EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE MARCH 18, 2009 PENSION BOARD MEETING

1. Call to Order

   Vice Chair Linda Bedford, acting as Chair, called the meeting to order at 8:45 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)
   Donald Cohen
   Keith Garland
   Mickey Maier
   Jeffrey Mawicke
   Dr. Sarah Peck
   Guy Stuller

   Members Excused:
   Marilyn Mayr
   Dr. Dean Roepke (Chairman)

   Others Present:
   David Arena, Director of Employee Benefits, Department of Administrative Services
   William Domina, Corporation Counsel
   Mark Grady, Principal Assistant Corporation Counsel
   Gerald Schroeder, ERS Manager
   Gordon Mueller, Fiscal Officer
   Dale Yerkes, Assistant to the Fiscal Officer
   Vivian Aikin, ERS Administrative Specialist
   Sushil Pillai, V3 Project Manager
   John Holland, ERS Business Analyst
   Steven Huff, Reinhart Boerner Van Deuren s.c.
   Leigh Riley, Foley & Lardner LLP
   Chris Trebatoski, Weiss Berzowski Brady LLP
   Stacy Schlemmer, Corporation Counsel Intern
   David Hanlon, BNY Mellon BETA Management
   Jeremy Levinson, Friebert, Finerty & St. John, s.c.
   Brian Wrubel, Marquette Associates, Inc.
   Ray Caprio, Marquette Associates, Inc.
   John Parish, Retiree
   Ken Loeffel, Retiree
   Nancy Beck-Metz, Retiree
   Louis Metz, Retiree
   Esther Hussey, Retiree

3. Chairman's Report

Ms. Bedford introduced and congratulated Messrs. Stuller and Garland as newly elected employee members of the Pension Board. Mr. Stuller stated that he is an accountant at the Mental Health Complex. He indicated that he has 12 years of experience serving on the Pension Board, noting that he last served on the Board 4 years ago. Ms. Bedford reported that Mr. Stuller was elected to the three-year term that expires in 2012. Mr. Garland stated that he works in the County's Community Business Development department and has been with the County for two and one-half years. He noted that he has a background in accounting and finance. Ms. Bedford reported that Mr. Garland was elected to the two-year term that expires in 2011.

4. Minutes of the February 11, 2009 Pension Board Meeting

The Pension Board reviewed the minutes of the February 11, 2009 Pension Board meeting. Mr. Maier pointed out that Ms. Mayr, rather than Mr. Maier, asked the question under agenda item 14.

The Pension Board unanimously agreed to approve the minutes of the February 11, 2009 Pension Board meeting with the above-noted correction. Motion by Mr. Maier, seconded by Mr. Mawicke.

5. Minutes of the February 18, 2009 Annual Pension Board Meeting

The Pension Board reviewed the minutes of the February 18, 2009 annual Pension Board meeting.

The Pension Board unanimously agreed to approve the minutes of the February 18, 2009 annual Pension Board meeting. Motion by Mr. Maier, seconded by Mr. Mawicke.

6. Reports of Employee Benefits Director, ERS Manager and Fiscal Officer

(a) Retirements Granted

Mr. Schroeder presented the Retirements Granted Report for February 2009. He reported that six retirements were granted in February, noting that 2 retirees elected back DROPs in amounts totaling $168,668.

(b) ERS Monthly Activities Report

Mr. Schroeder presented the monthly activities report for February. He indicated that ERS has 7,321 retirees and paid benefits of $11,377,467 in February. He stated that 122 benefits recipients began receiving benefit payments via direct deposit in February instead of receiving manual checks, bringing the total percentage of benefits recipients using direct deposit to 96%. He pointed out that 278 people still receive benefits checks and the Retirement Office will continue its efforts to encourage the use of direct deposit He reported that over 7,400 documents were imaged in February.

Mr. Schroeder distributed five new informational brochures produced by the Retirement Office, and approved by Corporation Counsel, containing information on ERS benefit rights. He stated that the Retirement Office will put the brochures in the Retirement Office reception area, post them on the Intranet and e-mail them to department heads to deliver to employees. He noted that the goal is to get the brochures into the hands of employees in order to reduce the number of pension questions the Retirement Office receives.

Mr. Schroeder stated that efforts are underway to begin conducting individual retirement counseling sessions to retiring members, instead of group sessions, in order to provide members with better retirement advice. He indicated that two pre-retirement information sessions have been scheduled, with the first being at Wilson Park on May 29 and the second taking place on November 16 at Washington Park. He noted that he will send notices out to let people know about the pre-retirement information sessions and that he is coordinating with Mr. Loeffel at REMCO to get the information included in the retiree newsletter.

(c) Board Elections – February 2009 – Update

Mr. Arena discussed the results of the recent Pension Board employee member election. He congratulated Messrs. Stuller and Garland on their election to the Pension Board. Mr. Arena reported that there was a 50% increase in voter participation compared to the 2008 Pension Board member elections. He noted that approximately 750 people voted in 2009 and approximately 500 voted in 2008. He indicated that overall employee voting was relatively low with only 13% of members voting. He commented that a majority of people voted at their desks and he received very positive feedback on the voting process. He pointed out that the Retirement Office was able to ensure the voting was secure and accurate. He stated that ERS saved $9,000 in direct costs with online voting, which does not take into account the money saved by not losing productivity that is required for an in-person vote.

(d) Waivers – Sherry Hill

Mr. Schroeder reported that four benefits waivers were submitted to the Retirement Office by Ms. Hill, Director of Community Relations in the County Executive's Office.

The Pension Board unanimously agreed to accept the waivers presented by Ms. Hill. Motion by Mr. Cohen, seconded by Dr. Peck.

(e) Cash Flow Report

Mr. Mueller introduced Mr. Yerkes. Mr. Yerkes presented ERS's cash flow report. He reported that ERS's fund request for the next quarter consists of $5 million for April, nothing in May and $10 million for June. In response to a question from Dr. Peck, who was clarifying the point for the record, Mr. Yerkes stated that ERS must liquidate assets for its cash needs because it is not generating enough from dividends and interest from its investments.

The Pension Board unanimously approved Mr. Yerkes' recommendations for cash flow disbursements of $5 million in April and $10 million in June, from a source to be determined by Marquette Associates, Inc. in consultation with the ERS Fiscal Officer. Motion by Mr. Cohen, seconded by Mr. Maier.

In response to a question from Mr. Loeffel, Mr. Mueller stated that the County's contributions to ERS for 2008 that were, or are scheduled to be, paid in 2009 are $8 million per month from January through May and a final payment of $3,349,788 in June.

(f) 2008 County Paid Administrative Expenses

Mr. Mueller discussed ERS's reimbursement payment to the County for necessary ERS administrative expenses that were paid by the County during the last fiscal year. He stated that ERS owes the County $1,031,291, which is to be amortized back over a ten-year period.

The Pension Board voted 7-1, with Mr. Stuller dissenting, to reimburse the County $1,031,291 for County-paid administrative expenses in accordance with Ordinance section 201.24(8.8). Motion by Mr. Cohen, seconded by Mr. Mawicke.

7. Investments

(a) Investment Manager Report – BNYM BETA Management

Mr. Hanlon distributed and presented a report on the Bank of New York Mellon BETA Management's cash overlay management services. He explained that the purpose of implementing a cash overlay program is to have market exposure while managing risk. He reviewed the firm's history and stated that the firm is adding additional employees. He indicated that his firm would purchase futures for a strategic overlay on the pension obligation bond funds anticipated to be received at a rate of 5% per week. He stated that his firm would also equitize excess cash in the ERS checking account and uninvested cash held by ERS's domestic equity investment managers to prevent the cash drag on the portfolio's investment performance.

In response to a question from Dr. Peck, Mr. Hanlon stated that BETA Management trades everything as a fiduciary and would be subject to the highest fiduciary standards. He indicated that BETA Management does not trade for itself and avoids direct conflicts. In response to a question from Ms. Bedford, Mr. Hanlon stated that BETA Management has 56 clients and transitioned $150 billion in 2008 and overlayed $10 billion in 2008. In response to a follow up question from Ms. Beford, Mr. Hanlon reported that ERS is in the median for the size of fund that BETA Management serves. He indicated that BNYM cut its fee in half to 2.5 basis points due to its current relationship with ERS.

(b) Marquette Associates, Inc. Report

Mr. Caprio reviewed ERS's actual asset allocation against its targets. He indicated that ERS currently has 53.5% of its assets allocated to fixed income compared to its 42% target. He reported that February was another tough month for the markets, evidenced by the S&P 500 decreasing by 10% in February. He stated that ERS had just over $1 billion in assets at the end of February.

Mr. Caprio reported that ERS's portfolio decreased in value by 4.6% in February and 7.7% for the year, gross of fees. He reviewed ERS's investment performance, commenting that active management is paying off for ERS, as it should in a bear market. He noted that ERS's managers have performed well on a relative basis, indicating that all ERS managers performed at or above their benchmarks, except for AQR and Loomis Sayles. He stated that Marquette will address manager underperformance in the upcoming asset allocation study. He explained that 2008 was a tough performance year and he expects overall negative returns in 2009. He pointed out that international small cap has been outperforming international large cap and that it has been a difficult market for REITs.

In response to a question from Mr. Grady, Mr. Caprio stated that ERS's fees are approximately 25 basis points, which is below the industry average of 40 basis points. In response to a question from Mr. Maier, Mr. Caprio indicated that Adams Street Partners is significantly invested in buy outs, and that write downs in buy outs are between 10% to 14%. Mr. Wrubel opined that private equity will outperform equities on a relative basis. In response to a question from Dr. Peck, Mr. Wrubel stated that generally between 1% to 4% of buy out deals default.

Mr. Wrubel discussed Marquette's first proposed changes to ERS's statement of investment policy. He explained the changes to the policy, which included updating investment manager names and updating the universe to the Wilshire

Cooperative Index. Mr. Caprio stated that the cash overlay guidelines were added to the policy. Mr. Wrubel reviewed the cash overlay investment guidelines for the pension obligation bond funds. He indicated that the pension obligation bond funds will be overlayed at a rate of 5% per week and each succeeding 5% invested will be allocated in a manner that will rebalance the portfolio. He commented that a cash overlay program is cost effective and that the Pension Board will not be placing any money permanently with managers until it has had time to perform its due diligence.

Mr. Grady pointed out that there are various blanks in the guidelines for the cash overlay program. Mr. Wrubel stated that Marquette is still in the process of finalizing the guidelines for the cash overlay program. Mr. Huff reported that the cash overlay agreement with Bank of New York Mellon BETA Management Group is close to being completed. Mr. Caprio explained the items that still need to be completed in the guidelines.

Mr. Stuller asked whether the Pension Board must accept the $400 million in pension obligation bond funds or whether the County could invest these funds. Ms. Bedford stated that the Pension Board does not want to reject the acceptance of the funds. Ms. Bedford raised a question whether there are any fiduciary concerns with Citigroup being an underwriter for the pension obligation bonds. Mr. Wrubel stated that the risk is Citigroup's and the risk is that Citigroup could not syndicate the bond issue and the bonds would remain on Citigroup's books. In response to a question about pension obligation bonds, Mr. Grady advised that pension obligation bonds are not on the agenda because they are not an obligation for the Pension Board to consider and indicated that all pension obligation bond questions should be directed to the County Board of Supervisors and the County Executive.

Mr. Wrubel explained the remainder of the cash overlay program investment guidelines. Mr. Caprio noted that the guidelines for the uninvested cash with domestic equity investment managers was not included in the policy because it was not available at the time the report was prepared. He indicated that these guidelines were very similar to the other cash overlay guidelines. He reviewed the rebalance methodology for the cash overlay program.

Mr. Caprio reviewed ERS's commission recapture policy. He reported that ERS has three commission recapture agents and once required 50% commission recapture. He stated that Marquette has renegotiated splits from $.02 to $.012 and has new commission recapture contracts in place. He suggested that the Pension Board consider reinstituting the 50% commission recapture policy. He indicated that ERS has recaptured between 5% and 8% of commissions over the past two years, which is low compared to ERS's peers. He noted that Marquette has spoken with investment managers and has the documents in place to reinstitute the recapture policy. Mr. Wrubel commented that ERS should be able to generate higher than an 8% recapture rate considering the number of active managers ERS uses. Mr. Caprio pointed out that the Pension Board could require that investment managers use Milwaukee-based or minority-owned brokers instead.

Mr. Maier commented that the investment policy does not include the actuarial rate of return or compare ERS's returns to the actuarial rate of return. Mr. Caprio stated that the actuarial rate of return is implied in the policy. Dr. Peck and Mr. Wrubel stated that the actuarial rate of return is included in the results. Mr. Maier noted that ERS's performance should be tracked against the actuarial rate of return. Mr. Mawicke stated that the actuarial rate of return is not a real world figure and the Pension Board needs to focus on achieving the obligations imposed on ERS by the County Board. Mr. Mawicke discussed how real world investment results will determine whether an 8% investment return can be achieved and the Pension Board should not assume 8% is an obligation that the Pension Board can necessarily achieve. Mr. Wrubel commented that the actuarial rate of return is a target, but ERS may not be able to achieve that target for many years due to market conditions. He noted that ERS should be able to obtain an 8% return over a longer period of time.

In response to a question from Mr. Stuller, Mr. Wrubel explained the difference between a cash overlay program and cash management. Mr. Wrubel indicated that with a cash overlay program, the underlying cash is being equitized by gaining market exposure through the purchase of futures. He stated that ERS will be equitizing: (1) the pension obligation bond funds; (2) uninvested cash held by U.S. equity managers; and (3) general cash. He commented that an investment manager will never see that the cash is being equitized. He noted that a cash management program involves placing ERS's cash in low-yielding short-term investments. Mr. Wrubel indicated that historically cash has been a drag on investment performance. Ms. Riley stated that cash used to write ERS checks would still be available in the cash management account.

In response to a question from Mr. Maier, Mr. Wrubel agreed that the cash overlay program overrides an investment manager's decision to go to cash in a particular market. Mr. Caprio pointed out that an investment manager must still adhere to its investment guidelines. In response to a question from Mr. Grady, Mr. Wrubel stated that ERS will be using three overlay strategies, one strategy for general cash held by ERS, another strategy for uninvested cash held by ERS's U.S. equity managers, and the last strategy for the pension obligation bond funds.

Mr. Huff explained the open items pertaining to the cash overlay investment management agreement. He indicated that the account numbers must still be entered. He noted that he wanted to ensure that all foreign exchange trades were transacted at market rates. Mr. Wrubel explained why this is important and stated that "market price" is not a specified number. Mr. Maier commented that the transaction cost must be identifiable.

The Pension Board unanimously approved Marquette's proposed changes to ERS's investment policy statement subject to the final changes to the cash overlay investment guidelines, including adding the guidelines for the cash overlay for uninvested cash held by U.S. equity managers, which were not included in Marquette's report and are attached to these minutes as Exhibit 1. Motion by Dr. Peck, seconded by Mr. Maier.

Mr. Wrubel presented Marquette's observations and recommendations on ERS's cash management program. He indicated that ERS's cash is invested in the Short Term Investment Fund ("STIF") and the Standish Mellon Short Term Bond Fund ("Bond Fund"). He explained that ERS should break up and unwind ERS's investment in the Bond Fund because the Bond Fund is unnecessary. He pointed out that ERS is the only investor in the Bond Fund with between $30 to $40 million in the Bond Fund. He suggested that the Pension Board transition the money currently invested in the Bond Fund into the STIF. He discussed that this will be accomplished over a period of 12 months by having Mellon move assets in the Bond Fund in-kind into a separate account, which would remove the commingled element of the investment. He reported that the first step would be to develop the guidelines for the separate account, which would charge 15 basis points compared to 18 basis points for the Bond Fund. He indicated that the second step would be to liquidate the Bond Fund over the next 12 months. He pointed out that the current STIF would be the only cash sweep vehicle going forward.

The Pension Board unanimously approved Marquette's proposed changes to ERS's cash management program by liquidating the Bond Fund over the next 12 months and transitioning those funds to a single-investor STIF, subject to approval of the investment management agreement by the Pension Board's legal counsel. Motion by Dr. Peck, seconded by Mr. Maier.

Mr. Wrubel reviewed ERS's current securities lending program. He indicated that securities lending worked well for many years until the 2008 liquidity crisis. He stated that many securities lending programs were invested in troubled securities. He pointed out that ERS lost approximately $600,000 in its securities lending program due to the bankruptcy of SIGMA.

Mr. Wrubel stated that Marquette recommends that ERS cap the amount of assets it has out on loan. He explained that this recommendation is based on managing ERS's liquidity because securities lending programs are less liquid in turbulent markets and will cap ERS's potential loss exposure. He reported that ERS currently has $40 million out on loan and Marquette would like to cap the amount out on loan at $40 million. He described the securities lending process and its effects on ERS's cash flow. He commented that securities lending serves as another $40 million short-term investment. He stated that Bank of New York Mellon will not allow a cap on securities lending of less than ERS's 12-month rolling average. He indicated that Marquette is researching whether Bank of New York Mellon can unilaterally impose these guidelines and whether any other investors were allowed more favorable terms.

Mr. Maier asked whether ERS would realize unrealized losses if ERS terminated its securities lending program instead of capping it. Mr. Wrubel stated that if ERS terminated its securities lending program at the current time, ERS would only receive $.92 on the dollar. Capping the program would allow ERS to continue to earn income to offset the losses. In response to a question from Mr. Mawicke, Mr. Wrubel stated that it would take approximately 12 to 24 months for ERS to unwind its positions, or possibly sooner as liquidity returns to the market. Mr. Wrubel pointed out that securities lending investments are now being invested in overnight paper. In response to another question from Mr. Mawicke, Mr. Caprio stated that ERS has earned $1 million from securities lending, including the SIGMA loss.

Mr. Wrubel stated that Treasuries are currently favored for securities lending programs and ERS does not hold much in Treasuries. He indicated that the securities lending problems were caused when the cash collateral pool broke down. He explained that there is a high liquidity risk now by participating in securities lending if ERS is going to change its investment policy and needs to shift investments.

Mr. Wrubel stated that Marquette formally recommends that ERS (1) cap the amount of assets in the securities lending program to the lowest amount it can negotiate with Bank of New York Mellon; (2) phase out of securities lending over a period of time to reduce ERS's risk exposure; and (3) reevaluate whether to begin participating in a securities lending program after the markets become more stable.

The Pension Board unanimously agreed to accept Marquette's formal recommendation regarding ERS's securities lending program with Bank of New York Mellon. Motion by Mr. Mawicke, seconded by Mr. Maier.

Mr. Wrubel stated that ERS invests in three index fund strategies with Mellon Capital Management: growth, core and fixed income. He noted that these funds participate in securities lending programs and ERS receives a 50/50 split, as opposed to the 70/30 split ERS receives with the actively managed funds. He indicated that Marquette recommends that ERS switch these three investments from participating in securities lending to not participating in securities lending.

He noted that ERS has historically earned approximately three basis points by participating in securities lending with these funds, but ERS lost $360,000 due to the securities lending involvement of these funds in 2008. He commented that the fees for investing in the nonsecurities lending investments are an additional two basis points, but ERS will have no securities lending risk. He stated that by taking this action now, ERS will avoid the potential future restrictions that Mellon could place on withdrawals from these investments as the Pension Board contemplates asset allocation changes.

Mr. Wrubel indicated that the Mellon growth index fund does not have a nonsecurities lending investment option and that ERS should transition into a nonsecurities lending fund for that strategy when it becomes available. In response to a question from Mr. Stuller, Mr. Caprio explained the securities lending losses ERS has incurred to date and noted that the securities lending pools for these index funds were more aggressive.

The Pension Board unanimously approved the transition of the three index funds managed by Mellon Capital Management from participating in securities lending to not participating in securities lending, upon approval of the transition documents by legal counsel. Motion by Mr. Mawicke, seconded by Dr. Peck.

(c) Investment Committee Report

Dr. Peck reported that the Investment Committee discussed all of the issues discussed by Marquette at its March 2, 2009 meeting.

The Pension Board voted by roll call vote 6-1, with Mr. Stuller dissenting, to authorize Ms. Bedford to execute the Cash Overlay Investment Management Agreement with Bank of New York Mellon BETA Management subject to legal review. Motion by Mr. Maier, seconded by Dr. Peck.

8. RFP for Transition Managers

Mr. Wrubel explained that the purpose of a transition manager is to minimize transaction costs. He indicated that Marquette recommends that ERS create a bench of three transition managers for the Pension Board to choose from when there is a transition. He noted that some transition managers have expertise in different areas. Mr. Wrubel reported that Marquette has prepared an RFP for transition managers for the Pension Board to issue. In response to Ms. Bedford's question, Mr. Wrubel stated that there are 6 to 10 well-known transition managers in the U.S., but ERS could receive responses from up to 24 transition managers.

Mr. Wrubel noted that the trend is for transition managers to not want to be fiduciaries, but he stressed that ERS must require that the transition manager be a fiduciary. In response to Mr. Stuller's question, Ms. Bedford stated that the Pension Board does not have any transition managers under contract and ERS has used RFPs in the past. Mr. Caprio discussed the RFP process and indicated that the plan is to send the RFP to between 6 to 10 transition manager candidates and to narrow down the list to 3. Mr. Grady stated that Marquette should coordinate with him to discuss the process and logistics issues in issuing the RFP.

The Pension Board unanimously approved Marquette's issuance of a request for proposal for transition managers subject to approval by Corporation Counsel. Motion by Mr. Maier, seconded by Dr. Peck.

9. Vitech Project and Implementation Oversight Committee Reports

Mr. Arena and Mr. Pillai discussed the progress of the V-3 project and the resolutions of the implementation problems. Mr. Pillai compared the project's actual costs to the budgeted costs. Mr. Holland presented a general overview of the V-3 System and provided a demonstration on how the V-3 System actually works. Mr. Pillai discussed the timeline for the rest of the V-3 project, including the implementation of the self-service module.

10. Administrative Matters

The Pension Board did not make any changes to the future topics list.

11. Disability Pensions

(a) Edward Dirk – ADR

The Pension Board reviewed the Medical Board's report on Mr. Dirk and discussed his application for an accidental disability pension.

The Pension Board unanimously approved Ms. Dirk's accidental disability pension application based upon the recommendation of the Medical Board. Motion by Mr. Cohen, seconded by Mr. Maier.

12. Mark Ryan Claim Appeal

Mr. Levinson introduced himself as the attorney representing Mark and Colleen Ryan regarding the appeal of Mr. Ryan's benefits waiver. Mr. Levinson previously presented written materials to the Pension Board, which the Pension Board reviewed before the meeting. He stated that Mr. Ryan's submission of a benefit waiver relating to the retention incentives was a simple mistake. He reviewed the chronology of events that took place surrounding the waiver. Mr. Levinson indicated that in June of 2002, Mr. Ryan intended to waive his right to the back DROP benefit, but was told by a Retirement Office employee that he also must waive the retention bonus. Mr. Levinson noted that Mr. Ryan's statement of facts is supported by the fact that the date stamps on the waivers are on successive days.

Mr. Levinson stated that he is asking the Pension Board to correct a simple isolated mistake because Mr. Ryan was not required to waive the retention incentive bonus. Mr. Levinson argued that this situation poses some novel legal issues, such as what was the consideration for signing the waiver, and how Wisconsin Statutes section 59.22 operated with respect to reduction in pay while Mr. Ryan was in office. Mr. Levinson stated that Mr. Ryan is not asking for something special, only the benefits Mr. Ryan would have been entitled to had there been no alleged miscommunication.

Mr. Huff noted that the Pension Board should exercise discretion discussing this matter in open session. Mr. Maier asked why Mr. Ryan did not indicate that he was filing the waiver in protest when he submitted the waiver in question. Mr. Levinson commented that Mr. Ryan did not believe the request was outlandish or wrong on its face, so he complied with the request to complete the retention incentive benefit waiver. In response to a question from Mr. Mawicke, Mr. Levinson stated that Mr. Ryan voluntarily signed the retention incentive waiver based on misinformation. In response to a question from Mr. Mawicke, Mr. Levinson stated that Mr. Ryan did not ask Mr. Levinson's firm to discuss rescinding his back DROP waiver.

Reading a statement, Mr. Mawicke moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g) with regard to item 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 7-0 to enter into closed session to discuss agenda item 12. Motion by Mr. Mawicke, seconded by Dr. Peck.

During closed session, the Pension Board carefully considered Mr. Ryan's arguments and the facts surrounding his situation, in conjunction with receiving briefings from its legal counsel.

Upon returning to open session, the Pension Board voted 6-0-1, with Mr. Stuller abstaining because he believes that Mr. Ryan should direct his appeal to the County Board, to deny the pension benefit appeal by Mark Ryan, consistent with the discretion assigned to the Pension Board by Ordinance section 8.17 to interpret the Ordinances and Rules of ERS, due to uncertainty regarding Mr. Ryan's evidential support and pursuant to legal precedents regarding negligent misrepresentation, mistake of fact, rescission of contract due to misrepresentation, lack of

consideration and an impermissible decrease in benefits. Motion by Mr. Mawicke, seconded by Dr. Peck.

Mr. Maier left the meeting.

13. Lillie Murphy – Rule 805

Reading a statement, Dr. Peck moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f) with regard to item 13 for the purpose of the Board 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 under section 19.85(1)(g), and with regard to items 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 6-0 to enter into closed session to discuss agenda items 13 and 14. Motion by Dr. Peck, seconded by Mr. Cohen.

In open session, the Pension Board noted that it recently received facts that indicate that Ms. Murphy voluntarily resigned from County employment, which makes Rule 805 applicable, and voids the Pension Board's prior denial of Ms. Murphy's application for deferred vested pension benefits.

Upon returning to open session, the Pension Board unanimously agreed to reverse its denial of Ms. Murphy's application for deferred vested pension benefits based on additional facts that have come to light since the Pension Board's initial decision. Motion by Mr. Stuller, seconded by Dr. Peck.

14. Pending Litigation

The Pension Board discussed the following pending litigation in closed session: *Milwaukee County, et al. v. Mercer Human Resource Consulting.*

15. Report on Special Investigation

In open session, the Pension Board noted that there is nothing new to report regarding the special investigation.

16. Report on Compliance Review

In open session, the Pension Board stated that there is nothing new to report regarding the compliance review.

17. Adjournment

The meeting adjourned at 1:35 p.m.

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

EXHIBIT 1

EXHIBIT A-3
INVESTMENT GUIDELINES

Employees' Retirement System of the County of Milwaukee and OBRA 1990 Retirement System

Effective Date: March 18, 2009

Client Name: Employees' Retirement System of the County of Milwaukee and OBRA 1990 Retirement System

Overlay Program: **Cash Overlay** (Equitization)

Strategy: S&P 500

Benchmark	Overlay Custodian Account#:	Beta Portfolio
Standard & Poor's 500 Price Index	MILFXXXXXX2 (TBD)	BT-ML54S

The Overlay Custodian Account (the "Overlay Account") refers to the custodian account that holds the securities required to implement the overlay strategy, whereas the Equitized Custodian Account (see below) hold the assets that are being overlayed.

Investment Objectives and Guidelines

These Investment Guidelines serve as the Investment Guidelines under the Investment Management Agreement entered into among the Client and Manager on March 18, 2009, for the account containing the uninvested U.S. Equity Manager cash as designated by Client.

The Cash Overlay Program (the "Program") involves the purchase and sale of futures contracts based on the Standard and Poor's 500 Price Index (the "Benchmark") as implemented by The Bank of New York Mellon (the "Manager").

The principal goal of the program is to consistently provide synthetic exposure to approximate the total return of the Benchmark.

The Client will direct the Manager as to the specific Equitized Account and amount of cash or holdings from the specified accounts that may be equitized in the Equitized Account Section below. Any client directed cash flow adjustments to the amount to be equitized in the Equitized Account will be in accordance with the Cash Flow Trades Notification & E-Mail Confirmation Procedures.

Collateral and variation margin on futures contracts shall be included in the amount to overlay.

The Manager agrees to conduct the Program in a manner that is consistent with its fiduciary obligations. The Manager may not use leverage in managing the account.

Eligible Investments

- Standard & Poor's 500 Price Index futures contracts.

- Single E-Mini futures contracts, depending upon the size of the overlay and the liquidity of the futures contract.

For purposes of collateral, the Manager may enter into the following long positions:

- Cash and cash equivalents.

Cash invested by the Custodian shall be excluded from the computation of Manager's fees.

Rolls

It is understood that the Manager will not exercise any judgment as to the future direction of the markets. Unless otherwise instructed, the Manager is authorized to use its reasonable discretion in the following limited circumstances: (i) determining when to "roll forward" positions in an expiring futures contract; provided that such rollovers shall typically be completed within twenty one (21) days of the expiration or first notification date of the related contracts (Client understands that Manager shall not be responsible for any delays due to market disruptions); and (ii) in the timing of purchases and sales and the selections of futures contracts maturities when additional funds are allocated to, or existing funds are withdrawn from, the Program during or immediately preceding the expiration month of the relevant futures contracts.

Cash Requirements

- Initial cash required to be deposited in the Overlay Account will be 15% of the notional value.

- Manager will seek to maintain a sufficient cash balance to be used for margin and collateral purposes. Manager will monitor cash requirements for initial margin, variation margin and forward settlements. In the event the total cash and cash equivalents of the Overlay Account falls below 2% of the notional value of the Overlay Account, net of initial margin, or is insufficient to cover the margin and collateral requirements, Manager will notify the Client by 10:00am PT/1:00pm ET on the date the shortfall occurs (the "Notification Date"). The Client will instruct a cash transfer to the Overlay Account to bring the total cash and cash equivalent balance of the Overlay Account to 7% of the notional value of the Overlay Account within one (1) business day from the Notification date.

- In the event that the Overlay Account's cash holdings are not sufficient to meet margin and collateral requirements, Client acknowledges that it is solely responsible to the broker for any amount due for the Program. Manager will continue to manage the Program but the Client acknowledges that without sufficient cash, cash equivalents and money market instruments the investment objectives may not be met and that the Manager may, upon advance written notice to the Client, begin reducing the size of the notional value of the Program so that the total value of cash will be increased as a percentage of the overall Program.

- Client will direct Manager of any cash requirements that necessitate a reserve from equitization by noting such requirement herein or directing Manager in writing.

- Manager shall not be responsible for managing cash directed into a custodial sweep vehicle.

Rebalance Methodology

The Overlay Account will be rebalanced if the notional value falls out of the range of 95 – 105%, based on the notional value as of the prior day's close. The Overlay Account may be rebalanced by Manager at any time if deemed prudent, but at a minimum, the Overlay Account will be rebalanced to the target index exposure on the last business day of each month.

Equitized Accounts

Custodian: The Bank of New York Mellon

Data: The Client shall direct the custodian to provide data for the below accounts is provided electronically by the custodian in the 'Custodian Cash and/or Holdings Feed' (the "Data Feed"). Manager may rely on this Data Feed and shall not be responsible for its accuracy or completeness.

Equitized Account Notification

Any changes to the Equitized Accounts, inclusion, exclusion, assets to be overlayed, must be communicated to the Manager, in writing, two business days prior to any changes to the program.

Equitized Custodian Account(s):

Custodian AC #:	**Security ID / PORTFOLIO / CASH***
MILF07644102	Cash - Mellon 1000 Growth
MILF07650202	Cash - Mellon S&P 500
MILF22760002	Cash - Artisan Partners
MILF22780002	Cash - Westfield Capital
MILF25410002	Cash - Boston Partners
MILF25480002	Cash - Reinhart Partners
MILF25470002	Cash - Earnest Partners
MILF25500002	Cash - AQR Capital
MILF25490002	Cash - Artisan Partners II

Security ID: Overlay the market value of the individual security within the custodian account.

CASH: Overlay the sum of all cash and cash vehicles within the custodian account.

PORTFOLIO: Overlay sum of all holdings (cash, securities and collateral (if specified in the Eligible Investments section of the guidelines) within the custodian account.

*It is understood that the Manager can only overlay cash balances denominated in USD within the equitized accounts.

Cash Reserve Requirements: ☐ Yes Amount or %: ____________________
(to be withheld from notional provided in daily feeds: Cash &/or Holdings)

☐ None

Acknowledged and Agreed:

The Bank of new York Mellon

By: ______________________________

Name:______________________________

Title: ______________________________

Date: ______________________________

Acknowledged and Agreed:

The Milwaukee County Employee's Retirement System

By: ______________________________

Name: Ms. Linda Bedford
Title: Vice Chair, Pension Board of the Employees' Retirement System of the County of Milwaukee and OBRA 1990 Retirement System

Date: ___________________________