EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE JUNE 19, 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
Laurie Braun	Norb Gedemer
Dr. Brian Daugherty (Vice Chair)	
Aimee Funck	
D.A. Leonard	
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, ERS
Larry Langer, Buck Consultants
Brian Hurley, Buck Consultants
David J. Heiny, Artisan Partners
Michelle J. Picard, Geneva Capital Management Ltd.
Nicholas Bauer, Geneva Capital Management Ltd.
Brett Christenson, Marquette Associates, Inc.
Ray Caprio, Marquette Associates, Inc.
Steve Schultze, Reporter, *Milwaukee Journal Sentinel*
Sarah Bell, Retiree
Attorney Lynne Layber
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Minutes—May Pension Board Meetings

The Pension Board reviewed the minutes of the May 15, 2013 Pension Board meeting.

The Pension Board voted 7-0-1, with Mses. Braun, Funck and Westphal, Messrs. Leonard and Maier, and Drs. Peck and Daugherty approving, and Ms. Van Kampen abstaining, to approve the minutes of the May 15, 2013 Pension Board meeting. Motion by Dr. Daugherty, seconded by Mr. Leonard.

Ms. Van Kampen stated that she abstained from the vote because she did not attend the May Pension Board meeting.

4. Actuarial Valuation Results - Buck Consultants

Larry Langer and Brian Hurley of Buck Consultants distributed a booklet containing the January 1, 2013 ERS actuarial valuation.

Mr. Langer first noted the primary purpose of the valuation is to determine actual contributions for the 2013 plan year and to provide budget amounts for policymakers for the 2014 fiscal year.

Mr. Langer then stated that the information presented today includes data on the OBRA plan, as well as updates that reflect both asset and plan provision changes since Buck's last presentation at the May Pension Board meeting. Specific updates include a positive change in assets of about $591,000 and the incorporation of recent amendments to the backDROP provision effective in April 2013.

In response to a question from the Chairman, Mr. Langer confirmed that the amendments to the backDROP provision changed the backDROP pool going forward for certain classes of employees, and froze the benefit that went into the backDROP as of April 2013.

Mr. Langer next discussed the gross ERS budget and actual contributions. The 2013 actual budget amount of $28.2 million, and the 2014 budget amount of $29 million, are both roughly $1 million less than last year's figures. Much of this is due to the recent backDROP provision change, in addition to the $591,000 asset change, continued focus on census data cleanup and asset returns in excess of expected.

Mr. Langer then discussed the state-mandated member contributions. Although there was an increase from last year, the mandatory contributions went down a bit, by 0.1% and 0.2% for general and public safety respectively from the May presentation due to the inclusion of the recent backDROP provision change, in addition to the $591,000 asset change.

Mr. Langer next discussed the attributes of a mature pension plan. This is not intended to be an alarmist statement. Despite ERS being well-funded, the plan has matured to the point that expected investment returns are not sufficient to pay for benefit disbursements. Cash flow will be at a premium, as one-tenth of the assets are paid out in benefit payments over the course of approximately the next few years. While the Board already works with Marquette to ensure proper investments and sufficient liquid assets to pay out benefits in a reasonable fashion, it should continue to monitor its policies to address this. The actuarial valuation does reflect this, which is a naturally occurring phenomenon as the plan matures.

Mr. Langer then provided an update to the May 2013 actuarial valuation projection of gross contributions over the next five years. Roughly one-third of gross contributions are comprised of member contributions, with the remainder contributed by the employer. For 2013 and 2014, gross contribution amounts are just under $30 million. Employer contributions will slowly begin to rise, over the course of the next three years, to around $40 million. The main reason for the increase is the additional contributions the County has made over the last few years. For example, in 2010, the County contributed an additional amount of $29 million to the Fund. That overage was then distributed over the course of the next five years as a type of credit. That credit will be ending between 2014 and 2015, with the same scenario occurring in 2017 and 2018. Without those additional 2010 contributions, current contributions would be closer to $40 million as opposed to the current amount of $30 million.

Mr. Hurley then discussed the summary of results for OBRA. The 2013 actual contributions were slightly higher than the budgeted amount due to the changes in assumptions. The County continues to put more money into the plan than actually required.

Mr. Hurley next stated that the nature of the OBRA plan was somewhat volatile the past year, with much of that volatility due to participation, and the inevitable transient nature of part-time employees. There was a slight decrease in the number of active employees, while the number of inactive employees stayed fairly level. The actuarial accrued liability has gone up quite a bit, which is mostly due to the changing mortality table. The funded status of OBRA has also increased quite a bit at 57.9% as of January, 1 2013, compared to 50.5% as of the January 1, 2012 valuation. This increase is largely due to the County's contribution policy, as well as the positive market returns the plan has experienced.

In response to a question from Mr. Leonard and the Chairman regarding the impact of a potential ordinance change extending the current 60-day time period for terminated nonvested employees to request a refund of mandatory contributions, as well as limiting cashouts to individuals who are not vested at the time of termination, Mr. Langer indicated that he could not predict any potential impact at this time. However, this matter could be further analyzed and reflected in the next valuation.

In response to a follow up question from Mr. Grady, Mr. Langer confirmed that if such an ordinance change were in fact proposed, Buck would be required to perform an analysis for the County Board.

Mr. Langer concluded with a discussion of the next steps for requesting the ERS and OBRA contribution funding requests from the County. The letter to the County Executive requesting the funds is very close to being finalized. Once finalized, Buck will forward the letter to the Chairman for his signature and delivery to the County Executive.

In response to a question from the Chairman, Mr. Langer confirmed that the letter will reflect the updated numbers presented at today's meeting.

No other Board member had a question for Mr. Langer. The Chairman then reiterated to the Board that today's presentation from Buck is essentially an update to the presentation at the May meeting and includes the data for OBRA. The contribution request for ERS is $29,062,000 and the contribution request for OBRA is $440,000.

The Chairman then requested a motion for the Board to approve the contribution funding requests to the County Executive for ERS and OBRA.

The Pension Board unanimously approved the 2014 ERS budget contribution request to the County Executive in the amount of $29,062,000, and the 2014 OBRA budget contribution request to the County Executive in the amount of $440,000, and granted authority to the Chairman to sign the letter to the County Executive requesting the contributions. Motion by Ms. Van Kampen, seconded by Mr. Leonard.

5. <u>Investments</u>

(a) <u>Artisan Partners</u>

David J. Heiny of Artisan Partners distributed a booklet containing information on the investments managed by Artisan Partners for ERS.

Mr. Heiny first provided an overview of the firm. Artisan is a locally based firm with a global perspective. Artisan Partners was founded in Milwaukee in 1994 and Milwaukee continues today to be the headquarters for the firm. Artisan has grown over time and now has principal offices located across the country in San Francisco, New York and Atlanta. In addition, Artisan has research offices outside of the U.S. located in London and Singapore. Artisan currently employs around 300 staff, with the majority located in the Milwaukee headquarters.

Mr. Heiny then discussed Artisan's initial public offering. Since their last presentation to the Board, Artisan has completed an IPO of 15% of its stock to the public markets. The main driver behind the IPO was succession planning. Artisan's formula for success incorporates people, process and execution. Artisan believes in bringing on proven talent and allowing employees to deliver their proven pattern of successful performance with minimal disruption. Artisan strongly believes in the entrepreneurial nature of such successful talent and aims to support that nature in an appealing business environment. Artisan has always been majority owned by their employee partners and desires to continue that culture. The IPO was executed to provide some liquidity to the older generation of employees in the later stages of their career and, more importantly, to provide stock for its newer generation of managers. The IPO was priced in early March 2013 and has been very successful.

Mr. Heiny next discussed Artisan's U.S. mid-cap growth investment team strategies. Mr. Heiny referenced a chart breaking down investment performance by team, noting the annualized value added of each strategy since inception. Each of Artisan's strategies has been very successful and these results are a testament to their proven formula for success.

Mr. Heiny then provided an overview of Artisan's growth investment team. Artisan is continually adding to their team to add both strength and perspective. Artisan's portfolio managers have a great deal of combined years of proven capital allocation leadership. Analysts cover a global perspective, because growth is a global endeavor, and finding and identifying that growth is key to success.

In response to a question from the Chairman, Mr. Heiny stated that the portfolio for ERS is capped at no more than 10% in equity outside of the U.S. Artisan recognizes the potential for global growth opportunities in U.S. companies that are growing their presence overseas.

In response to a follow-up question from Dr. Peck, Mr. Heiny clarified that the 10% is in stocks by domicile. The stocks must trade on a U.S.

exchange and, therefore, Artisan can only own an American Depository Receipt ("ADR") or an American Depository Share ("ADS"). ADRs trade on a U.S. exchange. The exposure therefore to European global economies is actually more than 10% by revenue.

In response to a question from Ms. Van Kampen, Mr. Heiny stated Artisan does perform informal communication and sharing of research information regarding non-U.S. equity. Artisan however has no established reporting standard on such informal communications.

Mr. Heiny next provided an update on the current positioning of the ERS portfolio. Artisan follows the philosophy of "profit-cycle hunting." They believe that stocks follow profits over the long-term and Artisan seeks out businesses that are embarking on positive profit cycles. Once such businesses are identified, a disproportionate amount of capital is placed there. Profit cycles spring from both external and internal change agents. For example, new management teams within a business or a new product cycle can be tremendously powerful drivers for success. Within the ERS portfolio, there are currently five areas of such secular growth drivers, including: industrial process innovation; emerging markets consumer; golden age of gas; health care innovation; and changes in computing infrastructure. IPG Photonics, under U.S. mid cap growth, is a good example of a business experiencing a positive profit cycle. IPG is a fiber optic laser business that has developed a better, faster and cheaper solution to laser technology. The laser can cut quarter-inch steel in a single pass, which can be successfully deployed in areas such as auto manufacturing and other industrial applications, thereby increasing production while reducing costs.

Because growth in the global marketplace is currently muted, it should be taken advantage of once identified. Current drivers of innovation in the economy include areas such as healthcare, industrial technology and consumer goods. Artisan believes these areas will be what drive returns going forward.

In response to a question from the Chairman, Mr. Heiny stated that the basis of Artisan's investment team philosophy has not changed. Recent drags on portfolio performance were mainly attributable to the consumer space, with a bookending of underperformance in the second quarter of 2012, leading into the first quarter of 2013.

The Artisan team continues to execute its philosophy of upside participation and downside protection in down markets. Over the last three-year period, there were two quarters in which the market was down

10% or more and Artisan outperformed the benchmark in both of those quarters. Also within that three-year period, Artisan outperformed the benchmark in three of the five quarters that the market was up 10% or more.

Issues during the second quarter of 2012 in the consumer space were mostly attributed to a deepening economic slowdown in Europe. Coach/Ralph Lauren was perceived to be on the down stroke due to the European slowdown and was an example of a drag in that quarter. Artisan stayed with Coach/Ralph Lauren at the time, but has since sold the stock, as it appears to have lost some footing to Michael Kors, which is one of its main brand competitors.

Drags on the consumer goods sector during the first quarter of 2013 can be attributed mainly to Ulta Salon and Cosmetics and Lululemon Athletica Inc. Ulta Salon was led by a visionary CEO who very successfully grew their beauty and cosmetics outlet stores. Ulta was a strong performer until the first quarter of this year, when their CEO was approached by Michaels craft outlet stores to come aboard and launch similar growth with their stores. Artisan sold that stock quickly, but in the long-run, it was a money maker in the portfolio. Artisan is holding tight with Lululemon for now, despite some recently well-publicized quality issues with fabric sheerness in a specific line of yoga pants. Lululemon also recently lost its CEO, so while Artisan is currently holding the position, they are monitoring this product closely.

One standout performer in the portfolio last year was Regeneron Pharmaceuticals Inc. The main driver behind their success is a drug developed to treat macular degeneration, which is the leading cause of blindness in people over the age of 50. The drug is called EYLEA and its efficacy is much better than any other current therapy available. Treatment with EYLEA requires an injection directly into the eye itself every one or two months, as opposed to once every few weeks with other similar treatments, therefore making it a much more attractive treatment option. Because Regeneron is a biotechnology firm, it does present some inherent risk. However, the downside of Regeneron was protected from a deal they made with Sanofi, a global pharmaceutical company. Sanofi was protecting Regeneron's downside in exchange for some of the upside, and while less risk is involved, it does present a more favorable risk return profile in a portfolio the size of ERS.

In response to a question from the Chairman, Mr. Heiny stated that there are currently about 70 names in the ERS portfolio. That size is fairly typical, but what is most important to Artisan is the amount of capital in the top 20 to 30 positions. Artisan refers to these positions as the "crop" in the context of their "garden-crop-harvest" nomenclature. These positions represent the highest confidence in growth and profit cycles and are where most of the capital is placed. On the other side of the equation is the "harvesting" component, or selling stage, which occurs when a company is at or near the end of a profit cycle, such as the current situation with Ulta Salon and the recent loss of their CEO.

(b) Geneva Capital Management

Michelle J. Picard and Nicholas Bauer of Geneva Capital Management distributed a booklet containing information on the investments managed by Geneva for ERS.

Ms. Picard first provided an overview of the ERS portfolio. The current portfolio allocation is invested in equities at 98.4%, with the remaining 1.6% in cash and equivalents. Typically, there will be no more than 3% to 4% in cash and equivalents. At the inception of Geneva's relationship with ERS in July 2012, the portfolio began at just a little over $39 million. At the end of the first quarter of 2013, the portfolio was up at over $44 million and, as of yesterday, was at just a little under $45 million. These amounts reflect a 15% total increase in value since the portfolio's inception.

Ms. Picard next provided a sector breakdown of the portfolio. The ERS portfolio is well-diversified, with producer durables as the heaviest weighted sector at 20.83%. One strong performer to note in this category is Stericycle, a medical waste disposal company, which is based in Chicago. Stericycle has been a long-term strong performer in the portfolio since early 2000. A key component to Stericycle's growth and success is its long-term contracts with doctors and hospitals. Stericycle continues to grow by expanding upon these contract relationships through the addition of ancillary services, as well as growing internally via various acquisitions.

Another notable performer in the producer durables category is IHS Inc. IHS is an economic, financial and political research company that sells its research to aerospace and governmental agencies. Their success can also be attributed in large part to its subscription service.

The best performing sectors in the portfolio were financial services, followed closely by consumer discretionary. Two standout companies currently experiencing growth within the financial services sector include IntercontinentalExchange, Inc. ("ICE") and Affiliated Managers Group ("AMG"), which is an acquirer of investment management firms. ICE recently acquired the New York Stock Exchange led by their visionary CEO Jeffrey Sprecher.

The best performing stocks under consumer discretionary include Tractor Supply Company, which is a unique niche retailer of farm and ranch supplies, and Panera Bread. Panera has been growing by expanding its operations in Manhattan, rolling out drive-thru locations, as well as expanding its catering business.

Ms. Picard then provided a review of two companies included among the ten largest holdings in the ERS portfolio. Cerner Corporation is the largest position in the portfolio which is a health information technology services company, specializing in providing electronic records software to hospitals and physicians' offices. Cerner has been growing in both the U.S. and overseas markets and is up a little more than 26.5% since the original investment. Church & Dwight Co. is a major U.S. manufacturer of consumer staple products that is able to drive double digit top-line growth through investing in research and development. Church & Dwight continues to grow through acquisitions and investments. A recent acquisition involved Avid Health Inc., which introduced Church & Dwight to the rapidly expanding gummy vitamin market.

Ms. Picard then discussed performance history. Through the first quarter of 2013, ERS is lagging behind a bit at 10.84% versus 11.5% for the benchmark. Since its inception with Geneva in July 2012 through March 2013, the ERS account is lagging at 13.84% versus the benchmark of 18.98%. This lag, in large part, can be attributed to the recent low-quality phenomenon exhibited in the markets. Geneva does a great deal of research into what drives the markets, which includes reviewing an index study created by Merrill Lynch. This index reviews how well A- through D-rated stocks perform in the market. Over the past year, Geneva has recognized that both C- and D-rated stocks are up at about 25%, while the A-rated stocks are up at only around 16% in the current market. Geneva believes that share price is an indicator of quality and will not invest in stocks that are below $10 a share. Recently, however, the markets have shown stocks priced at below $5 a share are up about 27%, while companies with stocks priced above $20 a share are up only about 15%. This is another example of the bifurcation in the market where low-quality stocks are significantly outperforming higher quality stocks.

In response to a question from the Chairman, Ms. Picard stated that such low-quality rallies are historically short-term in nature, typically lasting around 9 to 15 months at the most. Currently, at around 12 months into such a cycle, Geneva is already noticing a subtle shift back towards quality stocks, coincident with the Federal Reserve tapering back on quantitative easing. While Geneva does not believe that the Fed will end quantitative easing entirely, they believe the Fed will taper back, which should bring an end to the current low-quality cycle within the next 6 to 12 months. This portends a shift back towards high quality and active management, rather than the index.

Typically what drives such lower quality markets is extremely low interest rates, which push investors out on the risk curve towards companies with lower or more volatile earnings histories. Geneva will not do that, because they have learned over time that sticking to their 20-year proven process of investing in higher quality stocks provides greater earnings rewards in the long-term. Geneva spends a great deal of time performing due diligence and has thoroughly reviewed every name in the ERS portfolio, including attending off-site meetings, to validate why each name should be in the portfolio. Geneva feels confident in the current portfolio positioning and is already seeing the winds shift back towards quality stocks and expects this shift to continue to accelerate towards year-end.

In follow-up to Ms. Picard's comments, Mr. Bauer noted that such low-quality periods are very painful for Geneva and they utilize such opportunities to seriously analyze and review what is and is not performing to the benchmark in the portfolio.

In response to a question from the Chairman, Ms. Picard stated that in terms of a debt screen, Geneva will not own anything with more than a 50% debt to capital limit.

In response to a question from Mr. Leonard regarding Geneva's more conservative investment strategy approach, Ms. Picard stated that Geneva has a consistent pattern of performance which tends to outperform during normal low-market periods. During periods of balanced broad-based participation within the quality segments, Geneva protects principal on the down side. Geneva has higher quality growth on its companies because these companies have less debt and are more financially flexible, allowing Geneva to continue to invest and make their competitive positioning even stronger in such environments. During such current periods of lag, with the lower quality stocks outperforming the higher quality stocks, Geneva tends to stick to their proven process and when viewed over the long period, they have significantly outperformed the benchmark while taking on much less risk than the average manager.

In response to a question from Ms. Van Kampen regarding the impact of higher interest rates on the financial services sector, Ms. Picard stated that a possible solution would be to weight stocks such as ICE and AMG a little lighter.

(c) Marquette Associates Report

Brett Christenson of Marquette Associates distributed and discussed the May 2013 monthly report.

Mr. Christenson first discussed the high points of the flash report. A review of the manager status shows Barings international large cap and Barings emerging markets both on alert. Both of these managers are currently under review for replacement, in addition to small cap value currently placed in iShares, which is an index placeholder for AQR that was terminated earlier this year.

Total Fund assets are just a little under $1.8 billion and, for the most part, the portfolio percentages are very close to the policy targets. A few areas that are currently underweight include infrastructure, real estate and private equity. Although private equity is currently underweight, it is up to 2.9%, with Siguler Guff as the largest asset at a little over $20 million. Marquette recently attended Siguler Guff's annual meeting and can report that Siguler Guff is currently a strong performer for the Fund.

Mr. Christenson next discussed annualized performance. The year-to-date total Fund composite net of fee return is at 5.5%, compared to the benchmark of 5.8%. Low yields and rising interest rates are beginning to exhibit a negative impact on fixed income returns. While the year-to-date percentage under the fixed income composite is down at -0.5%, the benchmark is also down at -0.9%. Although dramatic negative numbers under fixed income are not expected in the current environment, returns will still be fairly low overall at around 0% to 3%. Fixed income currently comprises 23% of the total Fund portfolio and essentially serves as an anchor to provide stability for the Fund. Fixed income has very high liquidity and is the one asset class which, in the case of an adverse event, will likely hold up very well for the Fund. In this low interest rate environment, fixed income is basically a necessary evil; however, it is hoped that the other asset classes will help offset the low yields.

Hedged equity is one asset class that is performing very well this year. While hedged equity is not keeping pace with the broad U.S. market, it is up with a year-to-date figure of 8.3%. Hedged equity is beginning to capture much more upside than it has historically and while it is only 10% of the total assets, it is hoped to continue to perform well for the Fund as the markets continue to exhibit strong returns.

Mr. Christenson then discussed individual manager status. A few managers, such as Artisan Partners and Geneva Capital, are currently underperforming, which could be attributed to the current low-quality market environment. With a slightly longer track record, Fiduciary Management is up at 16.2% versus the benchmark of 14.9%. Most notable underperformers again include Barings international, with a year-to-date of 5.6% compared to the benchmark of 7.9% and Barings emerging markets, at -5.7% versus the benchmark of -3.4%. GMO small cap is once again exhibiting nice returns, with a year-to-date figure of 11.3% versus the benchmark of 9.9%.

Mr. Christenson concluded with a discussion of fees. A breakdown of the fee schedule is included in each monthly report. The negotiated fees for the Fund in general are extremely low and efficient, with total fees on investments currently at 0.51%.

The Chairman then noted that he recently attended the Adams Street Partners' client conference held in June in Chicago. At the conference, there was a focus on small to mid-buyout opportunities. Private equity now appears to be where there is a great deal of activity and appears to be an area for potential growth. While Siguler Guff has been calling capital and appears to be moving up, Adams Street is still very cautious. They appear to be waiting for the best opportunities, but as a result, have been slow to draw capital. Adams Street appears to have shifted their strategy a bit and is doing increased direct investing and co-investing, building up their expertise. This allows them to be a little bit more selective and reduce their costs and fees. The Chairman concluded by noting he is very encouraged after attending the conference, and believes that Adams Street is an important investment vehicle for the Fund. The Chairman then stated that the Adams Street client conference is an excellent conference and encouraged other Board members to attend a future conference.

6. Investment Committee Report

The Chairman reported on the June 3, 2013 Investment Committee meeting.

At the meeting, Marquette noted that the data for the monthly report was not yet available.

The Investment Committee convened into closed session for the remainder of the meeting to review recommendations for replacements of small cap value and two international strategies. No further action was taken by the Committee on these matters at the meeting.

The Chairman noted that the Investment Committee narrowed down the list of manager candidates to three per strategy. The Investment Committee and Marquette will perform interviews of the six selected international manager candidates at the next Investment Committee meeting. Interviews of the three selected small cap value manager candidates will be held at the July Pension Board meeting during closed session. At that point, all data will be analyzed and it is hoped that final decisions on manager selections can be made in July.

7. Appeals

(a) Sarah Bell

In open session, Dr. Daugherty, now presiding as Chairman at the meeting, after the departure of Mr. Maier, invited either Ms. Bell or Ms. Bell's attorney, Lynne Layber, to make any statements.

In response to a question from Ms. Layber, Mr. Grady confirmed that he had objected to the timeliness of the petition. Ms. Layber then explained that a decision issued by Judge Ceci, and sent to her new address via certified mail, was initially returned as undeliverable. Ms. Layber referenced a file letter from Judge Ceci dated September 27, 2012, stating the U.S. Postal Service returned his certified letter containing his decision regarding Ms. Bell. Ms. Layber noted she first received a copy of Judge Ceci's decision via e-mail from Mr. Grady, following a telephone call with Mr. Grady on September 17, 2012. After receiving a copy of the denial, Ms. Layber noted she filed the petition for review of the denial within ten days, on September 27, 2012. Ms. Layber then noted to the Board that she has as evidence a copy of Judge Ceci's letter dated September 27, 2012, a copy of Mr. Grady's e-mail dated September 17, 2012, and a copy of the petition faxed to ERS on September 27, 2012.

Ms. Layber next stated her objection regarding the hearing examiner. Ms. Layber noted that outside of mediations, where the mediator is unable to render a binding legal decision, she believes it is "unheard of" to have only one party to the proceedings both choose and pay for the hearing examiner. Ms. Layber requested that Ms. Bell's case be heard by an impartial hearing examiner, to which both sides agree to and pay the fees.

Ms. Layber then provided a brief overview of her client's appeal. Ms. Layber referenced a video which clearly shows Ms. Bell entering her place of employment on January 25, 2010, slipping, and then falling on a wet floor. In addition to falling on and injuring her back, Ms. Bell chipped a tooth and injured her knee. It is not disputed that the accident happened on that date or that injuries were incurred by Ms. Bell. The Medical Board has determined that Ms. Bell cannot work a full-time job, cannot return to her position with the County and, that she is, in fact, disabled. What is disputed, however, is the Medical Board's determination that Ms. Bell's back injury, and resulting disability, was not solely the result of her fall at her place of employment on January 25, 2010.

Ms. Layber acknowledged that Ms. Bell did already have some back problems prior to her fall on that date, but noted she was always capable of working full-time prior to her injuries sustained from her fall on January 25, 2010. Ms. Bell has received treatment from various doctors over the past three years. Multiple visits from multiple doctors all render the same opinion, which is contrary to the Medical Board's decision. Ms. Layber added that the Medical Board only saw Ms. Bell once for 15 or 20 minutes, resulting in an opinion contrary to her long-term treating physicians.

Ms. Layber stated that she believes Ms. Bell should be found disabled based on the medical opinions of her long-term treating physicians. Ms. Layber then stated she had nothing further to add at this time.

In response to a question from Dr. Daugherty, no other Pension Board member had any questions for Mses. Bell or Layber. Dr. Daugherty then stated that the Board will go into closed session to discuss this matter, as well as other matters.

In response to a question from Dr. Daugherty, Ms. Layber indicated she did not care to stay and wait for the Board's decision on Ms. Bell's appeal. In response to a question from Ms. Layber, Ms. Bell indicated she would wait outside until the Board reconvenes into open session to hear their decision on her appeal.

Dr. Peck 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 7 and 8 for considering the financial, medical, social or personal histories of the listed persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of those persons, and may adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 7, 8, 9 and 10 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board voted by roll call vote 7-0 to enter into closed session to discuss agenda items 7, 8, 9 and 10. Motion by Dr. Peck, seconded by Ms. Funck.

After returning to open session, the Pension Board unanimously voted to lay over to the July Pension Board meeting the decision of appeal for Sarah Bell, pending further deliberations. Motion by Mr. Leonard, seconded by Ms. Westphal.

(b) Cornelius Armstrong

The Pension Board discussed the matter in closed session.

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

1. Mr. Armstrong was an employee of Milwaukee County (the "County") and a member of ERS. Mr. Armstrong terminated County employment on October 26, 2012.

2. Ordinance section 201.24(3.5) provides, in pertinent part, that "[u]pon termination of employment, for a reason other than death or retirement, a member shall be entitled to receive a refund of the balance as of the date of termination of his membership account and his savings account, accumulated at interest as set from time to time by the board."

3. Ordinance section 201.24(3.11)(6)(a) provides that "[r]efunds of all accumulated contributions made under this section 3.11, with interest at the rate of five (5) percent per annum, shall be made on the same conditions and under the same circumstances as refunds under section 3.5, but may only be paid in the form of a lump sum payment. For an employe terminating employment with the county, any refund of accumulated contributions must be requested within sixty (60) days after termination."

4. Upon terminating employment, Mr. Armstrong was entitled to a refund of his membership account under Ordinance section 201.24(3.5). However, Ordinance section 201.24(3.11)(6)(a) requires a member to request such refunds within 60 days of terminating County employment.

5. Mr. Armstrong was required to request a refund of his membership account by December 25, 2012. Mr. Armstrong failed to contact the

Retirement Office by this date to request a refund of his membership account.

6. Ordinance section 201.24(3.11)(6)(a) does not require ERS to provide notice of the 60-day time period to request a refund of amounts contained in membership accounts. Additionally, knowledge of the 60-day deadline is not a requirement of Ordinance section 201.24(3.11)(6)(a).

7. Because Mr. Armstrong failed to request a refund of his membership account within 60 days of terminating County employment as required by Ordinance section 201.24(3.11)(6)(a), his request for a refund of his membership account is denied.

8. If the Pension Board does not follow the Ordinances and Rules, an operational error under the Internal Revenue Code results for failure to follow the written plan document.

Motion by Ms. Funck, seconded by Dr. Peck

(c) Anissa Perkins

The Pension Board discussed the matter in closed session.

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

1. Ms. Perkins was an employee of Milwaukee County (the "County") and a member of ERS. Ms. Perkins terminated County employment on September 6, 2012.

2. Ordinance section 201.24(3.5) provides, in pertinent part, that "[u]pon termination of employment, for a reason other than death or retirement, a member shall be entitled to receive a refund of the balance as of the date of termination of his membership account and his savings account, accumulated at interest as set from time to time by the board."

3. Ordinance section 201.24(3.11)(6)(a) provides that "[r]efunds of all accumulated contributions made under this section 3.11, with interest at the rate of five (5) percent per annum, shall be made on the same conditions and under the same circumstances as refunds under section 3.5, but may only be paid in the form of a lump sum payment. For an employe

terminating employment with the county, any refund of accumulated contributions must be requested within sixty (60) days after termination."

4. Upon terminating employment, Ms. Perkins was entitled to a refund of her membership account under Ordinance section 201.24(3.5). However, Ordinance section 201.24(3.11)(6)(a) requires a member to request such refunds within 60 days of terminating County employment.

5. Ms. Perkins was required to request a refund of her membership account by November 5, 2012. Ms. Perkins acknowledges that she failed to meet this deadline.

6. Ordinance section 201.24(3.11)(6)(a) does not require ERS to provide notice of the 60-day time period to request a refund of amounts contained in membership accounts. Additionally, knowledge of the 60-day deadline is not a requirement of Ordinance section 201.24(3.11)(6)(a).

7. Even though not required by Ordinance section 201.24(3.11)(6)(a), the Retirement Office provided notice of the 60-day deadline to Ms. Perkins. Ms. Perkins acknowledges receipt of a letter from ERS dated September 27, 2012 informing her of the 60-day deadline.

8. Because Ms. Perkins failed to request a refund of her membership account within 60 days of terminating County employment as required by Ordinance section 201.24(3.11)(6)(a), her request for a refund of her membership account is denied.

9. If the Pension Board does not follow the Ordinances and Rules, an operational error under the Internal Revenue Code results for failure to follow the written plan document.

Motion by Dr. Peck, seconded by Ms. Funck.

8. Disability Matters

(a) Ann Brottlund

In open session, Mr. Grady discussed the current status of Ms. Brottlund's accidental disability pension application. The Medical Board has determined that Ms. Brottlund is unable to return to work as a firefighter due to a work-related injury sustained on August 3, 2011, while stepping off an aircraft rescue firefighting truck.

Mr. Grady next stated that the Medical Board's decision has not been disputed. However, to be eligible for an accidental disability pension, Ms. Brottlund must also meet the "any job" standard to prove that she is unfit for any other available County position for which she is suited. The Medical Board's review indicated that if light work is available, Ms. Brottlund can return to work on "light duty" status. Ms. Brottlund has been working cooperatively with the County to identify any such available positions but, due to restrictions caused by Ms. Brottlund's ongoing medical care, the search has been on hiatus. Therefore, Mr. Grady recommends the Board lay over its decision on Ms. Brottlund's accidental disability application to the September Board meeting. This should provide the County sufficient time to work with Ms. Brottlund to fully complete the search for another suitable position.

The Pension Board unanimously voted to lay over to the September 2013 Pension Board meeting the decision of the accidental disability pension application for Ann Brottlund, pending further factual data regarding the "any job" standard. Motion by Mr. Leonard, seconded by Dr. Peck.

(b) Angela Lindsey

In open session, Dr. Daugherty stated that Ms. Lindsey's application was received by the Medical Board. The Medical Board determined that Ms. Lindsey did not qualify for an ordinary disability benefit. Dr. Daugherty stated that he reviewed the application and did not have any questions. In response to a question from Dr. Daugherty, no other member had a question.

The Pension Board unanimously approved accepting the Medical Board's recommendation to deny the ordinary disability pension application. Motion by Dr. Peck, seconded by Ms. Van Kampen.

(c) James O'Leary

In open session, Dr. Daugherty stated that Mr. O'Leary's application was received by the Medical Board and recommended for approval. Dr. Daugherty stated that he reviewed the application and did not have any questions. In response to a question from Dr. Daugherty, no other member had a question.

The Pension Board unanimously approved granting the accidental disability pension application based on the Medical Board's determination. Motion by Ms. Van Kampen, seconded by Mr. Leonard.

(d) Theodore Robinson

In open session, Dr. Daugherty stated that Mr. Robinson's application was received by the Medical Board and recommended for approval. Dr. Daugherty stated that he reviewed the application and did not have any questions. In response to a question from Dr. Daugherty, no other member had a question.

The Pension Board unanimously approved granting the accidental disability pension application based on the Medical Board's determination. Motion by Mr. Leonard, seconded by Ms. Westphal.

9. 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.

10. Report on Compliance Review

The Pension Board took no action on this item.

11. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, May 2013

Ms. Ninneman presented the Retirements Granted Report for May 2013. Sixteen retirements from ERS were approved, with a total monthly payment amount of $19,689. Of those 16 ERS retirements, 9 were normal retirements and 7 were deferred retirements. Six members retired under the

Rule of 75. Ten retirees chose the maximum option, and 3 retirees chose Option 3. Five of the retirees were District Council 48 members. Four retirees elected backDROPs in amounts totaling $299,856.

Ms. Ninneman noted that ERS continues to see light activity in the number of retirements processed, as well as fewer individuals scheduling appointments for retirement meetings. ERS is noticing an increase in the requested number of one-on-one counseling sessions to discuss individual retirement benefit options, in addition to the semi-annual preretirement sessions ERS already offers. ERS does have adequate time to accommodate such requests for individuals not looking to actually sign paper work yet, but just want to come in and discuss their available benefit options.

In response to a question from Mr. Leonard, Ms. Ninneman stated that an individual is listed correctly on the May 2013 Retirements Granted report with a normal retirement at only 3.78 years of service credit. If an individual is over age 60, they are immediately eligible.

In response to a question from Ms. Funck, Ms. Ninneman stated that any individual interested in scheduling a one-on-one preretirement session with a pension counselor should call the Retirement Office general number at (414) 278-4207.

(b) <u>ERS Monthly Activities Report, May 2013</u>

Ms. Ninneman presented the Monthly Activities Report for May 2013. ERS and OBRA combined had 7,987 retirees, with a monthly payout of $12,462,169.

Ms. Ninneman then stated that due to the recent light retirement activity, ERS staff has had the opportunity to work on various backlogged projects. Several research projects are currently in process regarding possible enhancements to membership services. In addition, ERS staff is also receiving cross-training in various specialty areas, such as processing disability and deferred retirements, the OBRA plan, and processing reciprocity requests. Finally, due to a shortage of personnel over the last year, ERS staff has been taking turns one day at a time in the records room updating filing and scanning.

(c) <u>Co-Development First Quarter Report</u>

Ms. Ninneman discussed the first quarter co-development report. ERS has realized approximately $150,000 in savings during the first quarter by utilizing the co-development team rather than Vitech to make system configurations. ERS continues to see positive results with the on-site consultants, who save both time and money performing necessary upgrades and system modifications, rather than utilizing the vendor located in New York.

The co-development team has also completed several significant projects during the first quarter of 2013. Various interface files have been modified and specific system-wide reports have been developed which are now used for monthly audits. A review of batch-processing has also been completed, which involves running monthly reports that identify various exceptions, anomalies or red flag issues for further review. As certain group-specific issues are identified, scripts are written which correct those issues on an automated basis.

Ms. Ninneman concluded by stating ERS is beginning to review potential 2014 projects for the team and expects to continue to realize significant cost and time savings through the utilization of the co-development team.

(d) Pension Board Retiree Election

Ms. Ninneman discussed the upcoming retiree member election. On June 6, 2013, ERS held an informational session for any interested first-time retiree candidates. Two candidates attended the session and requested nomination paperwork.

The upcoming retiree member election is for the seat held by D.A. Leonard, whose term ends in October 2013. Ms. Ninneman then advised the Board, however, that Mr. Leonard notified her today that he will be stepping down at the end of his term and will not run for reelection. Currently, only one individual has submitted the required number of signatures to be on the ballot. Therefore, if no other interested party submits the required paperwork by June 28, 2013, an election will not be necessary.

Mr. Leonard then stated that he decided to step down once he learned that Ms. Marilyn Mayr decided to run for the seat. Mr. Leonard expressed high praise for Ms. Mayr, noting that she has previously served as a member on the Board, is highly qualified for the position, and will be an excellent asset to the Pension Board. It is out of respect for her qualifications and abilities that he has decided to sign her nomination papers and step down at this time. Mr. Leonard noted, however, that if Ms. Mayr later decides to step down, he would run again.

Dr. Daugherty then expressed his gratitude to Mr. Leonard for his service on the Board. Mr. Leonard added that he will stay on through the end of his term in October 2013.

(e) Fiscal Officer

Mr. Gopalan first discussed the April 2013 portfolio activity report, noting that April benefits were funded in the amount of $10 million from the MCM Aggregate Bond Index Fund, as well as $2 million from ABS Investment Management, and $3 million from K2 Advisors. There were also quarterly distributions from American Realty and U.S. Trumbull.

Mr. Gopalan next discussed the May 2013 portfolio activity report. Benefits for May were again funded out of the MCM Bond Fund in the amount of $14 million and Adams Street had a small capital call.

Mr. Gopalan then discussed the cash flow report for May 2013. Mr. Gopalan noted that he is currently projecting an excess of cash for the end of June of around $20 to $25 million. It was originally expected that Siguler Guff would make a capital call in June, but instead, Siguler Guff made an $8.8 million distribution. After discussions with Marquette, it was decided that the best use for the excess cash would be to fund benefits for the months of June and July. Consequently, the funding requests originally projected for June of $12 million and July of $13 million will not be made.

Mr. Gopalan concluded with a discussion of the remaining third quarter funding needs. He expects that $15 million will be required for the month of August with an additional $15 million for the month of September.

The Pension Board unanimously approved the liquidation of assets to fund cash flow of $15 million for August 2013, and $15 million for September 2013. The amount should be withdrawn from investments designated by Marquette. Motion by Ms. Van Kampen, seconded by Dr. Peck.

12. Audit Committee Report

Ms. Westphal reported on the June 5, 2013 Audit Committee meeting. The Audit Committee first discussed mandatory member contribution refund requests. The Retirement Office continues to experience challenges in meeting the 60-day payout deadline for terminated nonvested members requesting refunds of their state-mandated membership contributions. After discussing several possible options, it was determined that the best solution would be for Human Resources to request a County Board amendment to the current Ordinance.

The Audit Committee next discussed the disability retirement process. In its ongoing review of the overall disability retirement process, the Retirement Office has made two recent proposals for improving the process. The specific issues identified were discussed by the Audit Committee, as well as proposed language to amend current Rule 1027.

The first issue identified involves the effective date at which a disability pension begins. As currently written, ERS Rule 1027 provides that a member may begin receiving a disability pension after the Pension Board approves the member's application, but that once approved, the member's initial disability payment should include benefits retroactive to the date of application. However, the Ordinances require that a member terminate employment prior to receiving a pension benefit, including a disability pension.

Ordinance section 201.24(2.19) requires that a member terminate employment before retirement. Although Ordinance section 201.24(2.19) does not specifically refer to "disability retirement," that phrase is used elsewhere in the Ordinances. It seems clear that Ordinance section 201.24(2.19) was adopted, at least in part, to ensure that a member cannot receive both a paycheck from the County and a pension benefit from ERS. Therefore, it follows that in order for a member to begin receiving a disability pension, the member must have terminated employment.

Based on the Ordinances, it is logical to conclude that Rule 1027's directive to pay a disability benefit retroactive to the member's application date must be modified if the member continues to be employed by the County and continues to receive a paycheck subsequent to his or her disability application date. The Retirement Office has, in operation, been administering ERS in this way. Because Rule 1027 does not expressly provide for this administrative practice, it has been proposed to amend Rule 1027 to clarify that if a member is receiving pay from the County after his or her disability application date, the member's disability retirement is not effective until the day after the day the member ceases to be compensated by the County.

The second issue identified involves the death of disability applicant after submission of their disability application, but prior to the Medical Board's final determination upon review. After further discussion and review, it has been proposed to further amend Rule 1027 to state that, going forward, a disability applicant will elect a temporary form of benefit and, if applicable, name a beneficiary on his or her disability application. This election will continue until the Pension Board has approved the member's disability application and the member has made a permanent election. After a member's disability application has been approved, the member will have a retirement meeting with a member of the Retirement Office staff and will elect a permanent form of benefit and, if applicable, name a beneficiary. Until such time as the member can elect a permanent form of benefit and name a permanent beneficiary, the member's temporary election will control. If the member's application is denied by the Pension Board, the temporary designation is void.

The Pension Board unanimously approved amending Rule 1027, attached to these minutes as Exhibit A. Motion by Ms. Westphal, seconded by Mr. Leonard.

The Audit Committee concluded with a discussion of mature plan benefit disbursements. The Committee members discussed the implications of having a mature pension plan; however, information requested from the plan actuary was not yet available. It was then determined that this item should be added as a future topic to an upcoming Board meeting and should include discussions and comments from both Marquette and Buck Consultants.

13. Administrative Matters

Dr. Daugherty first noted the request made at the June 5, 2013 Audit Committee meeting regarding the addition of mature plan benefit disbursements as a future topic Pension Board agenda item. In response, Mr. Grady confirmed this has been already been added as a future topic under the full Pension Board.

Dr. Daugherty then asked if there were any other future topics requests for addition to the Pension Board, Audit or Investment Committees. In response, Dr. Peck requested that the Investment Committee include the topic of active vs. passive management for further discussion.

Mr. Grady noted that this topic was reviewed and discussed earlier in the year by Marquette and the Investment Committee. The Investment Committee essentially determined that each time a Request for Proposal is made, there will be a passive management alternative along with active management. Dr. Peck acknowledged this, but noted the cost issue should be further reviewed as well.

Dr. Peck concluded by indicating her interest in attending a private equity conference held in July 2013. Mr. Grady then asked Ms. Ninneman to add this as an item to the July Board meeting agenda.

14. Adjournment

The meeting adjourned at 11 a.m.

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

EXHIBIT A

AMENDMENT TO THE RULES OF
THE PENSION BOARD OF THE EMPLOYEES'
RETIREMENT SYSTEM OF THE
COUNTY OF MILWAUKEE

RECITALS

1. Section 201.24(8.1) of the General Ordinances of Milwaukee County (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").

2. Ordinance section 201.24(8.6) allows the Pension Board to establish rules for the administration of ERS.

3. Rule 1027 currently provides that a member shall begin receiving a disability retirement pension on the first day of the month after the month in which the disability is determined to exist. This Rule further provides that the first disability pension payment includes benefits retroactive to the date of the member's application.

4. Ordinance section 201.24(2.19) requires a member to be terminated from employment prior to retirement. Accordingly, a member cannot receive a disability retirement pension until the member has terminated service and is no longer receiving compensation from County employment.

5. To clarify the effective date of a member's disability pension, the Pension Board desires to amend Rule 1027 to provide that a member's disability retirement effective date is the date of the member's application, or if later, the day after the last day the member is entitled to compensation from the County.

6. The Pension Board further desires to clarify the process for a disability applicant to elect his or her form of benefit and beneficiary and clarify the default forms of benefit and beneficiaries should a member die prior to electing a permanent form of benefit and beneficiary.

RESOLUTIONS

Effective June 19, 2013, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby amends Rule 1027 to read as follows:

1027. Disability pension start date.

(1) Effective Date. A member who is eligible for a disability pension pursuant to section 201.24(4.3) or section 201.24(4.4) of the General Ordinances of Milwaukee County shall be entitled to receive his disability pension benefits effective as of the date of the member's disability application, or if later, the day after the last day for which the member is entitled to compensation for employment with the County. If the member's disability application is approved following the effective date established in the preceding sentence, the disability benefit shall be deemed to have commenced as of the effective date established in the preceding sentence. In that event, the member's initial disability pension benefit payment shall include benefits for which the member would have been eligible during the period from the established effective date to the date of initial payment. If disability ceases prior to the member's normal retirement date, the last disability pension payment shall be made on the last day of the month in which the disability ceases.

(2) Application/Beneficiary Designation.

(a) *Temporary Designation*. A member who files an application for a disability pension shall, upon filing such application, designate a temporary beneficiary to receive the applicable benefit upon the member's death prior to the approval of the member's disability application and designation of a permanent form of benefit and beneficiary. Subsequent to approval of the member's disability application, the member shall elect a permanent form of benefit and, if applicable, designate a permanent beneficiary.

(b) *Disability Application Superseded - Permanent Designation.* Subsequent to the Pension Board's approval of the member's disability and upon submission to the Retirement Office of a disability applicant's properly completed retirement paperwork for processing:

(i) the beneficiary selected in the member's retirement paperwork shall supersede that designated in the disability application (as provided in (2)(a) above); and

(ii) the permanent form of benefit paid to the member and, if applicable, the member's beneficiary shall be that designated on the member's retirement paperwork.

It shall be in the sole discretion of the Retirement Office and the Pension Board to determine whether and when the applicant's retirement paperwork was properly completed.

(c) *Death Following Disability*.

(i) In the event a member, whose disability application is approved by the Pension Board, dies prior to electing a permanent form of benefit or beneficiary (as described in (2)(b) above), the beneficiary named on the disability application (*i.e.*, the "temporary designation" as described in (2)(a) above) shall become irrevocable and such beneficiary shall be entitled to receive a 100% survivor annuity as described in Ordinance section 201.24(7.1).

(ii) If a member does not elect a beneficiary on his or her disability application, then upon the member's death prior to the member's permanent election (as described in (2)(b) above), the member's spouse, or if none, the individual or entity described in Wisconsin Statute section 852.01 governing intestate succession shall be entitled to receive a 100% survivor annuity as described in Ordinance section 201.24(7.1). However, if under Wisconsin Statute section 852.01, multiple individuals are deemed to be the member's beneficiaries, only the oldest member of such group shall be entitled to receive the member's benefit. For purposes of this subsection (c)(ii), the Retirement Office and the Pension Board shall have sole authority and discretion to determine the member's beneficiary under Wisconsin Statute section 852.01.

(3) <u>Payment of Disability Benefits in the Event of Death Prior to Approval or Commencement of Disability Payments</u>.

(a) If a member submits a disability application and dies before the Pension Board can review his or her application, the Pension Board may review the disability application after the member's death and approve or deny the member's application.

(b) In the event a member, whose disability application is approved by the Pension Board, dies prior to commencement of disability benefit payments, the disability benefit payments due to a member for the period commencing with the member's effective date (as established in subsection (1) above) and ending on the date of death shall be paid to the member's estate. Following the member's death, survivor payments will commence to the member's beneficiary.