of its long-short equity managers and the portfolio is at its 10% target for long-short equity. He reported that ERS's portfolio is slightly underweight in U.S. Equity and international equity but the portfolio is not outside the permitted

ranges. Thus, Mr. Caprio stated that there is no need to rebalance at this time.

Mr. Caprio reported that ERS's portfolio is about 90% finished with the asset allocation that was started last year. He indicated ERS funded its first infrastructure investment with IFM on May 26, 2010. He noted the IFM investment has returned a couple hundred thousand dollars in just the first few days. He indicated Marquette will watch for JPMorgan's capital call over the next few months. Mr. Caprio also stated that ERS's portfolio is almost finished with the Loomis draw downs.

The Chairman noted there have been some calls on private equity by Adams Street Partners for the 2009 fund. He stated that the industry has a lot of uninvested cash. The Chairman indicated he is interested in feedback after Marquette attends the Adams Street Partners' conference regarding whether the private equity industry and Adams Street Partners in particular believes there is an opportunity to deploy capital as the Pension Board considers whether to make a commitment to Adams Street Partners for the 2011 fund.

Mr. Caprio then discussed the performance of ERS's fund. He reported that ERS's fund was -4% gross of fees for May 2010. He indicated that ERS still enjoyed a positive rate of return year-to-date. He stated that ERS's one-year rate of return is 15.3%, while the ten-year rate of return is 5%.

Mr. Caprio discussed ERS's return in each of its main asset classes versus their benchmarks. Regarding fixed income and domestic equities, ERS has outperformed the benchmark over all time periods. Mr. Caprio stated that the performance of international equities versus the benchmark was not as strong over the two-year, three-year and four-year periods. He indicated that the long-short equity composite had a return of -2.7% for May 2010 beating the benchmarks. Mr. Caprio stated that the real estate composite was down 9.2% for May 2010 versus the benchmark of -5.6%, and down 4.2% year-to-date versus the benchmark of 11.1%.

Mr. Caprio reported on the May 2010 manager returns. He stated that relative performance was good except for Loomis Core, Reinhart Partners, ING and GMO large cap value. He indicated Marquette will continue to monitor GMO but Marquette is confident GMO will perform well long-term.

Mr. Caprio discussed investment management fees. He noted the total estimated annual investment management fees are at 41 basis points versus the industry average of 62 basis points for this type of portfolio and its asset classes. In response to a question from the Chairman, Mr. Caprio indicated the report reflects the new fees for Mellon Capital, which have decreased to three basis points. Mr. Caprio indicated IFM has both a management fee and an incentive fee over the three-year period. He stated the annual fee for the cash overlay is 2.5 basis points on the notional value of the investments.

6. Audit Committee Report

There was no Audit Committee report because the June 3, 2010 meeting was cancelled.

7. Investment Committee Report

There was no Investment Committee report because the June 7, 2010 meeting was cancelled.

8. Administrative Matters

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

Regarding risk management on the full Pension Board and Investment Committee agendas, the Chairman stated that he attended the Pension and Investments Risk Management Conference, where two of ERS's managers, AQR and K2, presented. The Chairman noted that diversification did not work perfectly during the market crisis in 2008 and 2009. He stated that David Saunders from K2 indicated that K2 is monitoring risk on a continuous basis for some clients, and some clients are looking for opportunities to remove some risk from their portfolios. The Chairman noted Mr. Saunders offered to speak on risk management and risk monitoring to the full Board. Mr. Caprio indicated that because ERS just funded K2, it would be a good idea to have K2 speak to the full Board.

Dr. Peck suggested adding a discussion of private equity investments to the Investment Committee agenda.

9. Selection of Passive Core Fixed Income and Passive U.S. Large Cap Equity (S&P 500) Fund Manager(s)

Mr. Mawicke moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(e), with regard to item 9 for considering the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session.

Mr. Mawicke also 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, 12, 13 and 14 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 to enter into closed session to discuss agenda items 9, 10, 11, 12, 13 and 14. Motion by Mr. Mawicke, seconded by Dr. Peck. Voting in favor were Mr. Garland, Mr. Maier, Mr. Mawicke, Ms. Mayr, Dr. Peck, Mr. Sikorski and Mr. Stuller.

10. Disability Matters

(a) Applications

(i) Cynthia Limon, ODR

Upon returning to open session, the Pension Board discussed Cynthia Limon's ordinary disability pension. The Medical Board recommended that the Pension Board deny Ms. Limon's ordinary disability pension application.

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

(ii) Jacqueline Kleckly, ODR

The Pension Board discussed Jacqueline Kleckly's request for additional time to obtain and submit doctors' reports for her ordinary disability pension appeal.

Ms. Mayr stated she wanted to note for the record that Ms. Kleckly's first report to the Pension Board was November 6, 2009 and that Ms. Kleckly has had ample time to submit the appropriate doctors' reports.

In open session, the Pension Board voted 7-1, with Ms. Mayr dissenting, to direct Justice Ceci to use his discretion to grant Ms. Kleckly more time to obtain and submit doctors' reports. Motion by Mr. Mawicke, seconded by Ms. Bedford.

11. Death Benefit for Deferred Vested Member under Section 201.24(6.3), M.C.G.O.

The Pension Board took no action on this item.

12. Pending Litigation

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

The Pension Board took no action on this item.

(b) Travelers Casualty v. ERS & Mercer

The Pension Board took no action on this item.

13. Report on Special Investigation

The Pension Board took no action on this item.

14. Report on Compliance Review

The Pension Board took no action on this item.

15. Adjournment

The meeting adjourned at 10:40 a.m.

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