EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE NOVEMBER 20, 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	Aimee Funck
Dr. Brian Daugherty (Vice Chair)	Vera Westphal
Norb Gedemer	
Marilyn Mayr	
Dean Muller	
Dr. Sarah Peck	
Patricia Van Kampen	
Mickey Maier (Chairman)	

   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
   Robert J. Maurer, Robeco Boston Partners
   John C. Forelli, Robeco Boston Partners
   Kim Mayer, GMO
   Peter Nolan, GMO
   Brett Christenson, Marquette Associates, Inc.
   Sushil Pillai, Joxel Group
   Brett Seese, Vitech
   Jamie Vitiello, Vitech
   Jeewan Kapoor, Vitech
   Steven Tareski, Milwaukee County Employee
   Rosemary Wussow, Milwaukee County Employee
   Ray Kress, Retiree
   Yvonne Mahoney, Retiree
   Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Chairman's Report

The Chairman welcomed Marilyn Mayr back to the Board. The Chairman then stated that with the recent changes to Board composition, it would be a good time for all Board members to contact Ms. Aikin to ensure their contact information is up to date.

4. Minutes—October Pension Board Meetings

The Pension Board reviewed the minutes of the October 16, 2013 Pension Board meeting.

The Pension Board unanimously approved the minutes of the October 16, 2013 Pension Board meeting. Motion by Dr. Daugherty, seconded by Ms. Van Kampen.

5. Investments

(a) GMO

Peter Nolan and Kim Mayer distributed a booklet containing information on the investment management services provided by GMO for ERS. Mr. Nolan introduced himself as GMO's Client Relationship Manager and Mr. Mayer as a member of GMO's Global Equity Investment team.

Mr. Nolan first provided an overview of GMO. GMO is a private partnership global investment management firm founded in 1977, with headquarters in Boston and offices around the world. GMO employs more than 100 investment professionals and more than 550 employees worldwide. GMO's strategists adhere to a value-orientation investment process which is anchored in valuations. GMO currently has $112 billion in assets under management. GMO services a worldwide client base which includes endowments, public funds, pension funds, foundations and cultural institutions. GMO offers a wide range of investment capabilities. ERS is invested GMO's international equities small cap strategy, which has constrained capacity.

In response to a question from the Chairman, Messrs. Nolan and Mayer stated that, at this time, GMO does not plan to close the international small cap strategy at any given level. GMO tries to reserve some capacity for its asset allocation groups.

Mr. Mayer next discussed performance. The ERS portfolio has performed well and year-to-date, net of fees, the asset class itself has returned about 26% as of October 31, 2013. This is a very well performing asset class within international developed and performed almost as well as the S&P 500, which has been nearly impossible for anyone to keep up with during 2013. Since inception on June 2, 2009, the portfolio has returned 15.56%, versus the MSCI EAFE benchmark at 10.68%, returning a little under 5% in terms of relative returns.

Mr. Mayer then provided an overview of the GMO Global Equity Investment team. The ERS international small cap strategy is managed within the Global Equity group. GMO subscribes to a team-based approach to investing and is organized by smaller groups within the Global Equity group. These smaller groups are focused on functionality, as opposed to specific strategies. As the portfolio manager, Mr. Mayer reviews assessments from both GMO's quantitative and fundamental research teams, reviewing valuations at both a group level and an individual stock level. The portfolio is then based and structured primarily on these valuations.

Mr. Mayer next discussed GMO's stock selection techniques. GMO manages the international small cap strategy via three discreet streams. These streams include a quality-adjusted value stream, a momentum-adjusted value stream and a momentum stream. Because GMO subscribes to a valuation-centered process, two of the three streams are valuation based. Quality-adjusted value has a much different valuation method and recognizes that higher-quality companies, with a durable competitive advantage, are going to have a higher price. Conversely, a discount should be demanded with lower-quality companies. GMO compares where the valuation records are, versus where they are trading in the market, and then adjusts for that quality. Momentum-adjusted value begins with these same valuations and awards extra credit for a good run in terms of stock pricing. Momentum is purely based on which stocks have performed well recently. All three of these streams have performed well for GMO in 2013, with momentum leading overall.

Mr. Mayer then reviewed the top 15 holdings under the international small cap strategy as of October 2013. Many of the names fall under the consumer discretionary sector. Other holdings include materials, financials, telecommunication services, industrials and health care. The companies were chosen using both the valuation and momentum based techniques. The strategy is well-diversified geographically, primarily among international developed countries. Holdings are located in counties such as the United Kingdom, Switzerland, France, Germany, the Netherlands, Ireland and Australia. GMO does allow a small percentage to go into emerging equities as well, when attractive valuation opportunities are discovered. GMO has around 5% of its overall international assets in emerging markets, as opposed to the developed international.

GMO tries to tilt the portfolio towards countries GMO believes are offering the best valuations on a group-level basis and away from companies whose markets it believes are overvalued on a country-level basis. One major underweight area is currently Australia, at 3.7%, versus the MSCI EAFE small cap index of 7%. GMO believes that Australia continues to be expensive and just recently became a little bit more expensive than the rest of the market. GMO believes that Italy continues to be a country with good valuation opportunities available. Italy's current allocation in the portfolio stands at 6.4%, almost double the overall index of 3.6%. GMO tilts towards or away from a country based underlying stock picking and consistent or inconsistent valuations. GMO holds the same philosophy under its currency allocation. GMO also views the Australian dollar to be expensive and, therefore, tilts the currency risk to underweight, at 2.6%, versus the overall index of 7%. When viewed overall, however, GMO is fairly close to the index in its currency allocation. GMO believes that the U.S. dollar, and some of the Asian countries that tend to track the U.S. dollar fairly closely, currently offer the best currency valuations.

In response to a question from the Chairman, Mr. Mayer stated that GMO attributes less than 10% of its return to currency.

Mr. Mayer continued with a review of the portfolio sector allocation. With many favorable opportunities currently available in consumer discretionary, the sector is overweight at 27.5%, versus the overall index of 19.8%. Financials are currently underweight, as GMO finds this area hard to value, and the valuations they do find are not particularly compelling, especially in European financials. With the exception of consumer discretionary, all other sectors are fairly on-target from a sector allocation standpoint.

In response to a question from Ms. Van Kampen regarding limits on sector allocation, Mr. Mayer stated that GMO tries to maintain a 10% range in terms of overweighting and underweighting.

Mr. Mayer then discussed GMO's valuation measures. Within the small cap universe, GMO has found that some of the better opportunities are in value versus growth. From a price-to-earnings standpoint, the portfolio is 16.4x, versus the overall MSCI EAFE index of 18.7x. This theme carries through from a price-to-cash flow metric, at 8.6x versus the overall index at 11.7x, and price-to-book at 1.3x versus 1.5x. GMO is managing to produce a higher return of equity with these valuations and is tilting towards the larger end of the small cap universe, finding better valuations there. From a dividend yield basis, GMO is finding a little bit more dividends than the overall market, at 2.5%, versus 2.3%.

Mr. Mayer continued with a discussion of 2013 performance drivers. Thomas Cook Travels in the U.K. is at the head of the top five performers in the portfolio, exhibiting very good returns over the course of the last year. A similar story can be seen with Smurfit Kappa, a materials company, and Swiss Life Holding in financials. Within the financial sector, GMO tends to tilt towards investment management and insurance companies and away from money-center banks or investment banks.

In response to a question from the Chairman regarding the composition of the 5% allocation in emerging markets, Mr. Mayer stated that while it is an out of benchmark bet in the portfolio and has not performed very well for GMO over the course of the last 9 to 12 months, GMO is comfortable with this bet because it is firmly based on their valuation framework. It is part of GMO's mandate to go up to around 10% away from the benchmark in emerging countries, when they see compelling valuation opportunities.

In response to a follow-up question from the Chairman, Mr. Mayer affirmed that emerging market companies GMO is investing in are companies such as Nestlé's of China and similar companies that fall within the small cap. GMO is currently finding better valuations in this sector with more consumer-focused companies.

Mr. Mayer then discussed year-to-date performance attribution. Areas beneficial to performance from a country standpoint include overweights in Ireland, Italy and France and underweights in Australia as discussed earlier. Stock picking in the U.K. has also been particularly good this year. Although some underperformance was experienced with the emerging market allocations, GMO remains confident as they continue to seek enhanced valuation opportunities here. Under sector-based performance, overweighting in consumer discretionary has been beneficial from both stock selection and a sector allocation standpoint. The materials sector has also exhibited good stock selection, although it has been broadening straight out across sectors, which is a good sign.

Mr. Mayer concluded with a discussion of annualized performance. As of October 1, 2013, the portfolio is up 3.6% year-to-date gross of fees, at 29.4%, versus the MSCI Index at 25.8%. GMO finds that within the small cap strategy, the most compelling valuations at tilted towards the value side of the spectrum, as opposed to the growth side of the spectrum. GMO is most comfortable and understands best their own valuations, which is where they have been able to add the greatest value over the long period.

As a result, going forward, GMO will be making some enhancements to the portfolio, tilting it more towards a purely valuation-based framework and away from a momentum-based framework. GMO knows that momentum works, but they do not always understand exactly why it works. GMO prefers to really understand the process and has a great deal of confidence in its valuation-based framework. Therefore, over the course of the next six months, GMO will be dialing down the momentum stream and focusing more on its valuation-based strategies.

In response to a question from the Chairman, Mr. Mayer confirmed that the overweighting in Portugal, Italy, Greece and Spain is a value-based play.

In response to questions from Mr. Muller regarding a graph illustrating the stock selection streams since December 2012, Mr. Mayer stated that the graph illustrates the performance of GMO's three different stock-picking strategies, versus the overall market. Events in July of 2013, likely related to Ben Bernanke's statement that the U.S. may be dialing back the stimulus, had a global reaction and created a downturn across all three lines.

(b) Robeco Boston Partners

Robert Maurer and John Forelli distributed a booklet containing information on the investment management services provided by Boston Partners for ERS. Mr. Maurer introduced himself as the Relationship Manager for ERS and Mr. Forelli as a Product Specialist on the Relationship Management team.

Mr. Maurer first provided an update on the organization. Boston Partners is part of Robeco Group, which is owned by Rabobank. As communicated to ERS throughout the last year, Robeco Group completed a transaction in July of this year with Orix Corporation, a financial services company in Japan. In that transaction, Orix Corporation acquired approximately 90% of the equity in Robeco from Rabobank. This transaction had no impact on Boston Partners and resulted in no changes to the firm. Boston Partners will continue to report to Robeco Group headquarters in Rotterdam, the Netherlands.

Mr. Maurer then provided a brief overview of the firm. Mark Donovan, CFA, is head of large cap value and is also co-CEO of the firm. There are 11 portfolio managers with an average 22 years of experience, and most are founding partners in the firm. There are currently 21 research analysts on the team with an average of 12 years of experience. Boston Partners has a total of $43.2 billion assets under management and manages U.S. equity large cap value for ERS, which is their largest strategy.

Mr. Maurer then discussed historical performance. Since inception on August 3, 1995, beginning assets in the portfolio were a little over $35 million. Total capital appreciation is currently over $214 million and, adding in net cash flows of $104 million, leaves ending assets as of September 30, 2013 at a little over $145 million. Year-to-date, net of fee returns as of September 30, 2013 are at 23.56%, versus the Russell 1000 Value Index benchmark of 20.47%, or 300 basis points over the benchmark. Over all time periods since inception, absolute and relative returns have been good. Through October 31, 2013 year-to-date, net of fee returns are up at 27.67%, versus the benchmark of 25.75%. Through the current date in November, the portfolio is up approximately 2.3%.

In response to a question from the Chairman, Mr. Maurer stated that global reach is the main advantage to being part of a large international investment management firm. Boston Partners has been developing its global equities strategy for the last five years in conjunction with Rabobank and their available resources, with offices in over 25 countries around the world. Mr. Forelli added that one other major advantage is their portfolio manager's stay at home managing money, versus servicing overseas clients, while still leveraging global network information.

Mr. Forelli next discussed investment philosophy. Boston Partners value discipline is rooted in three fundamental points. Desirable stocks will have low-valuation, strong fundamentals with high returns on invested capital, and positive business momentum. When each of the stocks in the portfolio contains these characteristics, the overall portfolio will have them as well. Boston Partners has a characteristics-based investment approach, and identifies stocks with these fundamental characteristics through a combination of quantitative screening mechanisms and fundamental analytical research. Finally, Boston Partners believes they provide value to their clients through the preservation of capital in down markets while keeping pace in rising markets.

Despite the fact that the market has jumped nearly 30% this year, Boston Partners is still able to find very good value in certain sectors of the marketplace. Large integrated oil companies are still very attractive investment opportunities. Companies such as Exxon Mobil, Occidental Petroleum and Royal Dutch Shell are trading in 10 to 12 times earnings, with high dividend yields and stable cash flow characteristics. Other attractive companies include large technology companies such as Microsoft, Qualcomm and Cisco. Many of these companies are also engaged in share buybacks. Boston Partners also sees extraordinary value opportunity in large cap banks such as J.P. Morgan, Wells Fargo and Bank of America. While these companies are not earning as much money as they have in the past, their valuations are very depressed. For example, Citi Group and Bank of America are trading for less than full value for global financial banking enterprises. Many investors are still skeptical of the large banks due to the 2008 financial crisis, but Boston Partners believes their balance sheets are in good enough shape to participate without any problems.

Value investors tend to become a little nervous when the market goes up 30% in one year and Boston Partners believes that certain areas of the market are overvalued today, somewhat similar to the situation seen in 1999. Companies such as Netflix, Tesla Motors, Twitter and Facebook appear somewhat dangerously overvalued today.

In response to a question from Ms. Van Kampen regarding performance traits throughout the market's cycle, Mr. Forelli stated that Boston Partners has outperformed the Russell 1000 Value Index 61% in up markets and 62% in down markets. One of the hallmarks of Boston Partners is preservation of capital in down markets.

Mr. Forelli next discussed the portfolio's overall characteristics. As of September 30, 2013, the portfolio is trading at 12.1x earnings, which is still reasonably priced. Historically, the market has traded in the 14 to 17 multiple range. The ERS portfolio has very good value characteristics, with high returns on assets and equity relative to the overall benchmark.

Mr. Forelli then discussed sector opportunities in the marketplace today. Utilities and REITs are high dividend yielding sectors. Boston Partners does not currently own much of these stocks because two years ago, when Treasury rates went to 2%, current investors became dissatisfied and gravitated towards the high dividend yielding stocks in the marketplace. Utilities and REITs became overvalued at that time. Boston Partners believes they are still overvalued and Boston Partners is still avoiding those sectors in the market today. There are currently better opportunities available in finance, health care and consumer services.

In response to a question from the Chairman regarding name concentration guidelines, Mr. Forelli stated that 5% would typically be the largest position (up to the benchmark weight plus 1%). The largest position today is at 4%.

Mr. Forelli then reviewed third quarter portfolio holdings. Recent changes to the portfolio include reducing overweights in health care. With the market up 30%, many health care companies were reaching price targets. It is easier today to find companies reaching price targets than it is to find new investment opportunities. While Boston Partners is still finding investment opportunities, they have sold quite a few positions in the portfolio. One area of concentration today is increasing technology investment opportunities. Because many technology companies have large European operations, there was a slowdown in technology when Europe entered a recession last year. With that recession now winding down, these companies are starting to exhibit much better returns.

In response to a question from Ms. Van Kampen, Mr. Forelli stated that the typical turnover rate is 40% per year.

Mr. Forelli concluded with a review of ten-year period performance. The goal of Boston Partners is to generate excess returns without taking excessive risk in the portfolio. Over the last ten years, Boston Partners has added 2.8% over the benchmark, while taking less risk than the benchmark as a whole. Mr. Forelli thanked ERS for its 18 years of business, noting ERS is a valued customer and Boston Partners appreciates the trust and confidence throughout the years.

Mr. Maurer then concluded with a discussion of 2014 expectations. From the period of March of 2009 through the end of 2012, the stock market doubled in corporate earnings. So far this year, the market is up 30%, earnings are up 6% to 7% and valuations are improving. Boston Partners believes that over time, equities sell on underlying earnings. In terms of expectations for 2014, Boston Partners would not anticipate any better returns than those seen in the last few years, and returns will likely remain in the 6% to 8% range. Equities are still substantially better than fixed income and Boston Partners is buying quality companies at reasonable valuations, but those valuations have increased a bit.

In response to a question from Ms. Mayr regarding the liquidation of health care, Mr. Maurer stated that several health care companies, such as Humana and United Healthcare, have reached their price targets. When a stock is purchased, a fair-value price point is established and when a stock reaches that price, it is sold and replaced with something that is undervalued. Because the health care sector was overweight, Boston Partners is liquidating these companies that have reached their price points and will continue to search for better valuation opportunities elsewhere in the market.

(c) Marquette Associates Report

Brett Christenson distributed and discussed the October 2013 monthly report.

Mr. Christenson first discussed the third quarter report. The total fund composite was up at just a little over 12% net of fees, ranking in the 47th percentile, which is the top half of the peer group. The reduction to fixed income last year has helped and overall, the portfolio is well-diversified and exhibiting good performance.

Mr. Christenson next discussed the October flash report. Although Barings emerging markets is still listed on the manager report, it was terminated due to performance issues and replaced with OFI International as of November 11, 2013. As of October 31, 2013, total Fund assets were slightly over $1.8 billion.

At this time, Marquette would like to see the Fund keep fairly close to equity targets. A current review of the policy differences shows the Fund is slightly underweight to fixed income, at approximately $34 million, and overweight to U.S. equities, at approximately $18 million. The overweight figure in U.S. equities was originally closer to $42.5 million, but this was somewhat naturally rebalanced when the $25 million commitment to J.P. Morgan infrastructure was paid from Mellon Capital on November 1. Although international equity is currently overweight by about $15 million, Marquette is comfortable with that figure for now because there is a little more value here than the U.S. market. Hedged equity is slightly overweight at approximately $18 million. Redemptions were placed in September under hedged equity, $9.5 million to ABS and $7.5 million to K2, but that money will remain invested through the end of 2013. Marquette is very comfortable with the slight overweight in real estate at approximately $7 million. The underweight in infrastructure was again completed with the $25 million capital call to J.P. Morgan on November 1.

Overall, a natural rebalancing generally occurs through cash flow and the need to pay benefits. However, Marquette may not pull money for benefits for another few weeks and would like to get U.S. equity in line with policy targets today through rebalancing. Marquette recommends taking $3.5 million from Boston Partners, $4.5 million from Mellon Capital, $3.5 million from Artisan Partners and $ 4.5 million from Geneva Capital, for a total of $16 million. The money will be placed with Mellon Capital core fixed income. As cash flow dictates in the next month or two, Marquette will draw respectively from overweights, possibly from international equity.

In response to questions from the Chairman and Ms. Mayr, Mr. Christenson stated that the Fund is currently within range and the rebalancing is not necessary. This is however the longest time span without a correction and because the Fund is a little overweight in some areas that have equity risks, Marquette would like to be prudent and keep close to policy targets at this time.

The Pension Board unanimously approved rebalancing the portfolio out of U.S. equity by moving $3.5 million from Boston Partners, $4.5 million from Mellon Capital, $3.5 million from Artisan Partners and $4.5 million from Geneva Capital into Mellon Capital core fixed income. Motion by Dr. Peck, seconded by Ms. Braun.

Mr. Caprio next reviewed manager status. Silvercrest Asset Management is the Fund's small cap U.S. equity value manger. The co-founder and CEO of Silvercrest had been ill for quite some time and passed away last Monday. The COO of Silvercrest had been acting in place of the CEO for quite some time and Marquette views this as a minor disruption. Despite this, Marquette recommends placing Silvercrest Asset Management on alert at this time as standard practice.

In response to a question from Ms. Van Kampen regarding the CEO's ownership share, Mr. Christenson stated that Silvercrest had an IPO last year, so his ownership likely came down significantly.

In response to a follow-up question from the Chairman regarding potential implications with the CEO's estate plan, Mr. Christenson stated that he did not have the information at this time, but Marquette is planning to meet with Silvercrest in the near future to discuss the matter further.

The Pension Board unanimously approved placing Silvercrest Asset Management on alert. Motion by Dr. Peck, seconded by Ms. Van Kampen.

Mr. Caprio continued with a discussion of the private equity commitments. Marquette is in the process of updating their model for ERS which identifies cash flows and total Fund level over the course of the next few years. The model will enable Marquette to identify how much funding ERS will need to continue to commit into private equity. This could be a topic for discussion at the next Investment Committee meeting.

In response to a question from the Chairman regarding the timeframe for possible funding commitments with Adams Street partners, Mr. Christenson stated that Adams Street is beginning to soft circle clients now for 2014 funds. Marquette had preliminary discussions with Adams Street, and Adams Street advised Marquette that their secondary fund is tight and will likely close quickly, but there is a placeholder and more time to discuss.

The Chairman then noted that since 2009, it has been a very slow process for Adams Street Partners to draw down ERS commitments. He would appreciate advice from Marquette during their private equity analysis as to whether it would be more beneficial to put additional money into Siguler Guff, or possibly explore additional managers. When ERS invested with Siguler Guff, they were able to put the money to work immediately, getting quick returns and moving further up the J curve.

In response to the Chairman, Mr. Christenson stated that Marquette can certainly explore additional investment options under private equity, noting that Adams Street has been much slower than normal in the last five or six years at calling capital. The Chairman then added that Adams Street is being prudent, which he appreciates; however, ERS is attempting to get to a certain level of exposure under private equity which has been difficult at the slow rate of capital calls.

In response to a question from the Chairman regarding the custodial RFP, Ms. Ninneman and Mr. Christenson stated that there were four responses. Mr. Christenson stated that Marquette would also be ready at the next Investment Committee meeting to circulate the summaries and present on the custodial RFP.

Mr. Christenson next discussed year-to-date returns by asset class. Marquette is pleased to see that year-to-date figures are up under fixed income and U.S. equity. Additionally, despite recent adjustments made with managers, figures are also up under international equity, 14.8% versus the benchmark of 14.5%. Hedged equity is also up year-to-date, net of all fees, at 14%, with ABS as one of the strongest hedged equity managers to date in their peer group. Real estate is also up 10.8% year-to-date, net of fees.

In response to a question from Mr. Muller regarding the 7.3% total Fund composite ten-year return figure, Mr. Christenson stated that it may have been closer to 8% sometime in the past, but he can check the prior figures to confirm. The current 7.3% ten-year figure is still well above the peer group.

Mr. Christenson next discussed manager performance. Under fixed income, J.P. Morgan is protecting capital somewhat in the down market and is down -0.5% year-to-date versus the benchmark of -1.1%. Under U.S. equity, Artisan Partners mid cap growth continues to post very strong numbers, up 31.9% year-to-date versus the benchmark of 28.7%. Also under U.S. equity, Fiduciary Management, which has struggled a bit since its inception, has posted a nice year-to-date return of 29.5% versus the benchmark of 27.1%. While Fiduciary Management still needs to gain more momentum, they are at least moving in the right direction. Both ABS and K2 have exhibited strong year-to-date returns under hedged equity, at 14.9% and 13.2% respectively. Morgan Stanley real estate is returning very strong numbers at 12.4% year-to-date versus the benchmark of 9.7%. With the highest weighting under real estate, Morgan Stanley has really enhanced returns in that category. The numbers under J.P. Morgan infrastructure are only through the second quarter. Marquette did receive an update this morning that J.P. Morgan had a very strong third quarter, with a year-to-date return, net of all fees, at 3.5%, and a one-year number at around 7.3%. There has been a great deal of fluctuation within J.P. Morgan's infrastructure, which in large part is due to an Australian airport which comprises 12.5% of their portfolio. Australian currency has been moving quite a bit compared to the U.S. dollar and J.P. Morgan lost 4% in the second quarter due to currency, but then regained a 5% return for currency, which shows that underlying fundamentals are still strong. Marquette is pleased with the returns under both real estate and infrastructure, which were both recently increased as part of the adjustment to fixed income.

Mr. Christenson concluded with a discussion of manager fees. J.P. Morgan's infrastructure has a current base fee of approximately 1.5%. IFM, the one other open-end infrastructure product on the market, has a lower fee of about 0.25%. In response to their peer group, J.P. Morgan has taken steps to lower their fees. Effective in October 2013, J.P. Morgan's new fee structure is 1.25% on the first $50 million and 115 basis points on the next $50 million. ERS has approximately $85 million invested with J.P. Morgan, which would translate to a fee savings of approximately $200,000 per year.

6. <u>Investment Committee Report</u>

There was no Investment Committee report because the November 4, 2013 meeting was cancelled.

The Chairman then noted that while there was no Investment Committee meeting, the normal RFP search and review processes for both investment consultant and custodian are currently in process.

7. Disability Matters

The Chairman first confirmed that there were no representatives present on behalf of Mary Holtz or Steven Tareski.

(a) Mary Holtz

In open session, the Chairman stated that Ms. Holtz's application was received by the Medical Board and recommended for approval. The Chairman stated that he reviewed the application and did not have any questions. In response to a question from the Chairman, 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 Dr. Daugherty, seconded by Mr. Gedemer.

(b)(i) Steve Tareski

In open session, the Chairman stated that Mr. Tareski's application was received by the Medical Board. The Medical Board reviewed the activities required in Mr. Tareski's position and the functional capacity evaluation. The Medical Board certified that Mr. Tareski is not incapacitated for further duty and such incapacity is not likely to be permanent. Therefore, the Medical Board recommends that Mr. Tareski's application for an ordinary disability pension should not be granted.

In response to a question from the Chairman, Ms. Ninneman confirmed that the functional capacity evaluation was completed by Dr. Shivaram and incorporated into the September 2013 report.

The Chairman then stated that he had completed his review of the application and had no further questions. In response to a question from the Chairman, 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.

The Chairman was then notified that Mr. Tareski had arrived to address the Board. The Chairman then requested a motion for reconsideration of Mr. Tareski's disability application.

The Pension Board unanimously approved granting the reconsideration of Mr. Tareski's ordinary disability pension application. Motion by Dr. Daugherty, seconded by Mr. Gedemer.

(b)(ii)Steve Tareski

In open session, Mr. Tareski thanked the Board for seeing him and, in response to a question from the Chairman, stated that he would prefer to present his additional information in open session.

The Chairman then noted to Mr. Tareski that the Board had already reviewed the medical examiner report and made a decision regarding his application. However, upon hearing that Mr. Tareski had appeared with additional information to present, the Board approved a motion for reconsideration.

Mr. Tareski then stated that over the last 15 years, his job description and job-related duties have changed quite a bit and when he began the position with the County, it was listed as 5% clerical, but is now described as 60% to 80% clerical. As a result, Mr. Tareski stated that he concerned as to what job description criteria Dr. Shivaram used while completing the functional capacity evaluation.

Mr. Tareski then noted to the Board that he brought copies of his medical records which state he has impaired function in his left hand. This impairment inhibits his ability to type and to perform other various computer-related activities required in his position. As his job related duties continued to change, he sought help from various supervisors. Mr. Tareski claims that each time he spoke to a supervisor and requested accommodations regarding his difficulties, they ignored him. Mr. Tareski claimed that his supervisors then began to find errors in his work. Mr. Tareski felt that the accusations made by his supervisor were not due to his limitations, but rather to simply avoid the trouble of making any special accommodations.

Mr. Tareski then stated that in 2010, he requested assistance from his Development Vocational Rehabilitation ("DVR") counselor. As a result, a job and workspace evaluation was performed, resulting in various recommendations for change. Mr. Tareski noted that he then purchased items himself, such as two new keyboards and a new mouse, which did make his job easier to perform with one hand.

Mr. Tareski stated that in 2007, he requested the County provide him with voice recognition software. The software would enable him to perform verbal data entry tasks but was not provided until 2012, after once again going through his DVR counselor. Mr. Tareski believed the software was beneficial, but after a review with his supervisor, was told it was not making much of a difference. At that time, Mr. Tareski indicated to his supervisor that he felt he would no longer be able to perform his job effectively with his limitations.

In response to a question from the Chairman, Mr. Tareski stated that his supervisors' solution to the problem, after providing the voice recognition software, was to simply do nothing.

Mr. Tareski then proposed the idea job sharing to his supervisor. He suggested that he could interview clients, which was already part of the job, and another employee could do the required clerical and data-entry portion of the work. Mr. Tareski stated that his supervisor initially agreed to the plan but changed her mind three days later. Mr. Tareski stated that he has been working since 2007 with Sue Chase to try to get the necessary accommodations in place to do his job successfully.

In response to a question from the Chairman regarding the relevance of Mr. Tareski's previous statement as to the changes to his job description, Mr. Tareski reiterated that he was uncertain whether Dr. Shivaram took his current job description into account when completing his functional capacity evaluation.

The Chairman then noted that Dr. Shivaram's report does indicate he took the job description into account when performing the functional capacity evaluation.

Mr. Tareski then stated he was concerned that the last job description he saw was written probably 15 years ago, which was not the same job he was performing when he left in 2012.

Mr. Tareski noted to the Board that he has a copy of a letter written by Milwaukee County Human Resources to his insurance company detailing the functions of his job. This letter was written in 2013 and likely contains the most accurate description of his job. Mr. Tareski stated that if Dr. Shivaram reviewed a job description written 15 years ago, it is not accurate.

In response to question from the Chairman, Mr. Tareski stated that the functional capacity evaluation was performed on June 5, 2013.

In response to a question from Mr. Grady, Mr. Tareski indicated that he did have copies with him today of the June 5th functionality assessment, the 2013 letter from Human Resources to his insurance company, and the DVR assessment of his work station with the recommended accommodations. Mr. Tareski also indicated that he has copies of letters from various other physicians who have evaluated him, which have been previously submitted to Human Resources.

The Chairman noted that the physician letters should have already been presented to Dr. Shivaram as part of his medical record but, to be thorough, the Board will take copies of everything Mr. Tareski has today, to ensure everything is taken under consideration regarding the Medical Board's recommendation.

In response to a question from Ms. Van Kampen regarding the job functions he is currently unable to perform, Mr. Tareski stated that a large percentage of his job involves data entry skills and working with a computer keyboard. This is the type of work his physicians stated he should not be doing.

In response to a question from the Chairman regarding a description of his current day-to-day job duties, Mr. Tareski stated that he is currently unemployed after taking leave from the County in October 2012.

Mr. Tareski then added that after requesting additional accommodations from his most recent supervisor, he had four verbal warnings in a span of three days. Throughout his prior 15 years of employment with the County, he had not received one verbal warning. Mr. Tareski noted that he felt he also received similar repercussions from a prior supervisor in 2007, after also requesting accommodations at that time.

The Chairman noted that he understood the stressful nature of the employment relationship, but clarified it is the current duty of the Board to focus on the advice of the medical examiner in determining Mr. Tareski's qualification for a disability pension.

In response to a follow-up question from the Chairman, Mr. Tareski indicated that he was employed by the County as a housing program assistant. His job involved interviewing clients and gathering income and policy information, to locate suitable rental property.

In response to a question from Messrs. Muller and Grady, Mr. Tareski stated that he is still technically an employee of the County, but is currently on a leave of absence. His doctor diagnosed new pain in his right hand as resulting from overuse and gave him permission not to return to work until further notice. Mr. Tareski stated that his doctor has not yet given him permission to return to work, and likely never will, if he remains assigned to his current job.

In response to a question from the Chairman, no other Board member had any other questions. The Chairman then thanked Mr. Tareski for coming before the Board and requested copies of all documents he has with him today to ensure the medical examiner has taken everything into consideration.

8. Appeals

(a) Rosemary Wussow

In open session, the Chairman summarized that Ms. Wussow previously submitted an appeal to recalculate the earnings base for final calculation of her pension to include overtime earnings. The decision on Ms. Wussow's appeal was held over during the last Board meeting, pending additional information from Ms. Wussow's representative. Ms. Wussow is here today to present additional information on her own behalf.

In open session, Ms. Wussow asked if the Board had a copy of her second appeal letter dated October 16, 2013. The Chairman affirmed that a copy of the October 16 letter was provided to the Board. The Chairman stated that a copy of Ms. Wussow's original appeal letter, dated September 10, 2013, was also included in the packet of materials circulated to the Board for today's meeting.

Ms. Wussow then summarized her statement in the October 16, 2013 appeal letter. Ms. Wussow began working for the County in 2006 in a job classification with one of the lowest pay rates. Throughout the years, she was subjected to furlough days, pay and hiring freezes, and a layoff due to privatization. Ms. Wussow stated that she was able to supplement her income over the years through working overtime. The overtime she worked, plus her regular 40 hours per week salary, is considered gross taxable income from approximately 2011 to present. Because of this, it never occurred to her that any overtime worked would not be included as part of her annual earned income applicable to her pension benefits.

Ms. Wussow noted that she has been working 11-hour days, five days a week, plus 10-16 hours on the weekends, for approximately three years. She believes Ordinance 201.24(2.7) considers this earned compensation, which she strongly believes should be applied to her final average salary pension calculation.

Ms. Wussow then referenced the May 16, 2013 denial letter she received from ERS, stating that the Rules and Ordinances referenced within the letter are not clearly defined and are open to interpretation in her opinion. Ordinance 201.24(2.7) defines earnable compensation as meaning total compensation that would be payable to a member if he/she worked the full normal working time for his/her position, plus all payments for authorized overtime. Ms. Wussow stated she believes this Ordinance appears to allow overtime in the final annual salary pension calculation, and is what she based her information on for calculation of final pension benefits. Ordinance 201.24(2.8) refers to final average salary for three consecutive years of service during which the member's earnable compensation was the highest, but it does not mention overtime. Ordinance 17.015 provides that for all employees represented by AFSCME as of January 30, 2012, all provisions of the 2007-08 collective bargaining agreement between AFSCME and Milwaukee County are adopted by reference and incorporated herein. Ms. Wussow stated that with passage of Act 10 and the exclusion of union dues, she was not a member of DC48 as of January 30, 2012. Ms. Wussow questioned why this Ordinance would be adopted by reference on her behalf if it was null and void.

In response to a question from the Chairman, Ms. Wussow stated that she has not paid dues into DC48 since the passage of Act 10.

Ms. Wussow continued the summary of her October 16, 2013 letter, noting that ERS Rule 112 tracks Ordinances 201.24(2.7) and 201.24(2.8), and refers to final average salary for three consecutive years of service when a member's earnable compensation was the highest. Ms. Wussow stated that nothing is mentioned about excluding overtime. ERS Rule 112(4)(A) provides that compensation includes all earnable compensation if the represented employee or non-represented employee was hired before September 1, 1985. ERS Rule 112(4)(B) provides that compensation includes compensation for straight time hours, excluding any overtime hours, if the non-represented employee was hired on or after September 1, 1985. Ms. Wussow stated that there is nothing in Rule 112(4)(B) about a represented employee hired on or after September 1, 1985. Ms. Wussow then repeated that she believes most of these Rules and Ordinances referenced are not clearly defined, and are therefore open to different interpretations.

Ms. Wussow next stated that she would like a review of the January 30, 2012 date referenced in the May 16, 2013 denial letter.

Ms. Wussow again noted that the denial letter states that for employees who were represented by AFSCME as of January 30, 2012, all provisions of the 2007-08 collective bargaining agreement between AFSCME and Milwaukee County are adopted by reference and incorporated herein. Ms. Wussow stated that she was not a member of the union at that time, and therefore, under her circumstances, the provisions should not be adopted by reference. Ms. Wussow requested that the Board review the differences between represented employees and non-represented employees, since the implementation of Act 10, to determine what contractual agreements were dissolved.

Ms. Wussow then asked the Board to at least consider the overtime she worked in the years following the passage of Act 10 for inclusion as a portion of her final average salary calculations, if the overtime she worked prior to Act 10 is deemed ineligible. Ms. Wussow then stated that she believes it is a discriminatory practice to allow one employee to use overtime favorably in a pension calculation, while others are excluded from doing so. Ms. Wussow then questioned if this is even a fair labor practice and whether it may even be in violation of the fair labor laws.

Ms. Wussow then thanked the Board for their time and consideration and requested a favorable reconsideration.

The Chairman thanked Ms. Wussow for appearing today, noting that her letter was very thorough. The Chairman stated that the Board will further review the matter and obtain advice from legal counsel regarding interpretation of the various Rules and Ordinances.

Ms. Wussow then noted that one question she would particularly like the Board to answer is how the inclusion of overtime could be replaced with a collective bargaining agreement which was null and void. Ms. Wussow believes that the Board's decision should be based on Ordinance 201.24(2.7), which includes overtime in the final average salary calculation. Ms. Wussow then added that during her attendance at a preretirement meeting, she was never advised that overtime would be excluded from her final average salary and nothing was mentioned either in the pamphlets that were distributed during the meeting.

The Chairman again thanked Ms. Wussow for appearing before the Board today and stated that after further review of the matter, a written decision will be sent to her sometime in the near future.

Dr. Daugherty 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, 8, 9 and 10 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 7 through 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 8-0 to enter into closed session to discuss agenda items 7, 8, 9 and 10. Motion by Dr. Daugherty, seconded by Ms. Braun.

The Board discussed the matter in closed session.

After returning to open session, the Pension Board unanimously voted to deny Ms. Wussow'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. Ms. Wussow commenced County employment and ERS membership on January 9, 2006. She has always been a member of Milwaukee District Council 48 AFSCME, AFL-CIO ("DC 48"). She has recently been exploring her retirement options.

2. To date, during her County employment, Ms. Wussow worked over 2,000 hours of overtime. She inquired whether her overtime would be included in the final average salary calculation used in determining her pension benefit.

3. ERS sent a letter to Ms. Wussow on May 16, 2013, explaining that her overtime would not be included in her final average salary calculation.

4. The letter explained that while overtime is included in the final average salary calculations for some members, the DC 48 collective bargaining agreement ("CBA") with the County excludes overtime from the final average salary calculations for members hired after October 30, 1987.

Accordingly, ERS advised that Ms. Wussow's overtime would not be included in her final average salary calculation.

5. Ms. Wussow sent a letter to ERS on September 10, 2013, requesting that the Pension Board review the Retirement Office's decision. (Ms. Wussow sent a revised letter on October 16, 2013 clarifying that she performed overtime work for the County beginning in 2011, not 2001, like her initial letter had stated).

6. Ms. Wussow presented her positions and concerns to the Pension Board at its November 20, 2013 meeting. She also distributed a letter dated October 16, 2013 which stated her concerns and positions.

7. Ms. Wussow argues that she was not advised and was unaware that her overtime would not be considered when calculating her final average salary. She contends that because of Act 10, she is no longer a represented member of DC 48; therefore, her overtime should be included in her final average salary calculation. Ms. Wussow also argues that the Ordinances and Rules are unclear and subject to interpretation.

<u>Eligibility to Include Overtime in Final Average Salary Calculation</u>.

8. Generally, the Ordinances and Rules provide the framework for determining eligibility and calculating and distributing benefits. However, for represented members, Ordinance section 201.24(8.21) allows the Secretary of the Pension Board to implement all CBA provisions that amend the Ordinances governing ERS. Accordingly, for represented members, the Ordinances and Rules, as amended by the members' CBAs, provide the framework for benefits.

9. Ms. Wussow contends that she is not a member of DC 48 because Act 10 dissolved all prior collective bargaining agreements and allowed employees to opt-out of paying union dues.

10. Although Act 10 prohibited the collection of union dues through payroll deduction and allowed employees to opt-out of paying union dues, Act 10 did not automatically reverse representation by a union and did not automatically dissolve the CBAs with the County. Furthermore, union members who do not pay union dues still remain represented by the union.

11. Act 10 did, in part, increase the requirements for a union to be recertified. DC 48 did not meet these Act 10 recertification requirements, and according to the Wisconsin Employment Relations Committee, DC 48 was decertified on January 30, 2012.

12. The County adopted Ordinance section 17.015, which incorporates some provisions of the 2007-08 CBA between DC 48 and the County upon decertification of DC 48. Ordinance section 17.015 extends to all members who were represented by DC 48 as of January 30, 2012.

13. Pursuant to Ordinance section 17.015, even though DC 48 was decertified, some CBA provisions remain in effect for employees who were DC 48 members as of January 30, 2012.

14. The Pension Board finds that Ms. Wussow was a member of DC 48 as of January 30, 2012 because the passage of Act 10 did not automatically reverse representation by a union.

15. Because Ms. Wussow was a member of DC 48 on January 30, 2012, pursuant to Ordinance section 17.015, she is bound by the terms of the DC 48 2007-08 CBA for purposes of her ERS benefits.

16. Ordinance section 201.24(2.8)(1)(c) provides "For non-represented employes, and employes represented by a collective bargaining unit which has agreed to this provision, effective January 1, 2003 final average salary shall mean the average annual earnable compensation for the three (3) consecutive years of service during which the member's earnable compensation was the highest…"

17. Ordinance section 201.24(2.7) provides that "Earnable compensation shall mean total compensation that would be payable to a member if he/she worked the full normal working time for his/her position, plus all payments for authorized overtime but excluding payments in lieu of vacations…"

18. Section 2.17(3) of the 2007-2008 DC 48 CBA provides that "For employees hired after October 30, 1987 overtime shall not be included in the computation of final average salary."

19. Ordinance section 201.24(8.21) and Ordinance section 17.015(2) both incorporate some provisions of DC 48's CBA into the Ordinances, including Section 2.17(3) that excludes overtime in the computation of final average salary.

20. The Pension Board finds that because the DC 48 CBA prohibits inclusion of overtime in the calculation of final average salary for employees hired after October 30, 1987, pursuant to Ordinance section 201.24(8.21), the CBA's exclusion of overtime redefines the term "earnable compensation" as defined in Ordinance section 201.24(2.7) to exclude

overtime for individuals represented by DC 48 as of January 30, 2012 (per Ordinance section 17.015).

21. The Pension Board further finds that Ms. Wussow was hired on January 9, 2006, and she was represented continuously by DC 48 up to and including January 30, 2012. Accordingly, the Pension Board finds that Ms. Wussow is subject to the 2007-2008 DC 48 CBA, and her overtime should not be included in her final average salary calculation.

22. The Pension Board is required to administer ERS based on the Ordinances and Rules. Ordinance section 201.24(8.21) requires implementation of CBAs into the Ordinances and Rules. Accordingly, regardless of whether an individual has actual knowledge, the Pension Board finds that it must distribute and calculate benefits based on the Ordinances and Rules, as modified by the CBAs.

23. Ms. Wussow also questions whether the practice of determining inclusion of overtime based on an employee's hire date violates fair labor laws.

24. The Internal Revenue Code, Wisconsin state law and the Ordinances and Rules, rather than fair labor laws, govern the definition of compensation for purposes of pension benefits. Accordingly, the Pension Board finds that fair labor laws are not violated by the Ordinances' and Rules' definition of compensation based on an employee's date of hire.

<u>Rule 112</u>.

25. Rule 112(4)[A] provides additional guidance regarding the calculation of final average salary and provides that "'compensation' includes all earnable compensation, if the employe is represented by a collective bargaining unit, or if the member is a nonrepresented employe who was hired before September 1, 1985."

26. As stated above, the Pension Board finds that for ERS members covered under the DC 48 CBA as of January 30, 2012, the provisions of Ordinance section 201.24(8.21) require the CBA's exclusion of overtime to redefine the term "earnable compensation" as defined in Ordinance section 201.24(2.7) to exclude overtime. Accordingly, for members covered by the DC 48 CBA, as of January 30, 2012, the definition of "earnable compensation" is revised to exclude overtime, and Rule 112(4)[A]'s reference to earnable compensation refers to the redefined term for these members.

<u>CBA Section 2.04 - Overtime</u>.

27. Ms. Wussow contends that Ordinance section 17.015(3) excludes overtime from incorporation into the Ordinances and Rules.

28. Ordinance section 17.015(3) describes sections of the DC 48 2007 08 CBA that are already incorporated into the Ordinances and are, therefore, excluded from the provisions in Ordinance section 17.015(2).

29. Ordinance section 17.015(3)(b) excludes from general incorporation into the Milwaukee County Ordinances CBA section 2.04 Overtime because this section is already incorporated into Milwaukee County Ordinance section 17.16.

30. CBA section 2.04 and Ordinance section 17.16 discuss overtime compensation, not whether overtime is to be considered in the calculation of final average salary. Accordingly, the Pension Board finds that CBA section 2.04 is not relevant to the issue of whether Ms. Wussow's overtime should be included in her calculation of final average salary.

<u>Overtime as a Non-Represented Member</u>.

31. Ms. Wussow contends that as a result of Act 10 she is no longer a member of DC 48; therefore, the CBA language does not apply to her.

32. If Ms. Wussow is not a member of DC 48, she would be considered a non-represented member. However, in accordance with Ordinance section 201.24(2.8)(1), the overtime hours of non-represented members that began employment on or after September 1, 1985 are not included in final average salary calculations.

33. Ordinance section 201.24(2.8)(1)(a) provides that "For non-represented employes whose continuous membership in the employe retirement system begins on or after September 1, 1985, the final average salary shall be based solely on the total straight time hours paid, excluding any overtime hours paid, for the five (5) consecutive years of service during which the employe's earnable compensation was the highest..."

34. Ordinance section 201.24(2.8)(1)(c) provides that "For non-represented employes, and employes represented by a collective bargaining unit which has agreed to this provision, effective January 1, 2003 final average salary shall mean the average annual earnable compensation for the three (3) consecutive years of service during which the member's earnable compensation was the highest…"

35. Rule 112(a)(4)[B] clarifies that "'compensation' includes only compensation for straight time hours, excluding any overtime hours, if the member is a nonrepresented employe who was hired on or after September 1, 1985."

36. Accordingly, the Pension Board finds that if Ms. Wussow is considered to be a non-represented member, she remains ineligible to have her overtime included as part of her final average salary calculation.

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

The Chairman concluded by stating that a written decision detailing the reasoning for the denial shall be sent to Ms. Wussow.

7.(b)(iii) Steve Tareski

The Board continued its discussion of the matter in closed session.

After returning to open session, the Chairman stated that the Board would like to ensure that any new information Mr. Tareski provided today will be taken into account by the medical examiner. Any new information provided today will be forwarded to the medical examiner and a decision will be taken up by the Board at a future meeting.

In response to a question from Mr. Grady and the Chairman, no member had any objection to the proposed action.

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.

(f) *Weber 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, October 2013

Ms. Ninneman presented the Retirements Granted Report for October 2013. Twenty-one retirements from ERS were approved, with a total monthly payment amount of $36,421. Of those 21 ERS retirements, 16 were normal retirements, 3 were deferred, 1 was an ordinary disability retirement and 1 was an accidental disability retirement. Fifteen members retired under the Rule of 75. Nine retirees chose the maximum option, and 6 retirees chose Option 3. Eleven of the retirees were District Council 48 members. Ten retirees elected backDROPs in amounts totaling $684,183.

Ms. Ninneman concluded by noting that 2013 continues to be a slow year for retirements. Annualized numbers are indicating that at year-end, ERS will be around 277 retirements, which will be the lowest number in the last four or five years.

(b) ERS Monthly Activities Report, October 2013

Ms. Ninneman presented the Monthly Activities Report for October 2013. ERS and OBRA combined had 8,017 retirees, with a monthly payout of $12,958,059.

Ms. Ninneman then discussed the preliminary due diligence performed in regards to the possible V3 system upgrade. ERS has been in the process of reviewing its business processes and procedures, as well as the Rules and Ordinances. Some of the recent amendments and clarifications to various Rules and Ordinances are in part related to this review, which are intended to improve and streamline processes. The ERS leadership team held a strategic planning session last week to help identify areas targeted for improvement. One of the main issues identified involved education and communication with all members. This will be an ongoing point of focus, even if the V3 system upgrade is not implemented in the near future. Also targeted for improvement were certain gaps in the system of processes, procedures and training. All of these issues will be of primary focus in 2014 and will be further analyzed to better assist members, through improved use of system tools and additional system enhancements. Through year-end, ERS will continue to clean up system data and train staff.

In response to a question from Ms. Mayr regarding communication with all active members, Ms. Ninneman stated that this is on the agenda as being one of the areas identified for improvement. ERS needs to find a way to better communicate with members who are not computer savvy or simply may not have computers in their homes.

In response to questions from Mses. Braun and Mayr, Ms. Ninneman stated that it is the County's responsibility to find a way to improve communication lines with all active members. ERS has been aware of the problem and is trying to find the best possible solution.

Mr. Grady then added that the communication problem is not unique to the Pension system and has been a problem in the past with events such as open enrollment. Communications regarding open enrollment are sent via regular mail, as well via the Internet and County computer system, and some employees do not receive them,

Ms. Ninneman then added that the County is also attempting to move towards a sustainability, or "green" effort, in an attempt to conserve resources.

Mr. Grady then suggested that the proposed 2014 County-wide upgrade which includes improvements to the Lotus Notes system may help some. At the very least, this should make access to certain things easier on a home computer.

Mr. Gedemer then noted to the Board that he is always very careful when speaking directly with any member regarding their personal pension data. He makes it a point to remind members that he is a Trustee on the Board and not their personal representative. The decisions he makes as a Board member are the result of his relationship as a Trustee of the Fund and he is therefore acting as a fiduciary to all members.

In response to a question from Dr. Daugherty regarding refunded contributions listed on the October Activities Report, Ms. Ninneman confirmed that the figure represents refunded membership contributions for terminated employees requesting a refund within the 60-day notice period provided under the Ordinance.

In response to a follow-up question from Ms. Braun regarding the proposed changes to the membership contribution refund timeframe, Mr. Grady stated that this matter was laid over at the County Board for a month, and the options will be reviewed on December 2, 2013.

In response to a question from Mr. Grady regarding the year-to-date total disbursements column on the October 2013 Activities Report, Ms. Ninneman stated that the $11 million represents disbursements only for new pensions beginning in 2013. The $157 million figure under the 2012 column represents total pension disbursements for 2012 as of December 31.

(c) Retirement System Upgrade - Vendor Demo

Jamie Vitiello introduced himself as the Senior Vice President of Vitech System Group.

Mr. Vitiello first discussed the company's mission. Vitech's mission in partnering with clients is to unify all systems and data in a contemporary and robust technology platform. Employers and participants are empowered through advanced self-service capabilities, which will further enable processing via a rules-based automated workflow. This will provide staff the freedom to focus on high-value "knowledge work" by giving them both the time and the tools to do so. The end result is delivery of a world-class customer experience.

Mr. Vitiello then discussed the reasons and advantages for ERS to upgrade from the current version 8.5 to version 10 of the V3 software. The version 10 software will offer the user an enhanced experience, enabling the use of technology that was unavailable at the time current version 8.5 was conceived and built. Related to the enhanced use experience is enhanced performance. Newly available technology will allow for delivery of a system with greatly improved performance capabilities. Upgrading to version 10 will also allow important data contained within the current system to be concisely condensed. This will provide ERS with "business intelligence," which can be further utilized in ways not possible with the current version. Business intelligence includes capabilities such as dynamic reporting, self-service capabilities, enterprise tools, seamless processing and level of configurability and maintainability unavailable with the current version. This is of particular importance to ERS in terms of the pace of legislated change directed in the last five years, affecting Ordinance and Rule changes which ERS must undertake. The capability to incorporate these changes on an ERS staff level, as opposed to a vendor level, is important not only in terms of cost, but also in terms of efficiency. Legislated changes are often date driven and ERS does not have the luxury to take 12 to 24 months to configure them. Lastly and most importantly is the contemporary technology platform. As a software company, Vitech is subject to all surrounding enabling technologies and their related discontinuation issues. The entire database system currently runs on a platform system called Oracle 10G. However, Oracle has now upgraded to a version 12G, and will soon be discontinuing support of its version 10G underlying database. For Vitech to remain compliant with such changes in this surrounding technology, Vitech must release new compatible versions of their own software that will interface with the connections of the new Oracle version. Version 10 of the V3 software has the capability to do so and sets the path to continue moving forward, which is something the older version simply cannot do.

Mr. Vitiello next reviewed some of the enhanced features of the version 10 V3 software. One big new feature with version 10 is the ability to offer users live online help capability. With this feature, an agent can see what the participant is doing live on screen and respond to the participant's question via the online website help button feature. Version 10 also offers a new V3 dashboard, which is fully configurable, and offers employees the capability to configure various widgets, further customizing their screen based on their individual day-to-day job needs. This again creates the ability to present business intelligence and allows for enhanced management tools. For example, a widget was created that is built through the application to track incoming calls via topic. This will allow management to identify and correct issues at the forefront, which is important from the standpoint of managing and operating the Fund, as well as creating an enhanced level of service.

Another limitation with the current software, which is corrected with version 10, is the ability to have only one window open at a time. Version 10 allows for as many windows as a user needs to be open simultaneously, with buttons for each module of open software appearing on the users screen. Vitech has also created new navigation tools, adding the capability to create bookmarks for last-used menus and enhanced back and forth screen movements. A powerful CRM capability has also been integrated into the new system. This will allow the Fund office to view all prior interactions with a participant in a single location, including all current related workloads, documents, forms and scheduled sessions with that participant.

In response to a question from the Chairman regarding the implications of ERS not upgrading to the V3 version 10 software at this time, Mr. Vitiello stated that the largest issue is the underlying Oracle 10G database, which will go unsupported as of December 2013. Vitech will provide work-arounds and this will not be a major issue over the course of the next 12 to 24 months. However, beyond that timeframe, problems will begin to surface and patches will be required to resolve resulting underlying bugs in the Oracle database. Another big issue would be slower updates to Ordinance and Rule revisions, resulting from the older server platform.

In response to a question form the Chairman, Mr. Vitiello confirmed that Vitech has completed the upgrade on their framework, which is certified on Oracle's latest 12G version. The version is currently being implemented with all new clients and includes some very large private and public funds around the country.

In response to a follow-up question from the Chairman, Mr. Vitiello stated that none of the conversions are complete yet. Because version 10 just came out earlier this year, Vitech is still in the contractual phase with many clients and conversions will begin soon.

In response to a question from the Chairman regarding the primary users of the software system, Ms. Ninneman stated that ERS staff members, primarily five retirement specialists, are the primary users. However, member self-service enables both retirees and active members to go into the system to get estimates and retrieve certain forms.

In response to a question from Ms. Braun regarding which version would be better for members, Mr. Vitiello stated that the online help capability available in version 10 would benefit members. There is also a host of functionality available in version 10 that was not available with version 8.5 from a membership standpoint, but this could have pros and cons. Version 10 allows extensive information to be open to the participant, which can sometimes create more confusion, if not released carefully and with some accompanying education.

Ms. Ninneman then added that with current member self-service, members can see very little because of the system functionality and the resulting confusion it causes. Members still have difficulty logging in and sometimes forget their passwords, which results in a call to ERS and further time delays. With the increased functionality and processing speed, the version 10 upgrade should be of great benefit to ERS members.

Mr. Vitiello agreed with Ms. Ninneman, adding that Vitech has greatly enhanced the interface of member self-service to be simpler and step-based in nature, which is trending in all newer software today. Version 8.5 greatly reduced the amount of manual work, allowing staff to concentrate on more complex applications that require human intervention. Version 10 will push these capabilities to the next level.

In response to a question from Ms. Braun regarding participant access to information, Mr. Vitiello stated that in some instances, too much transparency with information can create problems. For example, pending litigation related to benefits and benefit structures can remain up in the air for years. When actual accounts are exposed to members for the purpose of obtaining benefit estimates, members may not be aware that the outcome of pending litigation, which is subject to their class of benefits, could later alter those benefit estimates. It is possible to add a disclaimer to the screen, stating that the benefit is subject to revision, but most would not even read it or truly understand what it means.

In response to a question from Ms. Mayr regarding the conversion timetable, Ms. Ninneman stated that it will likely be a long process, with 12 to 16 months of implementation that, if approved, would not begin until the third quarter of 2014. It is currently projected that the conversion would not be fully implemented until the end of 2015.

In response to a question from Ms. Van Kampen, Ms. Ninneman stated that manual interventions are the alternative to an upgrade but the fact that Oracle's 10G version will soon be unsupported is the largest issue down the road.

In response to a question from Ms. Braun regarding the difference between Vitech and other companies, Mr. Vitiello stated that Vitech has become the leader for pension systems across the county, particularly public pension systems. Since its inception with ERS, Vitech has become a leader in the industry and grown from 100 to 700 employees. Vitech is not only implementing this system for pension funds around the country, but servicing clients worldwide, including the United Nations and Bahamas.

In response to a question from Mr. Grady regarding the future of Vitech, Mr. Vitiello stated that the company is still private, with Mr. Vitiello and his brother as the sole owners. This year the company will approach $100 million in revenue and, at this time, there are no plans to sell.

In response to a question from Mr. Muller, Mr. Vitiello stated that the cost is for the primary software upgrade and any ongoing maintenance costs should remain stable. This is actually the first upgrade Vitech has charged for across its client base. Vitech has historically stood apart from other software providers by implementing previous upgrades at no cost. With this upgrade, however, there is just too much work involved to make that feasible.

The Chairman concluded by stating that next steps include reviewing the budget, obtaining a project plan and analyzing the interface process between Vitech and the Joxel Group. This will then come back before the full Board for further discussion at a future meeting.

(d) Fiscal Officer

Mr. Gopalan first discussed the October 2013 portfolio activity report. Benefits for the month of October were funded from the MCM Aggregate Bond Index Fund in the amount of $16 million. Funds totaling $12.5 million were transferred from Artisan Partners to Mellon Capital. In early November, $25 million was then taken out of Mellon Capital to fund the JP Morgan infrastructure commitment. Silvercrest was funded by selling most of the investment in iShares Russell 2K ETF and Vontobel was funded by selling the funds in Barings International large cap.

In response to a question from the Chairman regarding the rebalancing of funds, Mr. Gopalan confirmed that the Board previously approved the rebalancing. Mr. Gopalan executed the transfer by sending out the paperwork, which was completed by Marquette, to the individual managers.

Mr. Gopalan concluded with a discussion of the October 2013 cash flow report which projects out to November 2013. Siguler Guff had a $1.2 million capital call, which translates to a net amount of $732,000, and will be funded in November. JP Morgan Infrastructure was also funded at $25 million, as previously discussed.

12. Audit Committee Report

The Chairman reported on the November 5, 2013 Audit Committee meeting.

The Audit Committee first discussed the annual meeting survey results. The survey was conducted to gauge active employee interest in attending the annual meeting. The majority of respondents indicated the preference of an evening meeting, to be held at either the Zoofari Conference Center or a downtown location. Ms. Mayr will attend REMCO and retiree union meetings to better assess retiree meeting preferences.

Ms. Braun commented that active employees in her office were thrilled to be asked, and many were not even aware that they had the option to attend the annual meetings.

The Audit Committee next discussed the 2014 budget. Mr. Gopalan presented a revised draft of the 2014 ERS budget, which contained a few formatting changes from the preliminary draft distributed last month. One notable change involved a reduction in actuarial fees from $145,000 to $130,000. There was also a discussion of computer-related contract expenses and whether one consultant would be doing all of the functions or there would be a breakdown of consultant expenses. Ms. Braun noted that while the report was broken down by function, it was unclear whether all payments would be made to one consultant. At the request of the Chairman, Mr. Gopalan will provide a more detailed breakdown of the computer-related expenses at the next Board meeting. The 2014 budget will come before the full Board for review and approval in December.

The Audit Committee then discussed the actuarial services contract. Buck Consultants is updating its service contract to include a limitation on liability of up to 15 times fees, or approximately $1 million. As of the date of the Audit Committee meeting, Ms. Ninneman announced a preliminary agreement was reached with Buck Consultants, which would allow Buck's contract to continue through the end of 2014 with no changes. As of last week, however, Buck's legal team advised Ms. Ninneman that this deal could not go through and the current contract conditions will end as of February 1, 2014. This will likely mean that until the RFP process is complete sometime later in 2014, ERS will have to continue its relationship with Buck on a month-to-month basis, under the limits Buck is willing to negotiate.

In response to a question from Dr. Daugherty regarding the possibility of purchasing third-party indemnification insurance above and beyond Buck's newly proposed limits, Mr. Grady stated that he does not believe ERS could purchase insurance on Buck's conduct. The Chairman then noted that this would be a good question to pose to risk management.

The Audit Committee next discussed a proposed amendment to Pension Board Rule 112. Messrs. Huff and Grady advised that an amendment to the Rule has become necessary in light of the 2011 passage of Act 10. The amendment will clarify what aspects of collective bargaining agreements will apply and be incorporated by reference into Pension Board Rules. Currently, there has been no action by the County Board to clarify this issue, however, Mr. Grady noted that it is possible the County Board will resolve the matter shortly, and no further action would be needed by the Board. Mr. Huff then clarified that an additional and more specific Rule was also being proposed. The new Rule would be more specific and act as an all-encompassing "umbrella" rule.

The Audit Committee concluded with a discussion of the applicable multiplier for military service credit. ERS staff has requested guidance on the appropriate multiplier to use for members retiring with additional service credit granted for military service. Mr. Grady noted that the issue may become moot due to the *Stoker v. ERS* case.

13. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee and Investment Committee topic lists. The Chairman then stated that anyone with future topic suggestions should voice them now, or notify Ms. Ninneman at a later date if they wish to have any agenda items added or changed.

14. Adjournment

The meeting adjourned at 11:50 a.m.

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