EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE DECEMBER 17, 2008 PENSION BOARD MEETING

1. Call to Order

Chairman Dr. Dean Roepke called the meeting to order at 8:40 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
Roy Felber
Mickey Maier
Jeffrey Mawicke
Marilyn Mayr
Dr. Sarah Peck
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
Gordon Mueller, Fiscal Officer
Dale Yerkes, Assistant to the Fiscal Officer
Vivian Aikin, ERS Administrative Specialist
Sushil Pillai, V3 Project Manager
Wendy Kraly, The Joxel Group
Jason Gates, Milwaukee County Risk Manager
Bess Frank, Ad Hoc Oversight Committee
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Chris Trebatoski, Weiss Berzowski Brady LLP
Adam Berger, AQR Capital Management
Jeremy Getson, AQR Capital Management
Kristin Finney-Cooke, Mercer Investment Consulting
Patrick Silvestri, Mercer Investment Consulting
Cliff VanBeek, Retiree
Ken Loeffel, Retiree
Steve Schultze, Reporter, *Milwaukee Journal Sentinel*

3. Chairman's Report

(a) Vitech Implementation Oversight Committee Representative

The Chairman reported that he attended the most recent Vitech Implementation Oversight Committee meeting. He indicated that Mr. Felber agreed to serve as the Pension Board's representative on the Vitech Implementation Oversight Committee and will attend future Committee meetings.

(b) Election Status

The Chairman stated that the nomination papers for the election for the two Pension Board member seats are available and are not due until January 2, 2009. He noted that at least eight people have picked up nomination papers.

4. Minutes of the November 12, 2008 Pension Board Meeting

The Pension Board reviewed the minutes of the November 12, 2008 Pension Board meeting.

The Pension Board unanimously agreed to approve the minutes of the November 12, 2008 Pension Board meeting. Motion by Mr. Maier, seconded by Ms. Bedford.

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

(a) Retirements Granted

Mr. Arena presented the Retirements Granted Report for November 2008. He reported that 17 retirements were granted in November, noting that 6 retirees elected backDROPs in amounts totaling $2,152,087.

(b) ERS Monthly Activities Report

Mr. Arena reported that there will be fewer retirements in 2008 than 2007. Mr. Arena stated that there have been 232 retirements through November and the projected 2008 retirements total is 250. In response to a question from the Chairman, Mr. Arena stated that the projected number of retirements comes from the activity reports of the Retirement Office staff.

Mr. Arena discussed the staffing situation at the Retirement Office. He indicated that two additional clerical positions have been filled and that two more clerical positions have been approved by the Director of the Department of Administrative Services and should be filled in January 2009.

Mr. Arena stated that he is very pleased with the Retirement Office management team of Mr. Schroeder and Ms. Olson. The Chairman thanked Mr. Arena and the Retirement Office for their efforts.

(c) Internet Voting

Mr. Arena discussed the potential use of internet voting for the upcoming Pension Board employee member election in light of the problems encountered with on-site voting. He presented a cost comparison for on-site voting against two quotes for internet voting provided by highly reputable firms. He reported that these firms' customers have been satisfied with internet voting services. He stated that internet voting is more cost effective and expeditious. He noted that the County currently uses a weekly time reporting system run via the internet, which employees access through their own computers or through kiosks located at various locations throughout the County.

In response to a question from Mr. Felber, Mr. Arena stated that ERS members could vote from home by having their user identification and password information mailed to them. Mr. Arena stated that an e-mail reminder with the voting information will be sent to Milwaukee County employees prior to the election. Mr. Felber stated that Ceridian is being sued by a couple of unions and inquired whether internet voting would open the Pension Board to lawsuits. Mr. Arena responded that the two items are independent and the County currently uses the internet for several functions. In response to a question from Ms. Bedford, Mr. Arena stated that internet voting is expected to increase voter participation from 10% to over 50%. Dr. Peck commented that she has seen no problems with internet voting for public corporate director elections.

Ms. Mayr pointed out that the prior cost per vote analysis was $32 per in-person vote, while the current analysis states $24 per in-person vote. Mr. Arena stated that he asked Mr. Mueller for a very conservative cost estimate, which resulted in the change.

The Pension Board voted 7-1 by roll call vote, with Mr. Felber dissenting, to retain VoteNet on a trial basis to provide internet voting services for the February 2009 election and to evaluate internet voting after that election. Motion by Mr. Maier, seconded by Mr. Cohen.

In response to a question from Ms. Mayr, Mr. Arena stated that the Retirement Office will use e-mail blasts and post notices throughout workplaces to notify members of the election and that the election will be conducted over the internet. Mr. Arena indicated that he believes that the systems are up to date for the purpose of notifying employees. Ms. Mayr reminded the Retirement Office that the VoteNet contract should not exceed $5,000.

(d) Board Elections, February 2009 Procedures for Dual Elections

The Chairman discussed the problems with the previous dual election. Mr. Huff explained the proposed procedures for the upcoming dual election. He indicated that some of the open issues regarding the upcoming dual election include whether an individual will be given one or two votes, and if granted two votes, whether the member can only use one of those votes. Mr. Grady opined that each member should receive two votes, which would allow the member to vote for a candidate for each of the two open seats. He stated that VoteNet will not allow two votes for one candidate.

The Pension Board voted 7-1 by roll call vote, with Mr. Felber dissenting, to have one vote per Pension Board seat up for election (two votes total), to allow a member to cast only one vote (two votes not required) and to not allow a member to vote twice for the same person. Motion by Mr. Maier, seconded by Mr. Cohen.

In response to a question from Ms. Mayr, Mr. Grady stated that the primary election is scheduled for February 5, 2009 and the final election, if necessary, is scheduled for February 19, 2009. Mr. Arena indicated that an internet voting demonstration or an on-line link to a demonstration will be available to the Pension Board at the January meeting.

(e) Waivers—Terry Blue.

Mr. Arena reported that four benefits waivers were submitted to the Retirement Office by Terry Blue, Assistant Deputy Airport Director of Operations.

The Pension Board unanimously agreed to accept the waivers presented by Mr. Blue. Motion by Mr. Cohen, seconded by Ms. Bedford.

(f) Cash Flow Report

Mr. Yerkes presented the cash flow report. He stated that it is hard to forecast large backDROP amounts into the cash flow projection. He indicated that he anticipates ERS will need $10 million in January 2009 for benefit payments and $5 million per month for February and March for benefit payments. Mr. Yerkes pointed out that ERS is slightly below its two month cushion of cash and should have its cash reserve up to the two-month cushion by March 2009 with the requested cash flow needs.

The Pension Board unanimously agreed to Mr. Yerkes' cash flow recommendation of $10 million in January 2009 and $5 million in February and March 2009 for benefit payments, with the source to be determined by the investment consultant. Motion by Dr. Peck, seconded by Ms. Mayr.

In response to a question from Mr. Loeffel, Mr. Mueller stated that the County's 2008 contribution to ERS of $39,854,000 will be paid in 2009. Mr. Mueller indicated that he will request approximately $8 million per month from the County from February through June 2009. He noted that ERS will need additional funds because ERS has been receiving lower amounts of interest and dividends, which has reduced ERS's cash flow.

(g) 2009 Proposed Budget

Mr. Mueller distributed and presented ERS's 2009 budget. He indicated that ERS's 2009 budget is approximately $10.5 million. He reviewed the major expenses for ERS, which include investment manager fees, salaries and benefits, V-3 System costs and legal fees. He stated that the investment manager fees increased because he factored in the receipt of $400 million in pension obligation bonds at the beginning of the second quarter. He noted that he factored in a market rebound, which would increase the investment manager fees because they are based on the amount of assets under management. In response to a question from Dr. Peck, Mr. Mueller discussed how he calculated the investment manager fees.

Mr. Mueller explained the difference between the 2009 budgeted salary and benefits expense and the 2008 actual expense. He noted that many positions in 2008 were temporary and have been converted into permanent positions, which changed the categorization of the expense to salary and benefits. He also indicated that several new positions have been created and filled in 2008 or are planned to be filled in 2009, which increased the budgeted expense. He commented that the Retirement Office is fully staffed or fairly close to a full staff.

Mr. Mueller discussed the increase in the budgeted amount for legal fees. He indicated that the 2008 litigation expense was $5,000, an all time low. He noted that he budgeted $100,000 for litigation expense in 2009.

Mr. Mueller explained the increase in the budgeted V-3 System expense amount for 2009. He indicated that $5 million of the V-3 System cost will be amortized over ten years, which results in an additional $500,000 expense that has not been incurred in the past. He stated that there will also be $250,000 in maintenance costs for the V-3 System in 2009.

Mr. Mueller reviewed a graph showing the changes between the 2009 budgeted expenses and the 2008 actual expenses. He recapped the reasons why investment fees, V-3 costs, salary and benefits, and legal fees were projected to increase. He stated that other expenses were projected to increase by about $100,000, primarily due to a $40,000 postage increase caused by anticipated increased participant communications, including a proposed newsletter. Mr. Mueller also stated that budgeted professional development and travel expense was expected to increase approximately $30,000 due to an increase in the training of the staff.

Mr. Mueller indicated that he anticipates a large decrease in the use of outside consultants of approximately $500,000 in 2009. He noted that it is anticipated the outside V-3 System consultants will be used for only the first half of 2009. He stated that the investment custodian fees were renegotiated, resulting in large cost savings. He pointed out that ERS terminated an active international investment manager, which will result in lower transactional costs in 2009.

In response to a question from Ms. Mayr, Mr. Arena discussed the prospects of selling pension obligation bonds in the current market. He stated that the current market dictates caution when issuing bonds. He indicated that the pension obligation bond working group anticipates issuing bonds in late first quarter or early second quarter 2009. He commented that there is a limited window for the enabling legislation to allow the issuance of these bonds, so he anticipates the bonds being issued in 2009.

On behalf of Mr. Schroeder, Mr. Yerkes reported on the accomplishments of the Retirement Office in 2008. Mr. Yerkes stated that ERS designed the V-3 System and developed a procedures manual to help ensure compliance with the Ordinances and ERS Rules. He noted that the Retirement Office filled positions with highly qualified personnel. He indicated that the Retirement Office improved its reporting to the Pension Board and increased the overall accuracy and timeliness with which the Retirement Office serves its members. He pointed out that the Retirement Office also restructured the pre-retirement seminars.

Mr. Yerkes explained the goals that Mr. Schroeder has for the Retirement Office in 2009. Mr. Yerkes stated that the Retirement Office will transition the paper files to on line files and move the paper files off site. He indicated that the Retirement Office will begin evaluating staff performance on a more formal basis. Mr. Yerkes discussed Mr. Schroeder's goal of having fiscal officers become more like auditors. Ms. Mayr noted that increasing the review of financial transactions was a suggestion made by the outside auditor.

The Pension Board unanimously approved the 2009 ERS budget as presented. Motion by Mr. Cohen, seconded by Mr. Felber.

6. Investments

(a) Investment Manager Report – AQR Capital Management

Mr. Berger and Mr. Getson distributed a report on AQR Capital Management's ("AQR") management of ERS's domestic small cap value strategy and presented it to the Pension Board on behalf of AQR. Mr. Berger and Mr. Getson introduced themselves and discussed their backgrounds. Mr. Getson discussed the history of the firm, noting the firm has over 200 employees. He reported that AQR's assets under management, which are invested in global equities, international equities, long-only positions and small cap and alternative investment strategies, total $18.3 billion. Mr. Getson reviewed the various strategies that AQR implements. Mr. Getson discussed the composition of the firm, focusing on the stock selection team, which runs the ERS portfolio. He focused on the new hires to the stock selection team and noted that AQR added three new employee owners. He stated that the new hires complement the stock selection team to provide a well-rounded team.

In response to a question from the Chairman, Mr. Getson explained how behavioral finance is incorporated into AQR's stock selection. In response to a question from Dr. Peck, Mr. Getson and Mr. Berger discussed how behavioral economics is incorporated into stock selection, but noted that AQR focuses more on behavioral finance.

Mr. Berger stated that AQR tries to buy stocks where the fundamental value of the company has not yet been recognized by the market. Mr. Berger noted that the danger of only investing according to value is that an undervalued "cheap" stock may become less valued. He indicated that value must be looked at along with trend, directional improvement and the fundamentals of the company. Mr. Getson commented that AQR focuses not only on undervalued stocks, but undervalued stocks that show signs of improving. He stated that this approach is the core of AQR's investment philosophy.

Mr. Berger stated that AQR conducted a study to look at the principles of value/momentum investing. He indicated that the study shows how value and momentum work best when used in a combined approach. He reviewed the two periods in the study where the value and momentum strategies have diverged, the internet bubble and the current market. Mr. Getson stated that the same relational pattern has also been seen in the United Kingdom, Japan and Europe.

Mr. Berger stated that AQR continually reviews its investing principles. He stated that AQR will benefit from the fundamental errors and mispricings in the market. Mr. Getson stated that when value investments go bankrupt, they do not come back in value. He provided Bear Stearns and Lehman Brothers as examples. He pointed out that high quality value investments can get cheaper and become better investments, as he believes they are now in the current market.

Mr. Getson described the factors used in addition to value and momentum, which include earnings quality, investor sentiment, sustainable growth and management signaling. He stated that value and momentum are exaggerated in the small cap market when there is a great deal of volatility as there is in the current market. He indicated that the fundamentals of the companies do not justify the emotion and sentiment currently driving the stock market. He commented that the wild up and down market shifts have caused a disturbance in the relationship between value and momentum.

In response to a question from the Chairman, Mr. Getson and Mr. Berger both discussed the changes AQR is making in light of the current market structure. In response to a question from Dr. Peck, Mr. Getson discussed how the stock selection model value weightings change and are not static. In response to Ms. Bedford's question, Mr. Getson said the weightings are different for each sector.

Mr. Getson reviewed the results of the portfolio over the past several months and since the portfolio's inception. He noted that the portfolio lagged behind its benchmark by 2.6% since AQR's inception on November 1, 2006. He discussed how the extreme volatility of individual stocks affects the portfolio. Mr. Berger pointed out that the marked to market values of some stocks may not be accurate.

Dr. Peck asked whether the gains from momentum strategy have shrunk as more investors are aware of the momentum strategy and whether there has been a paradigm shift by institutional investors. Mr. Berger responded that he does not believe such a shift has occurred; however, he acknowledged that there is a risk that a shift could happen over time. He commented that the current data does not indicate that such a shift has taken place. He discussed the charts contained in AQR's presentation and explained how the charts represent a simplified version of AQR's investment process.

In response to a question from Mr. Maier, Mr. Getson stated that a 3-5 year market cycle is the best time period to evaluate a strategy and a 2-year period is not long enough to properly evaluate a manager.

(b) Mercer Report

Ms. Finney-Cooke discussed the market outlook. She reported that consumer confidence is very low. She stated that the core Consumer Price Index remained the same. She noted that there was an 18.9% reduction in housing starts in November, and Mercer believes that the housing market will not rebound anytime soon. She indicated that the market factors are causing workforce cuts at many companies.

Ms. Finney-Cooke stated that the unemployment rate is 6.1%, but Mercer believes it could be close to 8% by the middle of 2009. She indicated that retail sales also slid in November. She noted that November car sales were at their lowest levels since 1982. She commented that bankruptcy levels in November were up 34% compared to the same period one year ago.

Ms. Finney-Cooke reported that the Federal Reserve dropped its interest rate to between a 0%-.25% target rate. She discussed the volatility index, noting that yesterday it was at 52.37, compared to above 70 in November. She stated that the volatility index is generally in the low 20's in a normal market.

Ms. Finney-Cooke discussed how the indicator of whether banks will loan to each other has improved, but is not at a normal level. She stated that Treasurys returned 13.7% through November, which is the best level of return for Treasurys since 1985. She pointed out that the flight to quality and safety has resulted in lower yields. She indicated that the dollar is at a 13 year low against the yen. She commented that a weak dollar hurts foreign investments as the demand for U.S. assets wanes. She opined that there will be flat GDP growth in 2009.

Mr. Silvestri presented Mercer's Flash Report for November 2008. He noted that oil prices have decreased, which is a good sign for consumer spending. He stated that ERS had a market value of $1.12 billion at the end of November and that ERS's market value declined by 2.8% in November, which outperformed that reference index by 110 basis points. He attributed ERS's outperformance to its fixed income allocation.

Mr. Silvestri noted that ERS is overweight in fixed income compared to ERS's investment policy guidelines. He suggested that ERS accept the overweighting in fixed income due to the illiquidity in the markets, because it is difficult to sell investments at the current time. He indicated that ERS should wait to rebalance until liquidity returns to the market.

In response to a question from Mr. Mawicke, Ms. Finney-Cooke stated that the reason that ERS would be selling fixed income securities would be to balance the portfolio according to the investment policy. Mr. Mawicke stated that the Pension Board must define its long term goals. Ms. Finney-Cooke commented that ERS should look at other sources of alpha and question the assumptions about the long-term expectations from current markets in which ERS is invested.
Ms. Silvestri indicated that Mercer continually reviews its assumptions. He noted that if the U.S. economy grows, U.S. equities should increase in value. He stated that in the current market, a pension plan should take a long-term, measured approach, question its assumptions and determine whether its assumptions are correct or need to be modified going forward.

Ms. Mayr inquired whether there should be a motion to approve being out of compliance with the investment policy guidelines and that the circumstances dictate doing so and not rebalancing. Mr. Grady opined that no motion is necessary as long as the discussion of the issue is covered in the minutes. Mr. Silvestri noted that overweighting in fixed income has been beneficial to ERS and should be reassessed each month.

Mr. Silvestri reviewed the performance of each of ERS's investment managers. He indicated that Boston Partners is ahead of its benchmark for the year to date. He noted that the two index funds managed by Mellon Capital Management have met or exceeded their benchmarks for November and the year to date, which is good considering the index funds suffered securities lending losses. He commented that Artisan Partners mid cap value strategy had a strong November, while the Artisan Partners mid cap growth strategy struggled in November, but has been solid over the long term.

Mr. Silvestri reported that EARNEST Partners struggled in November but is ahead of its benchmark for the year. He pointed out that Reinhart Partners had a strong November but is behind its benchmark for the year. He noted that both Westfield Capital Management and AQR have both underperformed in November and for the year to date. Ms. Bedford commented that AQR has been one of the worst performing managers and that the Pension Board must take a closer look at AQR. Ms. Bedford stated that AQR has been managing for ERS since 2006 and is significantly behind its benchmark since its inception. Mr. Silvestri noted that he wants to follow up on the since inception number because he believes it may be incorrect by as much as 20% because it may not include the funding month. He pointed out that AQR will reach its three-year anniversary in October 2009. Ms. Finney-Cooke noted that the numbers contained in the Flash Report are unaudited.

Mr. Silvestri stated that the international equity sector has been the worst performing segment over the past year. He indicated that Baring is down approximately 50% over the past year and GMO is down 43.4% but has outperformed its benchmark by 170 basis points. He reviewed Capital Guardian's performance, noting that Capital Guardian is down 57% for the year to date. He suggested following up on Capital Guardian's performance. Ms. Finney-Cooke stated that a discussion regarding Capital Guardian is on the agenda for next month's Investment Committee meeting.

Mr. Silvestri reported that the fixed income managers trailed their benchmarks, which he noted is not surprising in the current market. He stated that all fixed income investments are trailing Treasurys. He indicated that the benchmarks are comprised of 30% Treasurys. He noted that the Pension Board should give the fixed income managers more time to work. He noted that these managers can just hold the investments they currently have and earn a 10% gain. He commented that ERS's fixed income managers are well positioned for when the liquidity returns to the market.

Mr. Silvestri stated that the Loomis Sayles high yield fixed income strategy has significantly outperformed its benchmark, which can be attributed to its high quality bias. Ms. Bedford inquired whether the management changes at Loomis Sayles will affect ERS. Mr. Silvestri stated that there have been no major changes to the team managing the ERS portfolio at Loomis Sayles.

Mr. Silvestri stated that the poor performance of international equities demonstrates that the problems with the markets are global in scale. He noted that there is still a great advantage to diversification into international and emerging market equity investments.

Ms. Finney-Cooke stated that Ms. Riley has the Adams Street Partners subscription agreements for the Chairman to sign. Ms. Finney-Cooke reported that the total subscription amount will be a $30 million commitment, which will not be drawn down all at once. She indicated that Mercer is comfortable with both the amount of the commitment and having Adams Street Partners as the investment manager. Ms. Riley asked for and did not receive any objections to the Chairman signing the subscription agreement and the funding of the investment. In response to a question from the Chairman, Mr. Silvestri responded that the first funding date is unknown.

(c) Investment Committee Report

Dr. Peck reported that the December 1, 2008 Investment Committee meeting had been cancelled.

7. Vitech Project and Implementation Oversight Committee Reports

Mr. Arena reported that the Vitech System is the second largest systems investment in the history of Milwaukee County. Mr. Pillai stated that the implementation team recently completed the go-live testing. He indicated that the parallel testing mode using the Vitech and Genesys stems is in-process . He noted that the team has validated all pension calculations and the calculations look accurate. He explained that he is comfortable telling the Pension Board that the Vitech system will go live in January 2009.

Mr. Pillai stated that the first pension check will be generated by the new system in January 2009. In response to a question from Ms. Mayr, Mr. Pillai reported that all of the recent tax law changes have been incorporated into the new system. Mr. Pillai indicated that the team is currently engaged with IMSD to discuss items such as disaster recovery.

Mr. Pillai noted the project budget has not changed. He reported that people are working around the clock with an intense focus to complete the project. He discussed how the 2008 benefit elections were completed on the old system and the 2009 benefit elections will be reflected on the new system effective January 1, 2009.

Mr. Pillai reported that the V3 Communicator newsletter was sent to all active employees and retirees. He stated that self-service on the new system should be available in April 2009 for retirees and active employees. Ms. Mayr indicated that she wants to be a member of the retiree test group.

Mr. Pillai reviewed the key challenges to the implementation of the V3 System. He reported that the team was unable to obtain an interface with United Healthcare. He stated that the team is using a manual spreadsheet with employee elections and loading the spreadsheet into the V3 System. He acknowledged that the process is not yet automated, but noted that this is not a high priority item.

Mr. Pillai described the user acceptance testing and noted that the team is following up on all irregular, noncritical items. He indicated that all of the year-end processing will be done by the Genesys system and will be uploaded to the V3 System on January 6, 2009 to achieve consistency.

Mr. Pillai indicated that there are no high risk items facing the completion of the project. He noted that all the items have been placed in the critical part of the chart to keep the team focused on delivering the project on time. He stated that he created a new risk quadrant for 2009 that will not take effect until the V3 System goes live.

The Chairman congratulated Mr. Pillai and his team on their accomplishments.

8. Administrative Matters

In response to a question from Ms. Mayr, the Chairman stated that there was a report on the Chair and Vice Chair selection process at a recent Pension Board meeting. Mr. Grady stated that no action was taken on this item and it could be placed on a future agenda. Ms. Mayr moved to put this item on the agenda. The Chairman stated that this item will be placed on the next meeting agenda and asked Ms. Mayr how she would like it to be treated. Ms. Mayr suggested that the item be placed on the agenda and considered as a potential rule.

9. Fiduciary Liability Insurance Coverage

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes, section 19.85(1)(e) with regard to items 9 and 10 for the conducting of specified public business whenever competitive or bargaining reasons required a closed session, under section 19.85(1)(f) with regard to item 11(a) 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 under section 19.85(1)(g), with regard to items 12, 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 8-0 to enter into closed session to discuss agenda items 9, 10, 11(a), 12, and 14. Motion by Ms. Bedford, seconded by Mr. Felber.

The Pension Board discussed fiduciary liability insurance coverage in closed session.

Upon returning to open session, Mr. Gates reported on the status of the renewal of the Pension Board's fiduciary liability insurance for 2009. He indicated that the Pension Board has the same level of insurance coverage and deductible amounts as it had in 2008. He stated that the Pension Board has three levels of coverage, consisting of $10 million policies with AIG, Chubb Insurance and Axis Insurance Company. He pointed out that AIG is the primary insurer, Chubb provides the second layer of insurance and Axis provides the top layer of coverage.

Mr. Gates reported that he discussed the financial stability of AIG with the Wisconsin Insurance Commissioner's Office and that he performed other due diligence on AIG. In response to a question from Mr. Huff, Mr. Gates stated that there is a waiver of recourse premium and that the County pays the waiver of recourse premium on behalf of Pension Board members so that the carriers have no recourse against the Pension Board members.

In open session, the Pension Board unanimously agreed to accept the proposal to renew the ERS fiduciary insurance with AIG as the primary carrier with a premium of $145,945, Chubb as the first excess carrier with a premium of $111,383 and Axis as the second excess carrier at a premium of $84,652. Motion by Mr. Cohen, seconded by Ms. Bedford.

10. RFP Evaluation Panel Recommendation for Investment Consultant

The Pension Board discussed the Evaluation Panel's recommendation for investment consultant in closed session. Upon returning to open session, the Pension Board noted that the RFP Evaluation Panel recommended that Marquette Associates, Inc. be retained as investment consultant, subject to final negotiations of an acceptable agreement.

In open session, Mr. Maier stated that the investment consulting services RFP Evaluation Panel conducted an intensive and thorough evaluation process that resulted in a wonderful selection. Ms. Bedford also indicated that Marquette Associates, Inc. is a great selection. Mr. Grady described the RFP process, which included sending the RFP to over 20 qualified investment consulting firms and posting a notice of issuance of the RFP in *Pensions & Investments*, a leading industry publication. He indicated that ERS received 15 proposals and the Evaluation Panel met several times for multiple hours to review the proposals. He stated that the Panel interviewed four candidates, which included Mercer Investment Consulting. The panel reinterviewed the two finalists.

In open session, the Pension Board unanimously agreed to terminate the investment consulting contract with Mercer Investment Consulting effective December 31, 2008 and to retain Marquette Associates, Inc. as the Pension Board's investment consultant for a three-year term, effective January 1, 2009, with two one-year renewal options, subject to final contract negotiations. Motion by Ms. Bedford, seconded by Mr. Maier.

11. Disability Pensions

(a) Disability Applications - Nanette Stuiber – ODR.

The Pension Board discussed Ms. Stuiber's ordinary disability application in closed session and returned to open session. In open session, the Pension Board unanimously agreed to deny Ms. Stuiber's ordinary disability pension application because of the lack of sufficient medical evidence that she terminated employment with the County by reason of disability. Motion by Ms. Mayr, seconded by Mr. Cohen.

(b) Earned Income Statements –Rule 1010 Suspension – Kenneth Clemence

In open session, Mr. Arena reported that the Retirement Office requested the necessary earnings documentation from Mr. Clemence and that he has not provided all of the necessary information despite several attempts.

The Pension Board unanimously agreed to suspend the monthly pension benefit payment of Mr. Clemence until he provides the requested information. Motion by Ms. Mayr, seconded by Ms. Bedford.

(c) Excess Earnings – Richard Schmitt

In open session, Mr. Grady reported that Mr. Schmitt had substantial excess earnings. He stated that the Pension Board asked him to work out a repayment agreement with Mr. Schmitt's attorney. Mr. Grady indicated that Mr. Schmitt will pay the negotiated amount of $40,000 over 20 years with an interest rate of 5%. In response to questions from Ms. Mayr, Mr. Grady noted that Mr. Schmitt is in his 50's and the payments will come from his pension check or wage garnishment.

12. Pending Litigation

The Pension Board noted that there are no updates in the pending litigation: *Milwaukee County, et al. v. Mercer Human Resource Consulting.*

13. Report on Special Investigation

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

14. Report on Compliance Review

The Board discussed the report on compliance review in closed session.

15. Adjournment

The meeting adjourned at 1:10 p.m.

Submitted by Steven D. Huff
Secretary of the Pension Board