EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE JUNE 18, 2014 PENSION BOARD MEETING

1. Call to Order

   Dr. Brian Daugherty, serving as Acting Chairman, called the meeting to order at 8:30 a.m., at the Marcus Center for the Performing Arts, 929 North Water Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present	Members Excused
Laurie Braun	Gregory Smith
Dr. Brian Daugherty (Acting Chair)	
Aimee Funck	
Norb Gedemer	
Patricia Van Kampen	
Vera Westphal	
*Marilyn Mayr	

*Present but not voting as a member pending Board approval

Others Present
Marian Ninneman, CEBS, CRC, ERS Manager
Mark Grady, Deputy Corporation Counsel
Daniel Gopalan, Fiscal Officer
Theresa Diaz, Assistant Fiscal Officer
Vivian Aikin, CRC, ERS Sr. Pension Analyst
Mark Murphy, ABS Equity Long-Short Strategies
Ray Caprio, Marquette Associates, Inc.
Larry Langer, Buck Consultants
Troy Jaros, Buck Consultants
Kathy Allen-Owten, Milwaukee County Employee
Richard P. Williams, Former Milwaukee County Employee
Sherron Battle
Dennis Hughes
Kenneth P. Greening
Kay E. Evenson
Steve Koszalka
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Pension Board Member Service After Resignation

Mr. Huff provided an introductory summary of the issues surrounding Pension Board member service after resignation. Due to member resignations or other concurrent seat vacancies, the Pension Board periodically experiences difficulties having sufficient members present at meetings to constitute a quorum. Lags in replacements due to election timelines and replacement seat appointments can further complicate matters.

Recently, Pension Board member Marilyn Mayr formally resigned effective as of May 31, 2014. However, due to other recent member resignations and simultaneous appointed seat expirations, Ms. Mayr indicated that she would consider delaying vacating the retiree seat for several months until her successor is elected. The proposed timeline to complete the retiree election and fill the available seat is October 1, 2014.

Because of the latitude for broad interpretation of ERS's current Rules and Ordinances relevant to Pension Board member service after resignation, it is unclear as to whether a Board member who continues to serve past his or her resignation date is in violation of such Rules and Ordinances. To clarify the current matter with Ms. Mayr and avoid similar situations in the future, the Board could make a formal interpretation of ERS's Rules and Ordinances and considering amending Rule 1034 to clarify the Pension Board's interpretation. Such actions would allow a Board member to serve after formal notification of resignation until such seat is filled. While Board members are not obligated to serve after resignation, in such cases as Ms. Mayr, who offered to serve after her resignation for the good of the Board, the proposed action would formally authorize the concept.

In response to questions from the Acting Chairman and Mr. Grady regarding her resignation, Ms. Mayr stated that she would prefer not to serve as retiree member after today's meeting. However, Ms. Mayr stated that she would consider serving at the July and September Pension Board meetings, but only if needed for quorum purposes and as her schedule permits.

In response to a request from Ms. Mayr to expedite the October 1, 2014 election completion timeline, Ms. Ninneman stated that the timeframe is standard for a retiree member election. ERS must first issue notification of the seat vacancy and allow a 30-day window for candidates to request and complete the required paperwork. After the initial 30-day period, there is a 30-day candidate campaigning period, where ERS physically mails the candidates' information to retirees with their direct deposit notifications. The election is then held after the 30-day campaigning period. If there are more than two candidates, a primary and final election must be held, which would extend the election period an additional two months. The election timeline could be shortened if there are only two candidates, because a primary election would not be necessary.

The Acting Chairman summarized the proposed actions before the Board. The Pension Board has fairly broad latitude with respect to interpreting ERS's Rules and Ordinances pertinent to Pension Board member service after resignation. While there are no current conflicts within the Ordinances, they are open to interpretation. An amendment to ERS's Rules could allow a member to continue to serve on the Board following resignation, without violating ERS's Ordinances, until a replacement is named. The proposed actions are designed to address both current and future resignations on the Pension Board.

In response to a request from the Acting Chairman for additional feedback from the Board, Mses. Van Kampen and Braun stated that the proposed actions seem very reasonable.

Mr. Huff then stated that to move forward with the proposed action, the Board would endorse the concept of a member's resignation standing, while allowing that member to simultaneously hold over their service until a replacement is found. In addition, the Pension Board could endorse an amendment to Rule 1034 that would apply to all ERS offices up to, but not past the time the Ordinances state an individual has timed out of their service.

In response to a question from the Acting Chairman regarding any formal action required by the Board today, Mr. Huff stated that the Board would vote today on whether they are going to have Ms. Mayr act as a Board member for today's meeting and further authorize referring the main rulemaking matters to the Audit Committee.

The Pension Board voted unanimously to have Marilyn Mayr serve as a Board member for the June 18, 2014 Pension Board meeting and to refer any formal rulemaking matters regarding Board member service after resignation to the Audit Committee. Motion by Ms. Westphal, seconded by Ms. Braun.

4. <u>Election of Chair and Vice Chair</u>

The Acting Chairman stated that the Pension Board does not currently have a Chair or Vice Chair, and Mr. Grady called for nominations from the Board members.

In response to a nomination call from Ms. Van Kampen, the Acting Chairman stated that he would be willing to serve as the Pension Board Chairman.

The Pension Board unanimously elected Dr. Daugherty to serve as Chairman of the Pension Board. Motion by Ms. Van Kampen, seconded by Ms. Braun.

In response to a call for volunteers from the Chairman, Ms. Braun stated that she would be willing to serve as Vice Chair of the Pension Board.

Ms. Van Kampen nominated Ms. Braun to serve as Vice Chair of the Pension Board.

The Pension Board unanimously elected Ms. Braun to serve as Vice Chair of the Pension Board. Motion by Ms. Van Kampen, seconded by Ms. Funck.

5. Minutes—May Pension Board Meetings

The Pension Board reviewed the minutes of the May 21, 2014 Pension Board meeting.

The Pension Board unanimously approved the minutes of the May 21, 2014 Pension Board meeting. Motion by Mr. Gedemer, seconded by Ms. Westphal.

6. Investments

(a) ABS

Mark Murphy of ABS Investment Management distributed a booklet containing information on the custody services provided by ABS for ERS.

Mr. Murphy first provided an overview of the firm. ABS is a global equity long-short fund of hedge funds with over 20 years of investing experience. ABS currently has $4.8 billion in assets under management. Performance has been strong and year-to-date, with subscriptions at $720 million and redemptions at $310 million, ABS produced approximately $400 million in net positive cash flows.

ABS currently employs 28 individuals and has extremely low turnover of its staff. ABS added two new employees in 2014, one in client services and the other in accounting. There have been no other changes to the firm and no new products are planned for 2014. ABS has four offices worldwide in Greenwich, Connecticut, Zurich, Switzerland, Hong Kong and most recently, Sao Paulo, Brazil.

In response to a question from the Chairman, Mr. Murphy stated that the decision to open an office in Brazil was mainly the result of an emerging market fund of funds product ABS launched two years ago, in which ERS is not currently invested. ABS felt they needed more geographic diversification to help identify attractive emerging market funds for their new product. The office in Sao Paulo is currently comprised of one employee, who is a native Brazilian, and a former summer intern for ABS.

Mr. Murphy next discussed the market environment. After several difficult years following the 2008 financial crisis, the market environment for equity long-short hedge funds has improved dramatically. Market improvement continued during 2013, with a decrease in general market volatility and a decrease in correlation between stocks, creating a more conducive environment for underlying managers to pick long-short stocks.

Over the last ten years, pension assets have been the largest growth area of the firm and approximately 50% of the assets currently managed by ABS are from corporate, public and Taft-Hartley pension plans. ERS is invested in ABS's flagship global portfolio, which is their largest portfolio by assets, benchmarked against the MSCI ACWI Index. ERS's investment with ABS was up 20.5% net of fees in 2013, versus the MSCI ACWI Index, which was up 25.5%. ABS captured approximately 80% of the upside of the market in 2013, with approximately half of the market exposure, exhibiting good relative performance.

Mr. Murphy continued with a discussion of the current market environment. There is currently an industry migration towards large hedge funds and the largest hedge fund managers now control the majority of assets. Hedge funds with over $5 billion in assets under management ("AUM") have taken in approximately 82% of the annual flows over the last five years. A very small group of large hedge funds currently manage approximately 70% of the industry's total AUM. All other hedge funds, which constitute 95% of hedge funds, had extremely low annual flows in. ABS predicts that the market is entering into a period where the largest hedge funds now have too many assets and as these funds continue to grow, will have less flexibility, as they are forced to trade larger cap securities. ABS focuses on smaller fund of funds that have greater flexibility and smaller inflows, which ABS views as positive industry characteristics.

To date, the 2014 market environment has been varied and interesting. The months of January and February were very beneficial for stock pickers. Correlations between stocks continued to decline, as market volatility remained low, producing positive performance for ABS. However, during the months of March and April, equity long-short funds experienced a reversal of the majority of that excess due to massive sector rotations. ABS's global portfolio is overweight in consumer discretionary stocks and overweight in small cap. ABS's global portfolio will always have these overweights to small cap versus large cap, as well as overweights to new technology versus old technology, such as Facebook versus IBM. These overweights underperformed as a result of that sector rotation during the months of March and April. The sector rotation stabilized and reset in May and market volatility has now declined to its lowest level since 2006.

In response to a question from the Chairman regarding the recent sector rotation, Mr. Murphy stated that ABS's managers did not react to the rotation. Unlike the periods following the 2008 financial crisis when investors were extremely nervous about a total financial collapse, today's managers are confident that market volatility is low enough that such trends do not induce knee-jerk reactions to reduce exposure. ABS believes that trends will eventually cross back over to an environment where growth and momentum stocks once again outperform value, small cap outperforms large cap and new technology outperforms old technology.

Mr. Murphy then discussed the ABS global portfolio's year-to-date performance. The MSCI ACWI is up 3.84% year-to-date, while the ABS global portfolio is currently slightly under 1% year-to-date. With approximately half of the market exposure, ABS's global portfolio should be closer to 2%, but the 1% differential can be largely attributed to the recent sector rotation discussed earlier. ABS believes that resulting loss will be regained between now and year-end. The portfolio's exposure is at the high end and remains relatively unchanged over the last 12 months.

In response to a question from Ms. Van Kampen regarding the historical performance of ABS's global fund, Mr. Murphy stated that ABS typically outperforms when the markets pull back in downside protection. There are times when ABS has outperformed in up markets but such periods are not typical or frequent. For example, during 2007, ABS's global fund was up 16.8% and the market was only up 10%. ABS's long-term philosophy is to capture two-thirds of the upside when the markets are up and lose one-third of the downside when the markets are down, with the end result of achieving market-like returns without the volatility.

Mr. Murphy continued with a discussion of the global portfolio's strategy allocations and characteristics. ABS's global portfolio is well diversified both strategically and geographically. ABS strives to maintain a diversified pool of underlying managers, avoiding any overweights in any one major area.

In response to a question from the Chairman regarding the geographical dispersion of the portfolio's 24% global equity long-short sector allocation, Mr. Murphy stated that investors in this sector are generalists and can invest anywhere in the world. One would have to view each of the underlying manager's individual investments to categorize the geographical dispersion of the global equity long-short sector. Some of these managers are heavily weighted to Europe, some are almost completely invested in the United States and some are diversified all over the world. ABS labels the managers in this sector as "global" simply because they have the ability to invest all over the world.

ABS performs a monthly overview of the portfolio's exposure by manager, which breaks down the portfolio by sector, geography and market cap and compares it to the MSCI ACWI Index. When the underlying levels in the global portfolio are broken down by region, it is very similar to the MSCI ACWI Index. Net exposure comparison of the global portfolio by market cap shows an overweight to small cap stocks when compared to the MSCI ACWI Index. Because the indexes are dominated by large cap stocks, ABS will always have an overweight to small cap. The other overweight is in consumer discretionary because there is currently a trend for managers in general to have overweights in that sector. The industry trend five years ago was overweights in industrials and materials, and ten years ago, overweights in technology stocks were the trend. The most important measurement to gauge each month is how each of the manager's positions breaks down by sector, geography and market cap. If one of these exposures veers too far off track, ABS will make adjustments to the global portfolio to bring it back in line.

(b) Marquette Associates Report

Ray Caprio of Marquette Associates, Inc. distributed and discussed the May 2014 monthly report.

Mr. Caprio first noted Marquette Associate's upcoming Investment Symposium, which will be held on Friday, September 12, 2014 in Chicago, Illinois. The one-day symposium will cover pension and investment-related issues. Confirmed keynote speakers include Michael

Cembalest, the Chairman of Market and Investment Strategy for J.P. Morgan Asset Management and Harry Kraemer, Jr., Executive Partner of Madison Dearborn Partners.

Mr. Caprio then discussed ERS's fixed income portfolio. ERS's fixed income portfolio is fairly large at approximately 20% of the total Fund composite. ERS's two fixed income mangers are J.P. Morgan and Mellon Capital, and both managers' portfolios are investment-grade only, focused solely on U.S. fixed income. Marquette's goal with fixed income is to maintain an extremely conservative fixed income portfolio which will serve as a cushion to protect the Fund during extreme market downturns. The 2013 year was a challenging one for fixed income, but there has been an upswing in bonds during the early portion of 2014. During 2013, interest rates rose significantly, creating an unfavorable environment for fixed income. In contrast, fixed income has experienced a rebound during 2014, as interest rates have lowered from slightly over 3% to approximately 2.5% currently. This rebound has resulted in strong performance for ERS's fixed income composite with a year-to-date return in that sector of 3.5%. The long-term expectation is that interest rates will go up at some point during the next few years, creating a drag on fixed income. Marquette has reduced the Fund's fixed income allocation in anticipation of the interest rate increase and has focused on other areas such as real estate and infrastructure, which are projected to achieve slightly higher returns with less risk than the equity markets.

Mr. Caprio continued with a discussion of ERS's equity composites. U.S. equity is off to a relatively good start for 2014 and is positive across all areas, with the exception of the small cap markets that experienced a slight correction during the first quarter. As correlations between stocks continue to decline, active management will be important in U.S. equity, as value is now outperforming growth. The year-to-date performance has also been positive under the international equity composite. ERS has a fairly significant allocation to international equity and Marquette believes that this sector will continue to deliver solid returns.

Mr. Caprio next discussed the Fund's private equity composite. Marquette and the Board have recently focused on increasing the Fund's private equity allocation. While much of the policy differential under ERS's private equity composite can be attributed to the nature of private equity investments, ERS has made recent additional commitments to private equity managers to increase the Fund's private equity allocation. In addition, to help round out the 2014 private equity commitments, three private equity finalists from the recent RFP will be giving their final presentations to the Investment Committee next month. These efforts combined should slowly begin to move the Fund's private equity allocation closer to the 6% target within the next few years.

In response to a question from the Chairman regarding the average life cycle of private equity investments, Mr. Caprio stated that although it varies by investment manager and asset class within the funds, the typical private equity fund of funds life cycle is around 12 years. This means that from close date to the final date of investments, all capital will have been distributed within 12 years. Most private equity funds experience what is called a J-curve effect. Once a private equity fund closes to investors, they begin charging management fees based on specific commitments to the fund before investments are made. This produces negative returns in the early stages of a funds lifecycle. However, as investments are slowly made and returns realized, usually within three to six years, the J-curve effect begins an upward swing. Capital distributions typically begin within five to seven years of a fund's life cycle. Many private equity funds typically may not call all of an investor's capital and investors may have to recommit to the asset class repeatedly.

In response to a question from Ms. Braun regarding the status of ERS's commitments to Adams Street, Mr. Caprio stated that ERS currently has three outstanding commitments to Adams Street's private equity fund of funds. As a general rule, private equity managers typically call one quarter of capital per year and Adams Street has been slightly below that mark. The delay with Adams Street is one of the reasons ERS is reviewing new private equity manger candidates in July, as well as adding additional funds under Siguler Guff's private equity platform. In addition, ERS recently added commitments to Adams Street's co-investment fund and Marquette expects the co-investment fund to call capital more quickly.

Mr. Caprio then discussed Fund performance. The Pension Fund was slightly over $1.84 billion in total assets as of May 31, 2014. May performance for the Fund was positive, up 1.3% versus the policy benchmark of 1.1%. The year-to-date total performance Fund is at 2.8% versus the policy benchmark at 3%. Fixed income was up year-to-date, at 3.5% versus the benchmark at 3.9%. U.S. equity has been a somewhat difficult area in 2014 and is at 1.6% year-to-date versus the benchmark at 4.5%. Mr. Caprio noted that Marquette is somewhat concerned about the current returns under U.S. equity and will likely address the issue with the Board in the next few months. Almost every manger under the U.S. equity composite is currently below their benchmark. However, it has been a difficult market environment recently for active managers and some of that underperformance can be explained. While most managers under the U.S. equity composite are high quality with solid long-term performance, Marquette will continue to monitor them closely.

Real estate has outperformed year-to-date at 2.7% versus the benchmark at 0.7%. The long-term outlook for real estate continues to be positive and with income and occupancy rates trending in the right direction, Marquette is projecting returns of 7% to 8% in 2014. International equity has also exhibited positive year-to-date performance at 5% versus the benchmark at 3.8%. All managers are performing very well under the international equity composite, including the recent additions of Vontobel, GMO small cap and OFI. The infrastructure composite has not yet fully reported for 2014, but over the one-year period, has exhibited very favorable returns of 9.8% versus the benchmark at 5.8%. The hedged equity composite is off to a relatively good start for 2014 and is up 1.1% year-to-date.

In response to a question from Ms. Braun regarding the year-to-date underperformance of Mellon Capital under U.S. equities, Mr. Caprio stated that the short term underperformance or tracking error to the benchmark is cause by cash flows, fees and trading costs. Long term, Marquette expects the tracking error to be within one to two basis point of the index.

7. Buck Consultants - Actuarial Results

Larry Langer and Troy Jaros of Buck Consultants discussed the final January 1, 2014 actuarial valuation results. Mr. Langer noted that the final valuation results discussed today will include final data on the OBRA plan, as well as the final 2015 ERS member contribution amounts.

Mr. Langer first discussed ERS's mandatory membership contribution amounts. For public safety employees, the state-mandated membership contributions are projected to increase from 5.3% in 2015 to approximately 6.0% in 2016. The 2016 increase is slightly lower than the amounts discussed during Buck's presentation of the draft valuation results at last month's Board meeting. For general employees, the state-mandated membership contributions are projected to increase from 5.0% in 2015 to approximately 5.4% in 2016.

Mr. Jaros next discussed the summary of results for the OBRA plan. On the positive side, the OBRA contribution amount decreased from last year. The budgeted contribution amount was $440,000, while the actual contribution amount was only $373,500. On the negative side, the actuarial unfunded liability increased more than expected for OBRA, decreasing the OBRA plan's funded percentage by approximately 10% and reducing the total funded percentage to 47%. Data integrity was one of the key contributing factors to the decrease in OBRA's funded percentage. With continued data cleanup, swings in membership data have impacted the final valuation results. The count for active OBRA members decreased by approximately 1,000, therefore, decreasing normal contribution costs by approximately $100,000. Conversely, OBRA's deferred vested member population increased substantially, which accounted for the majority of the liability and contribution increase, and the decrease to OBRA's funded status. As the data integrity continues to improve, Buck is planning to meet with ERS staff in the near future to true-up OBRA's census data in preparation for the 2015 valuation.

Mr. Langer noted that unlike ERS, the OBRA plan covers a more seasonal and part-time employee population, which adds to the difficulties in quantifying OBRA's census data. While the liability is much smaller for OBRA at approximately $3.4 million, versus $2.1 billion for ERS, the OBRA census data should be solidified to help prevent such yearly swings in the valuation results.

Mr. Langer concluded with a discussion of the next steps for requesting the ERS and OBRA contribution funding requests from the County. Buck will prepare a draft letter to the County Executive outlining the contribution funding requests for ERS and OBRA. Once finalized, Buck will forward the letter to the Chairman for his signature and delivery to the County Executive. Buck will complete the final version of the January 1, 2014 actuarial valuation report, which will include the final 2015 membership contribution amounts discussed today.

In response to a question from Mr. Grady regarding the final ERS 2015 membership contribution amounts, Mr. Langer confirmed that those amounts remain unchanged from the membership contribution amounts included in the draft valuation report.

In response to follow-up questions from Mr. Grady and Ms. Braun, Mr. Jaros confirmed that the final 2015 ERS membership contribution amounts are 5.3% for public safely employees and 5.0% for general employees. Buck is currently projecting that ERS's 2016 membership contribution amounts will increase to approximately 6.0% for public safety employees and 5.3% for general employees.

8. Investment Committee Report

Ms. Van Kampen reported on the June 2, 2014 Investment Committee meeting.

Mr. Christenson from Marquette Associates discussed ERS's private equity portfolio. Mr. Christenson reviewed each of ERS's private equity funds and compared the total amount of commitments made to each of the funds versus the total amount of capital called to date. Mr. Christenson also discussed the challenges specific to private equity investments and the importance of maintaining vintage year diversification in private equity investments. A model recently prepared by Marquette, projecting commitments and capital calls for the upcoming year, was presented to the Investment Committee. ERS's current private equity allocation stands at approximately 2.9%. Marquette's commitment model projects that ERS should make approximately $25 million in additional private equity investments to reach ERS's private equity portfolio target allocation of 6%. The Investment Committee then determined that ERS should add one additional private equity manger to help achieve the 6% target allocation.

The Investment Committee then adjourned into closed session for the remainder of the meeting to discuss and review the private equity manager request for proposal ("RFP") results.

Ms. Van Kampen then stated that the Investment Committee reviewed approximately 20 responses to the private equity RFP and narrowed the candidates down to three finalists. Those three finalists will be making their final presentations at the July Investment Committee meeting. It is anticipated that the Investment Committee should have the new private equity manager recommendation ready for presentation at the July 2014 Pension Board meeting.

In response to a question from the Chairman regarding the pool of candidates, Ms. Van Kampen stated that the three private equity finalists were narrowed down from approximately 21 fund of funds managers, as well as an additional six firms focused primarily on private equity investments.

9. Audit Committee Report

Ms. Westphal reported on the June 4, 2014 Audit Committee meeting. The Audit Committee first discussed the Baker Tilly annual audit. Wayne Morgan and Darlene Middleman from Baker Tilly presented a draft version of the annual audit report. The audit findings presented no significant issues or concerns.

During discussions surrounding the new Governmental Accounting Standards Board ("GASB") rules, the Audit Committee requested that

Baker Tilly hold an educational seminar for the Pension Board to review the new GASB rules.

In response to a question from Ms. Braun regarding the proposed date for the GASB seminar, Ms. Ninneman stated that she and Ms. Middleman are currently reviewing tentative dates. The seminar should be approximately two hours long and will include a high-level review of the new GASB rules, with ample time remaining open for questions from the Board.

In response to questions from Mses. Mayr and Westphal, Mr. Grady stated that the Baker Tilly audit was a clean audit, and the final version of the Baker Tilly audit will be included the annual report.

The Audit Committee next discussed the disability re-exam process. Ms. Ninneman and Mr. Grady recommended that disability case review be performed on an annual basis instead of once every three years. Because individuals with different types of disabilities may respond to treatment at different rates, some would likely improve before the current three-year review period. The Audit Committee agreed with the recommended change and requested that the necessary amendments be prepared and presented to the Pension Board.

In response to questions from the Chairman, Ms. Ninneman confirmed that the Medical Board conducts the initial disability exams as well as the re-exams, and the Medical Board has sufficient capacity to handle both processes.

The Audit Committee concluded with a discussion of ERS's buy-in and buy-back errors. Mr. Grady summarized the actions taken last month by the Pension Board and County Board with regard to the proposed Ordinance amendments designed to correct the violations. The proposed amendments would completely correct violations for nine of the affected individuals and provide partial corrections for members with multiple violations. Upon completion of the actuarial report, the amendments will be finalized for review by the County Board. At this time, it is proposed that the amendments should be finalized for the July 2014 Board cycle.

The Audit Committee then entered into closed session to continue the discussion of buy-ins and buy-backs for the remainder of the meeting.

Ms. Braun then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to items 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 12 and 13 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 7-0 to enter into closed session to discuss agenda items 10 through 13. Motion by Ms. Braun, seconded by Ms. Funck.

10. <u>Disability Matters</u>

(a) <u>Kathy Allen-Owten</u>

In open session, the Chairman stated that it is the recommendation of the Medical Board that Ms. Allen-Owten does not qualify for an accidental disability pension.

In response to a question from the Chairman, Ms. Allen-Owten stated that she would like to present additional comments regarding her disability application to the Board in open session.

During open session, Ms. Allen-Owten made lengthy comments about her employer that were not germane to her disability application. Mr. Grady then advised Ms. Allen-Owten that it is the role of the Pension Board, in its review of her disability application, to focus on her disabling medical condition and not any prior employment-related issues.

Mr. Grady further clarified that the question before the Pension Board is whether or not any disabling medical condition to Ms. Allen-Owten's right hip, which is what Ms. Allen-Owten is basing her disability claim on, is the direct result of a fall sustained during her employment on July 8, 2012. According to the Medical Board's report, there are medical records which definitively indicate an injury, and subsequent treatment and recovery, to Ms. Allen-Owten's left shoulder as the direct result of the fall she sustained on July 8, 2012. However, the Medical Board's report further stated that there are no medical records indicating any clear-cut injury to Ms. Allen-Owten's right hip resulting directly from that same fall on July 8, 2012.

Ms. Allen-Owten claimed that when she called her Human Resource manager to report her injuries, she stated that both her left shoulder and right hip were injured as a result of the fall. Ms. Allen-Owten further claimed that her Human Resource manager intentionally held onto any medical records regarding treatment of her hip and did not report that treatment at the same time as the treatment of her shoulder. Ms. Allen-Owten then stated she has been taking cortisone and epidural injections for her hip since November 2012 and all of her medical records pertaining to the fall, including all medical records regarding treatment of her right hip, were sent to the County.

In response to a question from Mr. Grady, Ms. Allen-Owten stated that she did not receive a copy of the Medical Board's final report.

Mr. Grady then summarized the findings in Medical Board's final report. The Medical Board's report states that review of Ms. Allen-Owten's medical records indicated that the injury to her right hip was not the direct result of the incident that occurred on July 8, 2012. Orthopedic clinical examination revealed only exacerbation of a preexisting condition of minimal arthritis to Ms. Allen-Owten's right hip. It is therefore the recommendation of the Medical Board that, because there is no record of any initial injury to Ms. Allen-Owten's right hip occurring as the direct result of the fall she sustained on July 8, 2012, Ms. Allen-Owten does not qualify for an accidental disability pension. It is the Medical Board's further opinion that, even with exacerbation of the preexisting minimal arthritis in her right hip, Ms. Allen-Owten should be able to continue her work as a nursing assistant.

In response to questions from Ms. Funck and the Chairman regarding any additional medical records that may not yet have been provided to the Medical Review Board, Ms. Allen-Owten stated that she has previously submitted all pertinent medical records to the County for review.

Ms. Ninneman confirmed that all medical records received from Ms. Allen-Owten have been sent to the Medical Board and taken into consideration during review.

After no further questions from the Board, the Chairman thanked Ms. Allen-Owten for her time and advised that she would be notified of the Board's decision via first class mail. Ms. Allen-Owten then left the meeting.

In response to a question from Mr. Grady regarding ERS's procedures for distributing copies of the Medical Board's reports to disability appellants, Ms. Ninneman stated that ERS is changing its processes and disability appellants do not currently receive a copy of the Medical Board's final report. However, appellants receive a statement indicating whether the Medical Board recommends or does not recommend approval of their disability application.

In response to a follow-up question from Ms. Braun, Ms. Ninneman stated that the reason ERS is changing its process regarding distribution of the Medical Board's report is because some appellants, after seeing the Medical Board's report, are obtaining second opinions and submitting additional medical data after the initial application. Appellants should submit all medical records immediately with their initial disability application, not continually over long periods of time and after second opinions are obtained.

In response to a question from Ms. Mayr, Mr. Grady stated that Medical Board's report does reference treatment of Ms. Allen-Owten's hip condition. However, the report states that there was no documentation to show that her hip condition was caused by a traumatic injury due directly to the fall and indicated her pain is the result of preexisting arthritis in her hip.

Mr. Grady further noted that the Medical Board's sources for appellant's medical information include whatever the appellant directly submits. In addition, if it is an accidental disability claim, a workers' compensation file is opened, and authorizations and requests are sent to all treating physicians to directly forward any treatment records for review.

Ms. Ninneman then stated to the Board that in order to approve an accidental disability, which is what Ms. Allen-Owten has applied for, the disability needs to be caused by an accident at a specific time and place. These are the factors the Medical Board needs to take into consideration when reviewing medical records submitted or received from other treating physicians, as well as their own examinations of the patient.

The Board then discussed the matter further in closed session.

After returning to open session, the Pension Board voted 6-0-1, with Ms. Mayr abstaining, to accept the Medical Board's recommendation to deny the accidental disability pension application. Motion by Ms. Van Kampen, seconded by Mr. Gedemer.

11. Appeals

(a) Richard P. Williams

In response to a question from the Chairman, Mr. Williams stated that he would like to present his comments to the Board in open session regarding the appeal of his March 1, 2014 pension effective date.

In open session, Mr. Williams stated that his primary complaint surrounds the fact that ERS was unable to approve his pension application retroactive to September 2008, because ERS was initially unable to locate his CETA employment records to determine his pension credits. Furthermore, Mr. Williams claims he contacted the Retirement Office several times after he claims he sent in his 2008 application, to request a status update, but each time did not receive an adequate response. Mr. Williams claims that during 2009 and 2010 telephone conversations with ERS staff, he was informed that his CETA employment records could not be located, but the matter was under further investigation. Mr. Williams further claims that he contacted the Retirement Office again via telephone in February 2012 to follow up on the status of his 2008 application. Mr. Williams claims he was informed during the February 2012 telephone call that the staff member who was handling his application had left employment with ERS and his case was inadvertently not reassigned. Mr. Williams stated the first written correspondence he received from ERS was on January 23, 2014, stating he had accrued sufficient credits and he would be eligible for a pension. In a subsequent telephone call to the Retirement Office to question the January 1, 2014 pension effective date stated in the letter from ERS, Mr. Williams claims he was told that the ERS staff member now handling his case was out of the office due to personal affairs that day. However, Mr. Williams claims he never received a return follow-up call from ERS. Mr. Williams then commented that he believes the Retirement Office is simply understaffed and overworked. Mr. Williams believes his case inadvertently "just fell through the cracks" and he should not have to pay for those mistakes.

Mr. Williams then asked the Board if there were any formal timelines in place for ERS staff to respond to member inquiries, and whether or not there was something he could have done in a more timely fashion to help expedite the entire process. Mr. Williams added that he believes ERS should also provide some written documentation regarding the telephone calls he claims he placed to ERS between 2008 and 2010, which are currently not documented. Mr. Williams feels there was no reasonable explanation given in ERS's letter denying his pension effective date retroactive to September 2008.

In response to a question from Ms. Braun, Mr. Williams stated that he was unsure of the name of the employee he spoke to at the Retirement Office in 2012 that advised him his case was inadvertently not reassigned.

After no further questions from the Board, the Chairman thanked Mr. Williams for his comments and stated that the Board will likely discuss the matter further today in closed session. The Chairman then advised Mr. Williams that he would be notified of the Board's decision via first class mail if he did not wish to wait for the Board to reconvene from closed session.

After returning from a short break, in open session, the Chairman asked the Board if they had any further questions for Ms. Ninneman regarding Mr. Williams' appeal.

In response to a request from Ms. Braun to recap the chronology of events discussed in Mr. Williams' appeal, Ms. Ninneman stated that ERS did have difficulty locating Mr. Williams' CETA employment records. ERS had no documented record of Mr. Williams in its current V3 or legacy Genysis database. The fact that Mr. Williams did not respond to ERS's 2012 request to complete and return a CETA employment verification form further complicated matters.

In response to a question from Mr. Grady, Ms. Ninneman confirmed that in addition to Mr. Williams' employment records with CETA, ERS was also unable to locate his regular County employment records. ERS was eventually able to locate both sets of employment records after an in-depth search of its paper Human Resource files.

In response to a question from Ms. Funck regarding ERS's formal documentation of ongoing cases, Ms. Ninneman stated that member calls are documented and ongoing reviews would not get dropped and forgotten simply because an employee leaves the department.

Ms. Funck then noted that it seems odd that Mr. Williams would have allowed two years between 2010 and 2012 to lapse before following up with ERS on the status of his application. Ms. Funck commented that if it were her pension in question, she would have called more often and been more persistent.

Ms. Van Kampen added that it is also troubling that Mr. Williams did not respond to ERS's February 2012 request to complete and return the CETA employment verification form.

In response to a question from Ms. Westphal regarding ERS call log procedures, Ms. Ninneman stated that the V3 system currently has a call documentation feature, however; that feature was not in place in 2008 when Mr. Williams claims he submitted his application. Ms. Ninneman further stated that because she did not work in the Retirement Office during 2008, she could not address any telephone call documentation procedures that may have been in place at that time.

In response to a question from Ms. Westphal and Mr. Grady regarding Mr. Williams' CETA employment records, Ms. Aiken stated that Mr. Williams terminated County service on May 31, 1984, and at that time, only paper records were kept. Furthermore, because Mr. Williams was not vested when he left CETA employment, he was never entered into the Genysis legacy database, and therefore, never transferred into the current V3 system. At the time of Mr. Williams' employment as a Firefighter and Deputy Sheriff, six years of service was required for vesting.

In response to a question from Mr. Grady regarding Mr. Williams' CETA service credit, Mses. Ninneman and Aiken stated that while Mr. Williams' service history card indicated CETA service credit, it did not specify the amount of service credit. It was eventually determined that Mr. Williams had 1.6 years of CETA service credit.

In response to a question from Ms. Van Kampen regarding any written documentation from Mr. Williams, Ms. Ninneman and Mr. Grady stated that ERS did not receive anything in writing from Mr. Williams until he sent his application in on February 4, 2014.

ERS staff recused themselves and the Board discussed the matter further in closed session.

After returning to open session, the Pension Board unanimously voted 6-0-1, with Ms. Mayr abstaining, to deny Mr. William'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. Williams was a Firefighter and Deputy Sheriff who first began County employment through the Comprehensive Employment and Training Act ("CETA") on July 7, 1977. Mr. Williams began regular County service on February 4, 1979 and terminated County service on May 31, 1984.

2. On August 30, 2008, Mr. Williams attained age 57.

3. In September 2008, Mr. Williams claims that he applied to receive a deferred vested benefit.

4. However, ERS has no record of a September 2008 application from Mr. Williams and indicates the first contact from Mr. Williams was in February 2012. Mr. Williams did not provide a copy of the September 2008 application he claims to have submitted to ERS.

5. Mr. Williams also claims that at the time he applied for a benefit in September 2008 he was told by ERS staff that his application would be processed and a determination of his eligibility for benefits would take between 90-120 days.

6. However, Mr. Williams claims that he did not receive a response from ERS regarding his application. Subsequently, Mr. Williams claims he contacted ERS "several times during 2009 and 2010" to request additional information but was told by ERS staff that ERS could not approve his benefit application because his employment records could not be located.

7. ERS indicates that the current and past computer systems showed no record of Mr. Williams's employment.

8. Mr. Williams further claims that he was assured that because he had already applied for a benefit, if the records were found and his application was approved, the effective date of his benefit would be retroactive "to the date of [his] normal retirement."

9. ERS's first record of contact from Mr. Williams was in February 2012. After Mr. Williams' contact, ERS sent Mr. Williams a form on which to request CETA employment verification.

10. Mr. Williams did not return the CETA verification form, and ERS did not have subsequent contact with Mr. Williams until January of 2014. Shortly thereafter, ERS located Mr. Williams' CETA employment records.

11. On January 23, 2014, ERS sent Mr. Williams a letter informing him that he was eligible for a deferred vested benefit and that his benefit would begin upon the completion of his application.

12. Although the January 23, 2014 letter provided that Mr. Williams' benefit was "scheduled to be effective 1/1/2014," the letter also provided that if Mr. Williams did not timely submit his application, "the effective date of [his] deferred retirement [would] be delayed."

13. On February 7, 2014, Mr. Williams submitted the required application for a deferred vested benefit. This is the first record ERS has of a written application for a benefit from Mr. Williams.

14. In February 2014, Mr. Williams sent a letter to ERS "disagree[ing] with the Retirement Office deferred retirement effective date" and requesting an effective date that reflected the application for benefits he claims to have filed in September 2008.

15. By letter dated February 24, 2014, ERS denied Mr. Williams's request for retroactive benefits and informed him that he could appeal ERS's decision to the Pension Board by written request.

16. ERS commenced Mr. Williams' benefit effective March 1, 2014.

17. Mr. Williams submitted a request for an appeal to the Pension Board within the 120 day appeal requirement.

18. An eligible ERS member 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 normal or deferred vested benefit under Ordinance sections 201.24(4.1) and (4.5), respectively.

19. 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 at normal retirement age, provided 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.

20. The Pension Board finds that Mr. Williams terminated County employment in 1984 and applied for a pension benefit in 2014. Accordingly, Mr. Williams was not in active service at the time he applied for a benefit.

21. As such, the Pension Board finds that Mr. Williams was not eligible for a normal retirement benefit but could be eligible for a deferred vested pension under Ordinance section 201.24(4.5).

22. The Pension Board finds that Mr. Williams became eligible to apply for a deferred vested ERS benefit on August 30, 2008, the date he turned 57.

(a) As provided by Ordinance section 201.24(4.1)(1)(a), normal retirement age for deputy sheriffs, like Mr. Williams, is 57.

23. Pursuant to Ordinance section 201.24(4.5)(4) a deferred vested pension cannot commence until a "timely application" is filed.

24. Additionally, Rule 1049 provides that a deferred vested member's retirement cannot become effective until the first day of the month following the day all required paperwork is received by the Retirement Office.

25. The Pension Board finds that Mr. Williams applied for a pension benefit and submitted all required paperwork on February 7, 2014.

26. While the Pension Board acknowledges Mr. Williams' claims that he applied for a deferred vested benefit in 2008, there is insufficient evidence before the Pension Board to substantiate Mr. Williams' claims. Further, the Pension Board finds that even if Mr. Williams spoke with a member of the ERS staff in 2008, 2009 or 2010, Ordinance section 201.24(4.5) requires the submission of an application to apply for a deferred vested pension benefit. There is no record of a 2008 application from Mr. Williams and no ERS employees remember any contact with Mr. Williams prior to 2012.

27. The Pension Board finds that it must administer ERS according to Section 201.24 of the Milwaukee County Ordinances and the Rules promulgated thereunder. The Pension Board finds that the Ordinances and Rules do not allow for retroactive deferred vested benefits.

28. After considering all the facts and circumstances, the Pension Board finds that it cannot grant Mr. Williams' request for retroactive payment of pension benefits and that ERS properly commenced Mr. Williams' benefit as of March 1, 2014.

Motion by Mr. Gedemer, seconded by Ms. Funck.

Ms. Westphal then left the meeting.

12. <u>Pending Litigation</u>

(a) <u>Stoker v. ERS</u>

The Pension Board took no action on this item.

(b) <u>AFSCME v. ERS</u>

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.

13. Report on Compliance Review

The Pension Board took no action on this item.

14. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, May 2014

In open session, Ms. Ninneman presented the Retirements Granted Report for May 2014. Fourteen retirements from ERS were approved, with a total monthly payment amount of $14,284. Of those 14 ERS retirements, 6 were normal retirements and 8 were deferred. Five members retired under the Rule of 75. Eight retirees chose the maximum option, and one retiree chose Option 3. Seven of the retirees were District Council 48 members. Two retirees elected backDROPs in amounts totaling $213,518.79.

Ms. Ninneman stated that the Retirement Office is seeing a decrease in retirements during the summer months and expects the reduced numbers to continue into the months of July and August.

(b) ERS Monthly Activities Report, May 2014

Ms. Ninneman presented the Monthly Activities Report for May 2014. ERS and OBRA combined had 8,055 retirees, with a monthly payout of $12,723,238. Forty-two members terminated in May and, of those 42, 15 terminated members requested a refund of their required member contributions totaling $25,440. Seventeen deaths were reported during the month of May.

Ms. Ninneman continued with a discussion of ERS's data cleansing project. ERS staff members are currently compiling a list of all items to be presented to the project manager that should be considered for the data clean-up project. Once finalized and reviewed, the list will be prioritized and the necessary adjustments will be made to the system accordingly. ERS is now making a conscientious effort to perform all adjustments in the system as they are discovered, instead of entering data clean-up information on Excel spreadsheets and then waiting until year-end to formally enter that data into the system. This process change will be critical to ensure data integrity going forward with the V3 version 10 upgrade.

The initial group of District Council 48 furlough adjustments has been completed based on the recent furlough settlement agreement. Affected members in this initial group will receive their retro-payment and first adjusted pension check shortly. Letters will be sent out this week to these retirees notifying them of the upcoming changes to their pension checks. Ms. Ninneman noted that it is taking ERS approximately six to eight hours per member to make the required adjustments based on the furlough settlement agreement. Because members received their settlements in a lump sum, ERS must now go back and transfer those lump sum adjustments to each of the actual pay periods in which the furlough hours were recorded. This process is necessary to properly compute service credit and final average salary.

In response to a question from Ms. Funck, Ms. Ninneman stated that the same types of furlough adjustments are required for both retirees and active members. The retirees are included in the initial group of backlog adjustments and going forward, active members affected by the furlough settlement will have adjustments completed before their first monthly benefit is processed.

In response to a follow-up question from Ms. Funck regarding the adjustments to service credit, Messrs. Grady and Gopalan clarified that members affected by the furlough settlement are receiving service credit for the hours they served as furlough time. In most instances the service credit is an adjustment to earnings and not hours, because a member could be absent without pay for a maximum of 160 hours without any effect on service credit.

Ms. Ninneman concluded with a discussion of the buy-in and buy-back corrections. Letters will be sent out this week to five individuals who were not entitled to receive pension benefits from ERS without their purchased service credit. Pensions to these individuals will be completely eliminated and payments will cease in June. ERS will then begin collecting overpayment amounts from these individuals.

In response to a question from Ms. Mayr regarding the other eight ineligible buy-in and buy-back individuals, Mr. Grady and Ms. Ninneman stated that ERS is still gathering factual data involved with the offset amounts for these individuals. ERS hopes to complete the necessary calculations for these eight individuals by the end of June 2014.

In response to a follow-up question from Ms. Braun, Ms. Ninneman stated that ERS is performing the calculations in-house for the eight ineligible individuals.

In response to a question from Mr. Grady regarding the upcoming retiree member election, Ms. Ninneman stated that there are currently four candidates.

(c) Fiscal Officer

Mr. Gopalan first discussed the May 2014 portfolio activity report. May was a relatively quiet month. ERS successfully completed the transition of its cash overlay accounts from BNY Mellon to State Street. In addition, ERS posted the RFP for a permanent cash overlay manager.

Mr. Gopalan continued with a discussion of the May 2014 cash flow report. Benefits for the month of May were funded with a withdrawal of $7 million from JP Morgan fixed income and $8 million from ERS's general cash account. Adams Street made capital calls totaling $1.3 million in May.

Mr. Gopalan then discussed the third quarter funding request. Mr. Gopalan projects that cash flows of $10 million will be required for the month of July, and $15 million per month for August and September..

The Pension Board unanimously approved the liquidation of assets to fund cash flow of $10 million for July 2014, $15 million for August 2014 and $15 million for September 2014. The amounts should be withdrawn from investments designated by Marquette. Motion by Ms. Mayr, seconded by Ms. Braun.

Mr. Gopalan concluded with a discussion of the annual report. Mr. Gopalan distributed a draft version of the annual report to the Board for review. ERS is still waiting for a few of the investment managers to report their audited financials. It is hoped the additional manager data will be received later in the week, and the auditors will then issue a final report next month.

15. Administrative Matters

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

Ms. Braun requested that the future topic listed under the Audit Committee for disability retirement process include a discussion of whether or not a copy of the Medical Board's report is sent to disability applicants and, if so, confirmation of when that report should be sent.

16. Adjournment

The meeting adjourned at 11:45 a.m.

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