EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE DECEMBER 18, 2013 PENSION BOARD MEETING

1. Call to Order

Chairman Mickey Maier called the meeting to order at 8:30 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present	Members Excused
Dr. Brian Daugherty (Vice Chair)	Laurie Braun
Aimee Funck	Marilyn Mayr
Norb Gedemer	
Dean Muller	
Dr. Sarah Peck	
Patricia Van Kampen	
Vera Westphal	
Mickey Maier (Chairman)	

Others Present
Marian Ninneman, CEBS, CRC, ERS Manager
Mark Grady, Deputy Corporation Counsel
Daniel Gopalan, Fiscal Officer
Vivian Aikin, CRC, ERS Sr. Pension Analyst
Theresa Diaz, Assistant Fiscal Officer
Scott Hazen, Adams Street Partners
Doug C. Loveland, Siguler Guff
Brian Wrubel, Marquette Associates, Inc.
Ray Caprio, Marquette Associates, Inc.
Roger Baumler (and Mrs. Baumler), Milwaukee County Employee
Steven Huff, Reinhart Boerner Van Deuren s.c.
Steve Schultze, Reporter, *Milwaukee Journal Sentinel*

3. Minutes—November Pension Board Meetings

The Pension Board reviewed the minutes of the November 20, 2013 Pension Board meeting.

The Pension Board unanimously approved the minutes of the November 20, 2013 Pension Board meeting. Motion by Dr. Daugherty, seconded by Ms. Van Kampen.

4. Investments

(a) Adams Street Partners

Scott Hazen distributed a booklet containing information on the investment management services provided by Adams Street Partners for ERS. Mr. Hazen introduced himself as a partner in Adams Street based in the firm's Chicago office.

In response to a question from Mr. Hazen regarding specific focus points for discussion, the Chairman asked Mr. Hazen to address the pace of investments and uncalled capital ERS has committed to Adams Street, in addition to explaining Adams Street's investment strategy.

Mr. Hazen first provided a brief update on the firm. Adams Street continues to be completely focused on private equity and remains 100% independent and employee-owned. Adams Street currently has 125 employees throughout its six global offices. The firm continues to grow on an as-needed basis around the world, particularly in Asia, where in addition to current offices in Beijing and Singapore, a new office will soon open in Tokyo. The primary function of the Tokyo office will be for client-facing purposes rather than investments. Because Adams Street has a fairly large client base in Japan, they have decided to hire an account management team member based in Tokyo who will work closely with that particular group of clients.

Senior leadership has stayed consistent within the organization. The executive committee remains intact, with the exception of the Chief Financial Officer who retired at the end of last year. The retiring CFO was replaced by Quintin Kevin, who has been with Adams Street for the past 11 years, formerly serving as the firm's Director of Finance.

Approximately one year ago, the firm added Eva Huang as a Senior Associate on the global secondary investment team. Ms. Huang is Adams Street's first dedicated personnel in Asia to work on the secondary fund investment team. The secondary investment team is focused on purchasing interests in private equity limited partnerships. The secondary investment team performs the initial evaluation of assets and determines what Adams Street is willing to pay for those assets. In this process, Adams Street is buying more mature funds that are closer to liquidation, which is a way to enhance the private equity programs. To assimilate with the firm, Ms. Huang began working in the Chicago office for the first nine months, but she is now permanently based in the Singapore office. Although Adams Street has not identified a great deal of secondary activity coming out of Asia to date, they do believe that the large amount of fundraising which has occurred in Asia over the past five to seven years has resulted in a significant enough volume of mature funds that will result in additional secondary activity in that part of the world. This is important because it will have a positive impact on the Asian component of the global portfolio.

Mr. Hazen next discussed Adams Street's private equity program's pace of investments. Adams Street comes to market every year with an annual fund-of-funds program offering. The fund-of-funds program is diversified by primary, secondary and direct investments in the portfolio. It is also diversified geographically, by subclass, and by capacity and timing. The private equity class can be a particularly difficult asset class to time due to the lag in time between commitment of capital and the actual investment of that capital. Adams Street designs each of its annual programs to commit capital to underlying managers over the course of a four-year cycle. It is therefore by design and directly on pace that the $20 million of the original $40 million ERS committed in 2012 has now been committed to underlying managers. During the first two years of a program's life cycle, cash flow increases incrementally as investments are made to portfolio companies. As a program moves into its third year of the cycle, there is generally enough of a committed capital base to allow for increased capital calls and additional investments in the overall program. At this stage of the cycle, more funds are out making investment commitments on ERS's behalf.

The 2014 global private equity program will be structured much the same as the 2012 program, with the same geographic diversification and a three- to four-year scheduled commitment pace. The 2014 program will also have the same global fund vehicle structure and will allow for investment in one fund vehicle, which will then make investments into U.S. funds, European developed market funds, Asian emerging market funds and Adams Street's own direct fund.

In response to a question from Ms. Van Kampen regarding the timeline for the 2014 offering, Mr. Hazen stated that it will normally take eight to nine years for all of the managers to invest all of the capital.

Mr. Hazen next reviewed ERS's portfolio investment chronology. ERS entered into Adams Street's annual program offering in 1998, making annual commitments in 1998, 2001, 2005, 2009 and most recently, in 2012. To date, everything through the 2005 subscription has been fully committed to underlying managers and almost all of that has been fully drawn. The only remaining amount of the capital through 2005 which has not yet been drawn involves situations where a manager has a reserve, or perhaps a manager may need to make some follow-on investments in existing portfolio companies they continue to own. The capital call pace for those earlier funds has dwindled down, while the distribution pace has picked up. For example, ERS has now received $3.7 million in distributions from the 2005 fund. The distribution pace will continue to accelerate over the course of the next few years as the portfolio companies that were purchased in the earlier years of that investment's life cycle are now maturing. Sales proceeds will be realized as these companies are sold to larger acquiring companies or issued as IPOs.

In response to a question from Dr. Peck regarding the gross internal rate of return since inception, Mr. Hazen stated that the figure is based on the time of the cash flows, not the time of the commitment. The internal rate of return ("IRR") is the return that links the cash flows ERS has made with the ending value ERS actually receives back. For example, with the $40 million commitment ERS made, in 2012, to the extent that an IRR can be calculated this early in the funds life cycle, it would be based on the amount of capital actually drawn and not the full $40 million commitment.

In response to a question from Mr. Muller regarding the distinction between net and gross IRR, Mr. Hazen stated that the net IRR reflects net of all fees, including Adams Street's fees. The gross IRR includes the underlying general partner's fees and carrying charge, but not Adams Street's fees and carrying charge. Therefore, in the early life cycle of a fund, the gross to net spread tends to be fairly wide, which will narrow over the time of the investment to around 200 basis points.

In response to a follow-up question from Mr. Muller regarding the screening process for manager fees, Mr. Hazen stated that Adams Street is always very cognizant of the fee structure for its underling managers. When Adams Street performs their initial evaluation of a fund, they evaluate the individual management team as well as the fee structure. During this process, Adams Street also reviews the team's strategy and overall success, while trying to determine if that success will continue. Adams Street ensures managers do not stray from industry standards and negotiates better fees whenever possible. Some recent buyout offerings that have come to market lately have provided fee options, and Adams Street performs an economic analysis to determine what best suits their clients.

Mr. Hazen then discussed the investment pace of ERS's 2009 subscription. As of June 30, 2013, Adams Street has just about fully completed commitment of the full $30 million ERS subscription. The remainder of the $30 million commitment will be fully completed by year-end. As of June 30, 2013, $13.5 million of the commitment has been drawn and the pace will continue to accelerate, as a substantial underlying commitment base of funds are now investing on ERS's behalf. In addition, ERS has also begun receiving some distributions back from the direct fund. ERS is scheduled to receive another distribution from the 2009 direct fund by the end of 2013. The distributions should continue from the direct fund through 2014 and the early portion of 2015. The timing for the global fund is really just beginning. Adams Street is very pleased with the investment pace of the fund so far and when viewed over the course of the last 15 years, the commitment pace to underlying managers has been very steady.

In response to a question from Mr. Muller, Mr. Hazen stated that the net IRR since inception is 7.9%, which also includes the performance of ERS's monitoring assignment.

In response to a question from Dr. Peck regarding the correlation between the 7.9% net IRR since inception to the 9.6% return since inception, Mr. Hazen stated that the 9.6% return is basically the gross of fee return related only to ERS's annual program commitments since 1998, and does not incorporate Adams Street-related fees. The 9.6% figure does not incorporate the returns of the two separately monitored ERS accounts, which have been fully distributed and liquidated back to ERS. This reflects how the funds Adams Street has chosen on ERS's behalf have outperformed the opportunity set. The driver of the outperformance has been manager selection, specifically within venture capital and leveraged buyouts under non venture capital.

Mr. Hazen concluded by noting that the attractive 13.5% three-year return figure is driven by more than one component of the portfolio. Returns are being generated by a nice mix of early and late-stage venture capital, as well as some more industry-specific funds. The secondaries component is also an important piece to the portfolio and has been a consistent area of added value in the program since inception.

(b) Siguler Guff

Doug C. Loveland distributed a booklet containing information on the investment management services provided by Siguler Guff for ERS. Mr. Loveland introduced himself as Vice President of Marketing for Siguler Guff.

Mr. Loveland first provided a brief overview of the firm. Siguler Guff is a private equity multi strategy investment firm with over $10 billion in assets under management and 150 employees worldwide. Siguler Guff operates with a value-orientated opportunistic focus and seeks to identify areas in the market with supply and demand inefficiencies, purchasing attractive assets below value.

Mr. Loveland next provided an overview of ERS's investment commitment. ERS committed $40 million to the Siguler Guff Small Buyout Opportunities Fund II ("SBOF II"). As of December 10, 2013, 27% of the original commitment, or $10.8 million, has been called and the call pace should continue to accelerate into the first quarter of 2014. Distributions as of December 10, 2013 total $93,822, or approximately 1% of the capital contributed.

Mr. Loveland next discussed the small buyout strategy. Small buyouts have fund sizes of $250 million or less. Research and studies performed by Siguler Guff on data from 1978 through March 2013 show that small buyouts are outperforming all other buyout segments of the market. Siguler Guff seeks opportunities where there is more deal flow than capital and focuses on the small and lower-middle market companies with $100 million or less in revenue. This target group of companies totals approximately 440,000 businesses in the U.S. and is a huge opportunity set. This large pool of opportunity allows Siguler Guff to pick the best companies that will provide the most favorable opportunity for returns.

In response to a request from Dr. Peck to provide an example of a small buyout company, Mr. Loveland discussed PADI, a scuba diving certification company. PADI is a very small family-owned company with around $6 million in revenue. Siguler Guff seeks to target these smaller family-owned businesses that have never been traded through private equity firms. Siguler Guff believes that when you buy from a sophisticated seller such as a private equity firm, the seller has already performed the work, realized gains and now has reason to sell, leaving little to work with. PADI is a global company that collects payment of annual dues for certification of scuba diving instructors and has 95% of the market share. Siguler Guff was able to purchase PADI after the death of the owner and spent almost four years professionalizing the company. During this time, Siguler Guff also helped the company perform some marketing and branding. Siguler Guff's investments in PADI totaled approximately $25 million, with half of that in equity. These types of companies generally require quite a bit of work to professionalize and are too small for large private equity funds to effectively manage.

In response to a question from the Chairman, Mr. Loveland stated that Siguler Guff relies on its general partners to manage the professionalization phase.

In response to a question from Mr. Muller, Mr. Loveland stated that after completion of the professionalization phase, Siguler Guff was able to double the cash flow for PADI to just a little over $15 million.

Mr. Loveland then discussed purchase price multiples. Structural inefficiencies and the perception of greater risk have led to a discount for small buyouts. Any time an attractive asset can be purchased at a favorable price is the first point of opportunity for great value. The SBOF II fund has, on average, invested in companies with purchase price multiples that are around 30% to 50% below middle market purchase price multiples. The goal of the SBOF II is to pay, on average, 5.5 times EBITDA and sell into the upper to middle markets. The average SBOF II portfolio company has lower leverage multiples and uses 50% to 60% less leverage than the average large corporate buyout. Basically, when you pay less, you do not need to leverage.

Mr. Loveland next discussed the exit environment. Siguler Guff recently had their first exit from the SBOF II portfolio. ERS should be receiving a distribution related to that exit within the next few days, if not already. Siguler Guff's exit strategy is less reliant on capital markets and is not subject to the IPO markets. Siguler Guff's goal is to purchase a company, professionalize it and sell it to strategic companies or another private equity fund.

Mr. Loveland then discussed the SBOF II portfolio characteristics. The SBOF II portfolio is a portfolio of managers that purchases smaller family-owned businesses. Investments are focused on well-established, market leading companies, with an average age of 30 years at acquisition. These companies are attractive investments because they have been tested by time, enduring multiple economic cycles and recessions. The SBOF II portfolio currently has 75 company investments and 15 managers across 17 funds. These are smaller funds, focused on smaller deals. Twelve of the 17 funds are either sector or geographically focused, and the typical fund invests in 8 to 10 portfolio companies. The average fund size is $202 million with a median of $173 million. With the recent addition of a new pipeline investment, there are now a total of 28 co-investments, with 15 different managers. Co-investments enhance returns and reduce fees, and all co-investments have no fees or carry paid to the sponsor.

In response to a question from Ms. Van Kampen regarding specific examples of investment losses in the portfolio, Mr. Loveland stated that Siguler Guff had less than a 5 % loss ratio in their Small Buyout Opportunities Fund I ("SBOF I"). The loss was related to a transportation safety company in California, which Siguler Guff purchased pre-recession. One factor Siguler Guff did not take into consideration was that the corporation was government-funded, with government spending as an actual source of capital. Siguler Guff soon realized that the corporation was just bidding on opportunities for the sake of making deals. They just wanted to go out and win the actual deal, rather than realizing any revenue-producing opportunities through actual participation in the project. In addition, although the corporation was in the top five, it was not an industry-leader monopolistic type of company. Siguler Guff learned a big lesson from the loss and realized that aligning very well-established, industry-leader type companies in the portfolio is of key importance.

Mr. Loveland concluded with a discussion of the SBOF II fund performance. Total commitment size of the SBOF II fund as of November 30, 2013 is $940 million, with 27% of the funds called, including a pending 3% call. Seventeen funds make up 78% of the portfolio, with 28 co-investments, including the new pipeline investment. Siguler Guff is currently in the very late stages of the due diligence process and is looking at making an additional $225 million in potential funds capital commitments for the first quarter of 2014. This will involve approximately 9 funds and 5 additional co-investments of just under $20 million. This would take total funds closer to 30 and co-investments to 33. Visions Oil Tools, at 2.4x entry level, is a high probability exit under co-investments, likely during the first or second quarter of 2014. The 2014 year is looking very favorable and including the additional opportunities through the first quarter, closer to 72% of funds should be committed by year-end, and approximately 45% to 50% of funds are expected to be called.

In response to a question from Ms. Van Kampen, Mr. Loveland stated companies purchasing other companies are willing to buy at ten times and leverage at six times capital value. There is also an opportunity here to perform increased consolidation moves and create larger companies.

In response to a follow-up question from the Chairman, Mr. Loveland stated that Siguler Guff does sometimes sell to public companies, but that there is still a good mix of strategic buyers.

In response to a question from Dr. Peck regarding Siguler Guff's purchasing strategy, Mr. Loveland stated that the strategy is to leverage deals for cash. Siguler Guff would rather do a quick turn on a deal and return capital to its investors, instead of holding onto a company for 15 years. An asset is only worth what a buyer is willing to pay for it. Siguler Guff aims to buy from an inefficient market and sell to an efficient market.

(c) Marquette Associates Report

Brian Wrubel and Ray Caprio distributed and discussed the November 2013 monthly report.

Mr. Wrubel first discussed the market environment through November 2013. Under the fixed income broad market indices, the BarCap Aggregate, which is made up of Treasuries as well as corporate bonds, was down -1.5% year-to-date. Under the government-only indices, the BarCap Government Index was down -1.7% year-to-date. Government bonds in general were down, particularly BarCap Long Government bonds, at -10.9% year-to-date. Under the corporate bond indices, BarCap U.S. Credit was also down at -1.8% year-to-date. Bonds were generally down across the board and, as a result, investors have been pulling money from bonds and placing it in the stock market.

Under U.S. equities, all major indices were positive for the month of November and the S&P 500 was up at 29.1% year-to-date. This has been a very strong year for the stock market and all major sectors are up quite a bit year-to-date. Both mid-cap and small-cap stocks have exhibited exceptionally strong performance year-to-date, up 30.9% under Russell Mid Cap and up 36.1% under Russell 2000. Throughout 2013, there has not been a significant pullback in the market. However, because the market has risen so far in such a short span of time, it is realistic to believe that there will be some type of pullback occurring at some point in 2014.

Under international equity, the broad international market is exhibiting strong absolute performance, with the MSCI ACWI ex U.S. IMI up at 15.1% year-to-date. While performance in the international market has been strong, it is still not as strong as the U.S. market. Much of the strength under international can be attributed to Europe in particular. However, the strengthening U.S. dollar has had a negative impact on the overall global return. One weak spot under international has been the emerging markets, which have been flat year-to-date, down 80 basis points. There has always been significant volatility in emerging markets and can be an opportunity for rebalancing from time to time. Despite this volatility, when viewed over the ten-year period, the emerging market is up 12.5%. Overall, stocks are driving performance this year.

Mr. Wrubel next discussed ERS's asset allocation. As of November 30, 2013, total Fund assets were slightly over $1.8 billion and, over the last three months, $42 million has been taken out as net cash flows. Under fixed income, securities are at $367 million, or approximately 20% of the portfolio, reduced earlier in the year from 29%. U.S. equity exposure is currently around 27% and international at 21%. Hedged equity is at 11.2% and has had a very strong year. Real estate is at 8.9% and infrastructure at 8.6%. Private equity, which includes both Siguler Guff and Adams Street, is at 2.3% and has had a strong year. Siguler Guff has been calling capital since the early part of 2013 and Adams Street now appears to be picking up the pace a bit.

Mr. Wrubel then discussed ERS's overall Fund performance. After all fees and expenses, overall performance has been strong, and the Fund is up 13.4% year-to-date and one-year returns are up 15.3%. Much of the strong year-to-date performance came from 31% in U.S. equities, 14.5% in international, 16.0% in hedge funds and 11% in real estate. Fixed income was a drag, down 80 basis points, although it still outperformed the index at -1.5%.

The Chairman commented that it appears ERS will safely exceed the 8% actuarial assumption in 2013. Mr. Caprio added that December performance figures are looking favorable as well.

In response to a question from the Chairman regarding the performance of Geneva Capital, Mr. Wrubel noted that many of the higher quality growth managers have lagged this year. Geneva was up 28.6% year-to-date, which is a great absolute return, but still below the benchmark of 32%. This can basically be attributed to stock selection and not owning the higher price-earnings ratio multiple stocks.

Mr. Caprio concluded the discussion of the November report by noting that the recent manager changes for Vontobel, OFI and Silvercrest have now been fully funded, and J.P. Morgan infrastructure called $25 million in November.

Mr. Caprio next discussed Marquette's proposed changes to the investment policy guidelines. The investment policy guidelines were revised earlier in

2013 to incorporate changes made to the investment mix, as well as some other minor changes. Because the portfolio's asset allocation mix was recently changed, Marquette would now like to make some additional updates to the investment policy, specifically to the cash overlay guidelines with BNY Beta Management. There are two programs to overlay cash and ensure that ERS is fully invested at all times. The first program is the overlay custodian account which holds the securities required to implement the overlay strategy at a rate of 2% per month. The second program is the equitized custodian account, which holds the assets being overlaid at rates ranging from 2% to 5% per month. The proposed changes include minor adjustments to the global indices the cash is overlaid to. The Barclays Capital Aggregate Index was reduced from 43% to 39%, the S&P 500 Index was increased from 39% to 41%, and the MCSI EAFE Index was increased from 18% to 20%. Because there are more asset classes in the portfolio than the Barclays Ag, MSCI EAFE and S&P 500, the target allocation of 39 under the Barclays Aggregate will be utilized for bonds, real estate and infrastructure. The MSCI EAFE will be utilized for international and the S&P 500 for equity and private equity. Marquette will work with BNY Beta to ensure all changes are incorporated as soon as possible.

Marquette also incorporated the recent manager changes to the investment policy under investment professionals, including the removal of GMO and Barings under international large cap and emerging markets.

In response to a question from the Chairman, Mr. Wrubel stated that BNY Beta monitors the cash overlay account and reviews the daily manager feeds for any cash to overlay. Marquette also tracks the cash overlay account and monitors monthly cash balances in their system.

In response to a question from Dr. Peck regarding the allocation of infrastructure and real estate to the Barclays Aggregate Index, Mr. Caprio stated that Marquette did consider splitting the two between the Barclays Ag and the S&P 500 Index. However, because the cash overlay guidelines have been set up this way since 2009, Marquette wanted to keep the policy consistent. Despite diminished returns under bonds, Marquette would like to remain relatively conservative with cash. Both Marquette and ERS's Fiscal Officer receive a monthly report from BNY Beta and monitor how well BNY is tracking the futures program to the actual indices, to ensure the variation is not too great.

Mr. Caprio then noted that although Marquette consistently monitors activity with BNY Beta, it would be a good idea to have BNY Beta come before the Pension Board to provide an update sometime in the near future.

In response to a question from Mr. Muller, Mr. Caprio stated that the Fund benchmark is detailed on page 6 of the investment policy. The investment policy was last updated in April 2013, resulting from the changes made to the fixed income allocation.

The Pension Board unanimously approved revisions to ERS's Statement of Investment Policy, incorporating changes to the cash overlay percentages, investment managers and effective dates, as prepared by Marquette Associates. Motion by Dr. Peck, seconded by Dr. Daugherty.

5. <u>Review for Comment to Section 201.24(8.17) Proposed Ordinance Amendment Regarding Refund of Contributions</u>

The Chairman stated that the Pension Board has been asked to comment on proposed Ordinance amendments regarding refunds of accumulated employee contributions.

The Chairman then noted that the Pension Board's responsibility is not to set benefit policy for the County, but to review and provide comment on proposed amendments to the ERS Ordinances regarding whether the changes affect ERS in areas such as reprogramming, implementation, actuarial or administrative cost. The Chairman noted that because these particular Ordinance changes are the result of a request from the Pension Board to streamline ERS administration, the Board may wish to provide comment on and support the proposed amendments.

In response to a question from Ms. Westphal, Ms. Ninneman confirmed that the proposed changes would extend the period for a terminated member to request a refund of employee contributions from 60 days to 180 days, and also provide ERS with greater latitude in the appeal process.

In response to follow-up questions from the Chairman and Dr. Peck, Ms. Ninneman stated that the proposed changes will provide ERS with the authority to determine whether a member received timely written notice of the requirements to request a refund. This will also provide ERS the opportunity to grant employees who felt they did not receive adequate notice (dating back to 2010), a 180-day period to request a refund, which will ease the current backlog of appeals.

In response to a question from the Chairman, Ms. Ninneman confirmed that the proposed changes will also allow both vested and non-vested members to request refunds of their employee contributions. However, if a vested member chooses to receive a refund of his or her employee contributions, the member will forfeit his or her years of credited service in ERS and, therefore, any right to a future pension benefit from ERS.

In response to a question from Dr. Daugherty, Ms. Ninneman and Mr. Huff stated that the 180-day period is from the date of termination, with the inclusion of additional language granting the Retirement Office the option to provide for additional time to request a refund if the circumstances show that the member did not receive adequate notice.

In response to a question from Ms. Van Kampen, Ms. Ninneman stated that ERS will redistribute all currently pending notices to allow members 180 days from the date of the notice to request a refund of their employee contributions.

In response to a question from Ms. Westphal, Ms. Ninneman stated that the actuarial cost will likely be neutral or minimal. ERS has been tracking the contribution refund requests over the past year and determined that approximately 25% of terminated members have requested refunds, which tend to be relatively small in amount.

Mr. Huff then added that an actuarial report was required for the Pension Study Commission and for the County Board to pass the amendments to the Ordinances.

Ms. Ninneman added that she did see the final actuarial comment report but did not recall the exact data. Ms. Ninneman will follow up and provide a copy of the final actuarial report to Ms. Westphal for review.

The Pension Board voted unanimously to approve the adoption of the following resolution:

The Pension Board supports the proposed Ordinance amendments to sections 201.24 (3.11) and (3.5) of the Milwaukee County Code of General Ordinances that require written notice to members of the contribution refund option, modify the deadline to request a refund, and clarify what assets will be refunded. The Pension Board believes that it is in the best interests of ERS for the County Board to adopt Ordinance amendments such as these, which clarify the operation of the system and waives the balance of its 30 day comment period provided for under section 201.24(8.17) of the Milwaukee County Code of General Ordinances. The Employees' Retirement System ("ERS") Manager estimates that implementation of the proposed Ordinance amendments would not result in an additional cost to the System.

Motion by Dr. Daugherty, seconded by Mr. Gedemer.

Dr. Daugherty then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statues section 19.85(1)(e) with regard to items 6 and 7 for considering the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session, that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to items 8, 9, 10 and 11 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 8 through 11 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 unanimously agreed by roll call vote 8-0 to enter into closed session to discuss agenda items 6 through 11. Motion by Dr. Daugherty, seconded by Ms. Funck.

6. Investment Committee Report - Investment Consultant Recommendation

The Board discussed the matter in closed session. Mr. Muller recused himself from the discussion and voting, and left the meeting.

In open session, the Chairman stated that the Board reviewed a report from the Investment Committee regarding the Request for Proposal ("RFP") finalists for investment consultants. Based on the extensive RFP process and finalist interviews, the Chairman requested a motion to retain the investment consulting services of Marquette Associates, Inc.

In open session, the Pension Board unanimously agreed to retain Marquette Associates, Inc. as the Pension Board's investment consultant for the next period of their contract. Motion by Ms. Westphal, seconded by Ms. Van Kampen.

7. Custodian Recommendation

The Board discussed the matter in closed session.

In open session, the Chairman stated that Board has considered advice from Marquette Associates regarding the custodian search. Marquette will continue to further review potential vendors and provide additional information.

8. Disability Matters

(a) Roger Baumler

The Board discussed the matter in closed session.

In open session, the Chairman stated that the Board has not yet come to a final determination and would like to lay over its decision on the matter at this time. According the Ordinances, to be eligible for a disability pension, the Medical Board must certify that there is a disability or accidental disability. The Medical Board has reviewed Mr. Baumler's case twice and determined each time that there in not a disability. Upon further review of the matter today, the Board is unclear as to whether the letter from Mr. Baumler's doctor dated November 22, 2013 was reviewed by the Medical Board. The Board would like to forward the doctor's letter to the Medical Board to ensure it is part of the record and was taken into full consideration. If the Medical Board reviews the additional documentation and returns with the same decision of denial, Mr. Baumler will then have the right to appeal before a hearing examiner. The appeal will likely be reviewed by a retired judge who will manage the process from that point forward.

The Chairman then advised Mr. and Mrs. Baumler that they should gather any additional documentation they believe to be relevant and provide it to ERS as soon as possible. ERS will then forward any additional information received to the Medical Board.

Mrs. Baumler stated that she will be happy to provide any additional information to Ms. Ninneman.

In response to a question from Mr. Baumler, Ms. Ninneman stated that the next course of action on the matter will likely be held over to the February 2014 Pension Board meeting.

The Board members agreed to the proposed course of action.

(b) Ann Brottlund

The Board discussed the matter in closed session.

In open session, the Pension Board unanimously approved granting the accidental disability pension application based on the Medical Board's determination. Motion by Dr. Peck, seconded by Mr. Gedemer.

(c) Daphne Moultry-Allen

The Board discussed the matter in closed session.

In open session, the Pension Board unanimously approved accepting the Medical Board's recommendation to deny the accidental disability pension application. Motion by Dr. Daugherty, seconded by Ms. Van Kampen.

9. Appeals

(a) Nikiya Harris

The Board discussed the matter in closed session.

In open session, the Chairman recommended that the decision on Ms. Harris' appeal for a refund of mandatory employee contributions be laid over, pending further action of the County Board on a proposed Ordinance amendment, which would then allow the Board to resolve this matter.

The Board members agreed to the proposed course of action.

(b) Robert Hugl

The Board discussed the matter in closed session.

After returning to open session, the Pension Board unanimously voted to deny Mr. Hugl's appeal, consistent with the discretion assigned to the Pension Board by Ordinance section 201.24(8.17) to interpret the Ordinances and Rules of the Employees' Retirement System of the County of Milwaukee ("ERS"), based on the following facts and rationale:

1. Mr. Hugl was employed by Milwaukee County from August 1977 until November 1995, accumulating 18.09 years of service credit.

2. In a letter dated July 31, 2013, Mr. Hugl states that he was also employed by the Kenosha Unified School District as a social worker for long enough to vest in a pension from the Wisconsin Retirement System ("WRS"). Mr. Hugl states in his letter that he was eligible for a pension

benefit from WRS due to his employment with the Kenosha Unified School District.

3. Mr. Hugl's date of birth is September 28, 1950. Accordingly, he was eligible to apply to receive a benefit from ERS as of September 28, 2010.

4. In late August or early September 2010, it appears that Mr. Hugl requested an estimate of his pension with a proposed start date of October 1, 2010. The estimate would have been provided to Mr. Hugl shortly after the September 7, 2010 date the estimate was created.

5. A disclaimer at the bottom of the estimate provides that, "If you have not already done so, call the retirement office at the number above at least 60 days in advance of your desired retirement date for an appointment to apply for retirement benefits."

6. Following receipt of the estimate with the disclaimer, Mr. Hugl did not contact the Retirement Office to apply for a retirement. In fact, Mr. Hugl did not apply to commence his ERS benefits until March 2011.

7. It appears Mr. Hugl applied to begin receiving his pension from WRS. However, Mr. Hugl did not apply to receive his ERS pension benefit at that time. In his letter, Mr. Hugl contends that he did not apply for an ERS pension at that time because during a number of phone calls with the Retirement Office between 2008 and 2010, the Retirement Office gave him the "distinct impression that the two systems were connected." It appears Mr. Hugl interpreted this to mean that only one application was necessary to commence his pension benefits under both systems.

8. None of the retirement specialists in the Retirement Office have any recollection of phone calls with Mr. Hugl that could have given him the impression that only one application was necessary to commence his ERS and WRS benefits.

9. Mr. Hugl's July 31, 2013 letter requests that he be paid six months of pension payments between the date he became eligible to apply for retirement and the date he applied for and began receiving his ERS deferred vested pension benefit.

10. On August 8, 2013, the Retirement Office sent a letter to Mr. Hugl informing him that pursuant to Ordinance section 201.24(4.5)(4), ERS cannot commence a deferred vested pension until a member files an application to commence the benefit. Accordingly, the Retirement Office denied his request for retroactive pension benefits.

11. The August 8 letter also informed Mr. Hugl that pursuant to Rule 1016, he could appeal the denial by submitting a written request within 120 days.

12. On December 3, 2013, the Retirement Office received a letter from Mr. Hugl appealing its decision to deny his request for back pension benefits. The letter was received before the expiration of Mr. Hugl's Rule 1016 appeal right.

13. Eligible ERS members seeking to receive a retirement benefit may be eligible for a pension pursuant to either Ordinance section 201.24(4.1) (a normal pension) or 201.24(4.5) (a deferred vested pension). The same formula is used to calculate a member's benefit under Ordinance sections 201.24(4.1) and (4.5).

14. A member who is no longer in active service with the County at the time of benefit application is not eligible to receive a normal benefit under Ordinance section 201.24(4.1) but may be eligible to receive a deferred vested pension if the member has earned the required number of service credits and has not withdrawn any part of his or her membership account. A member's benefit must also be at least $10 per month to receive a deferred vested benefit.

15. The Pension Board finds that because Mr. Hugl began his employment between January 1, 1971 and January 1, 1982, Ordinance section 201.24(4.5) requires that he have six years of service credit to receive a deferred vested pension benefit.

16. Mr. Hugl terminated employment in November 1995 and applied for a pension benefit in March 2011. Accordingly, the Pension Board finds that Mr. Hugl was not in active service at the time he applied for benefits. As such, the Pension Board finds that Mr. Hugl was not eligible for a normal retirement and could only be eligible for a deferred vested pension under Ordinance section 201.24(4.5).

17. Mr. Hugl was at least 60 years old at the time of application, has over 18 years of service and did not withdraw any portion of his membership account at the time of his termination of employment. Additionally, according to the Retirement Office's estimate, his benefit is greater than $10 per month. Accordingly, the Pension Board finds that Mr. Hugl is eligible to receive a deferred vested pension benefit.

18. Because Mr. Hugl is eligible for a deferred vested pension, Ordinance section 201.24(4.5)(4) requires that his pension cannot begin until a "timely application" is filed with the Board.

19. The Pension Board finds that Mr. Hugl applied for a pension benefit in March 2011, and ERS commenced his deferred vested pension benefit subsequent to that application.

20. Pursuant to Ordinance section 201.24(4.5)(4), Mr. Hugl's benefit cannot begin until his application is filed. Accordingly, the Pension Board finds that ERS's commencement of his benefit after his March 2011 application was proper.

21. The Pension Board further finds that Mr. Hugl was required to submit an application prior to the commencement of his benefit and no benefit was payable until an application was submitted.

22. Mr. Hugl contends that his interaction with the Retirement Office caused him to mistakenly believe that his application for a WRS benefit would also act as his application for an ERS pension. The Pension Board finds that Mr. Hugl has not provided any evidence of these allegations and the Retirement Office employees are aware that an ERS member must file an ERS application for receipt of benefits from ERS in all situations.

23. Even if Mr. Hugl's alleged phone calls to the Retirement Office caused him to mistakenly believe that he was only required to submit one application to begin benefits under both ERS and WRS, the Pension Board finds that it must administer ERS according to Section 201.24 of the Milwaukee County Ordinances and the Rules promulgated thereunder. Neither the Ordinances nor the Rules provide that such a mistaken belief allows the Pension Board to retroactively grant a retirement on an earlier date.

24. Rather, Ordinance section 201.24(4.5)(4) clearly provides that "in no event" will a deferred vested pension begin prior to the filing of a timely application for retirement.

25. After considering all the facts and circumstances, the Pension Board finds that it cannot grant Mr. Hugl's request for retroactive payment of pension benefits.

Motion by Dr. Peck, seconded by Dr. Daugherty.

10. Pending Litigation

(a) *Stoker v. ERS*

The Pension Board took no action on this item.

(b) *AFSCME v. ERS*

The Pension Board took no action on this item.

(c) *Tietjen v. ERS*

The Pension Board took no action on this item.

(d) *Brillowski & Trades v. ERS*

The Pension Board took no action on this item.

(e) *AFSCME v. ERS*

The Pension Board took no action on this item.

(f) *Weber v. ERS*

The Pension Board took no action on this item.

11. Report on Compliance Review

The Pension Board took no action on this item.

12. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, November 2013

Ms. Ninneman presented the Retirements Granted Report for November 2013. Twenty retirements from ERS were approved, with a total monthly payment amount of $15,310. Of those 20 ERS retirements, 5 were normal retirements, 14 were deferred and 1 was an ordinary disability retirement. Four members retired under the Rule of 75. Eleven retirees chose the maximum option, and 4 retirees chose Option 3. Six of the retirees were District Council 48 members. Two retirees elected backDROPs in amounts totaling $62,072.

Ms. Ninneman concluded by noting that throughout 2013, retirements have been consistently down from past years. In addition, backDROP elections have decreased in 2013.

(b) ERS Monthly Activities Report, November 2013

Ms. Ninneman presented the Monthly Activities Report for November 2013. ERS and OBRA combined had 8,017 retirees, with a monthly payout of $12,375,370.

Ms. Ninneman observed that the total retiree population appears to have remained fairly static compared to 2012 figures. After further statistical review, it was noted that new retirees have been closely matched in number by deceased members. Despite this, 2013 has also had the lowest number of deaths in the past five years.

(c) Pension System Co-Development Contract Extension

Ms. Ninneman discussed the recent contract extension for the co-development team with the Joxel Group. ERS has received a new two-year contract extension from the Joxel Group at the current rates. ERS is anticipating that approval for the V-3 system upgrade will be brought before the Pension Board in January or February of 2014. The co-development group will be instrumental in providing backup if the Board approves moving forward with the V-3 system upgrade.

In response to a question from the Chairman, Ms. Ninneman stated that if approval for the V-3 system upgrade is granted, the Joxel Group would still maintain their current hourly consultant rates.

The Pension Board unanimously approved continuation of the Co-Development Effort Statement of Work from the Joxel Group. Motion by Ms. Westphal, seconded by Mr. Gedemer.

(d) Fiscal Officer

Mr. Gopalan first discussed the November 2013 portfolio activity report. The $25 million commitment to J.P. Morgan infrastructure was funded in November from Mellon Capital large cap fund. OFI Global was funded from Barings emerging markets. There was a net capital call from Siguler Guff for $732,000 and Adams Street for $148,500.

Mr. Gopalan next discussed the November 2013 cash flow report. For November 2013, benefits were paid out of available cash. Due to the Thanksgiving holiday and light trading activity, Marquette suggested holding off on selling any equities until December 2013. Sufficient cash for the month of December should be obtained through selling some equities, as well as the receipt of an expected distribution from Siguler Guff in the amount of $530,000.

In response to a question from Dr. Daugherty regarding the zero dollar figure listed under November Medicare premium reimbursements, Mr. Gopalan stated that figure is incorrect and should be listed at approximately $580,000. Upon further review of the report, it was noted that the Medicare figure appears to be reclassified under the "other receipts" column and will be corrected on future reports.

Mr. Gopalan then discussed 2014 first quarter funding. It is expected that cash flow needs will be fairly consistent with the past, with $16 million requested for January, and $15 million each requested for the months of February and March 2014.

The Pension Board unanimously approved the liquidation of assets to fund cash flow of $16 million for January 2014, $15 million for February 2014, and $15 million for March 2014. The amounts should be withdrawn from investments designated by Marquette. Motion by Dr. Peck, seconded by Ms. Van Kampen.

Mr. Gopalan concluded with a discussion of the 2014 ERS budget. The budget presented today is essentially the same budget circulated at the December 4, 2013 Audit Committee meeting. There were some minor changes totaling approximately $9,000, which included changes under County expenses to some of the fringe benefits and IMSD cost allocation. The 2014 budget will still come in approximately $10,000 under the total 2013 budget.

Ms. Ninneman then noted that the Vitech version-10 upgrade has been removed from the budget because the County Comptroller Scott Manske is reviewing the potential to fund this through the County bond program.

The Chairman then stated that both the Audit Committee and Pension Board have reviewed the 2014 ERS budget over the last few months and requested a motion to approve the 2014 budget.

The Pension Board unanimously approved the 2014 ERS Budget. Motion by Dr. Daugherty, seconded by Mr. Gedemer.

13. Audit Committee Report

Ms. Westphal stated that the topics discussed at the December 4, 2013 Audit Committee meeting have already been covered during today's Board meeting.

14. Administrative Matters

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

In response to a question from the Chairman, Ms. Ninneman confirmed that the Vitech upgrade has already been added as upcoming meeting topic under the Audit Committee.

The Chairman then stated that anyone with future topic suggestions should voice them now, or notify Ms. Ninneman at a later date if they wish to have any agenda items added or changed.

15. Adjournment

The meeting adjourned at 11:35 a.m.

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