**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**

**MINUTES OF THE OCTOBER 16, 2013 PENSION BOARD MEETING**

1. Call to Order

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

2. Roll Call

| Members Present | Members Excused |
|---|---|
| Dr. Brian Daugherty (Vice Chair) | Laurie Braun |
| Aimee Funck | Dr. Sarah Peck |
| Norb Gedemer | Vera Westphal |
| D.A. Leonard | |
| Dean Muller | |
| 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
Mark Murphy, ABS Investment Management LLC
Joe Hernandez, K2 Advisors
Brian Walsh, K2 Advisors
Ray Caprio, Marquette Associates, Inc.
Lesley Schwartz-Nason, Former Milwaukee County Employee
Rosemary Wussow, Milwaukee County Employee
Yvonne Mahoney, Retiree
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. <u>Minutes—September Pension Board Meetings</u>

The Pension Board reviewed the minutes of the September 18, 2013 Pension Board meeting.

**The Pension Board unanimously approved the minutes of the September 18, 2013 Pension Board meeting. Motion by Ms. Van Kampen, seconded by Dr. Daugherty.**

4. <u>Investments</u>

(a) <u>ABS Long-Short Equity Manager</u>

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

Mr. Murphy first provided an overview of ABS. ABS, originally launched 11 years ago, is a global equity long-short fund of funds benchmarked against the MSCI ACWI index. Approximately half the investments made are outside the U.S., with a large portion in emerging markets. ERS is invested in the ABS global portfolio, which is $1.26 billion of the $3.8 billion of assets under management with ABS.

Mr. Murphy then discussed ABS's current investment management team. ABS's investment management team has a great deal of industry tenure. ABS is currently at their peak number of 26 employees and has recently added three new employees to the firm. Ishpreet Chadha brings a legal background to the team and joins the Ops due diligence team. Steve Shaw was added to the marketing team in April 2013 and is focused on the West Coast. Kathleen Fasolino was hired as an additional office manager and one employee recently exited the firm in the investor relations-marketing area. Historically the firm has been very cohesive, with very little turnover. ABS is looking at the possibility of adding one additional employee by year-end.

Mr. Murphy next provided an overview of ABS's global portfolio. In general, ABS's managers are back to playing offense again with exposures and risk returning to pre-2008 levels. Over the last 12 months, net exposure has averaged approximately 50%, which is again a level not seen since pre-2008. ABS's managers are generating a great deal of alpha from diverse sources.

Mr. Murphy then discussed the evolution of the investor base. Investors in ABS include a combination of foundations and endowments, pension plans, and financial institutions. Pension plans comprise the biggest group of investors. While the assets under management saw a slight reduction in 2008, historically they have been running fairly steady and over the past year and a half, have been running at approximately $3.8 billion.

Mr. Murphy next discussed the 2013 market environment. The market environment for long-short managers has been excellent over the past 12 months, compared to a few challenging years prior to this period. The 2013 year has been much more conducive to stock pickers. Stock volatility has come down, stock dispersion has increased and the environment for long-short managers to fixed stock has been the most favorable it has been in the past five years. Through 2009 to the first half of 2012, the market environment was much more challenging, with very high volatility, very low stock dispersion and an overall challenging environment in general for favorable manager performance. While the current market environment definitely has room for improvement, managers have performed much better than the last few years.

Over the last two years, the S&P 500 index has outperformed the MSCI emerging market index by about 40% and highlights the underperformance in the emerging markets over the last two years. Despite this underperformance, ABS does have exposure to the emerging markets and has performed fairly well in this area. ABS does expect the gap between the S&P 500 and emerging markets indices will narrow in time. Sector correlations within emerging markets have largely mirrored stock correlations during the last 12 months and are the best they have been since 2005 or 2006. Stocks are once again starting to react to the fundamentals, which is favorable for stock pickers. Mr. Murphy stated that volatility and manager market exposure are highly correlated. As volatility in the markets spike, ABS managers tend to reduce their exposure. Over the past two years, the volatility index has steadily declined and has resulted in higher net exposure for equity long-short managers. ABS's global net exposure is currently at its highest level since prior to 2008. The resulting environment affords ABS managers to once again take risk, with the intended outcome of favorable performance.

In response to a question from Mr. Muller regarding the current ratio of long to short in the portfolio, Mr. Murphy stated that the aggregate of the entire portfolio is running 100 long, 50 short, with 50% net exposure. Over the last few years, ABS was running 30% to 40% net in a highly volatile environment with a great deal of macro concerns in management. ABS managers were playing too much defense in a market that eventually went up. Now managers are back to more of an offensive position in the market and taking net exposure up to market levels not seen since pre 2008.

In response to a follow-up question from Mr. Muller, Mr. Murphy stated that after the 2008 market crisis, when volatility was extremely high, the underlying managers shrunk their gross and net exposure to as low as 2% in January and February of 2009. As a result, ABS lost less than half of what the market lost in that period. However, because the market turned around very quickly in April and May of 2009, ABS missed out on huge gains in the following up-months. Everyone was running very low net exposure at the time, fearful that the markets may crash. It was basically a huge disappointment because the net exposure did in fact get too low.

In response to a question from Ms. Van Kampen, Mr. Murphy stated that ABS is not considering altering by much the mix of its 25-30 underlying mangers in the global portfolio. It is the general viewpoint of ABS that they are marketing themselves against the MSCI ACWI. ABS is cognizant of their exposure by sector, geography and market cap and tries to keep their exposure similar to the MSCI. While there may be some overweight and underweight areas, ABS generally strives to remain diversified in line with the market caps of the MSCI around the world.

Mr. Murphy then discussed fund performance. Year-to-date the ABS global portfolio was up 12.4% net of fees versus the MSCI index at 16.4%. With 50% net exposure, the fund is up about three-quarters of what the market is up. The goal over the long-run is to keep up with the MSCI with decreased volatility.

In response to a question from Mr. Muller, Mr. Murphy affirmed that the annual volatility is the same as the standard deviation. ABS's standard deviation is basically half that of the market and that is their goal.

Mr. Murphy continued by stating that since the portfolios inception in January 2003, the historical net exposure is basically back closer to a high not seen since before 2008.

Mr. Murphy continued with a discussion of manager performance. With the exception of one manager, all strategies in the portfolio have had positive performance and were making money in 2013. The one manager with negative performance was a Canadian equity long-short manager and was removed from the portfolio in February 2013. This particular manager was heavily weighted into gold and gold mines which had a terrible year. The timing of this manager's removal was very beneficial, as the manager continued to lose a great deal of money beyond February 2013. When viewing manager performance in terms of alpha and beta, there is a significant amount of alpha being generated across most of the strategies in the portfolio.

Mr. Murphy next discussed the 2013 portfolio positioning. In general, the ABS global portfolio is very well diversified by sector, geography and market cap. When viewed by sector as compared to the MSCI index, the ABS global net is generally similar to the MSCI. Net exposure by geographical region is highest in North America, followed by developed Europe, developed Asia, and emerging markets. Net exposure comparison by market cap shows ABS is a little bit more heavily weighted to small and mid-cap versus the MSCI index. The portfolio is a bit top-heavy with large cap stock but in general, very well-diversified when viewed by cross-sector geography and market cap.

Mr. Murphy concluded his discussion by stating the ABS is in good shape and the recent change in the market environment for long-short managers has been very positive. There has been a material shift in market conditions over the past 12 months with underlying managers now switching from a defensive to an offensive position. Managers are also sticking to their positions through recent volatility, which is another positive sign. ABS believes that equity long-short is well positioned given the current market conditions.

Another current positive trend underway is that underlying funds are providing greater transparency, while also reducing their fees, due to a challenging fund raising environment. Today, over 69% of the fund's global portfolio managers are giving ABS every single position, long and short, on a one-month delay. Nine of the 27 managers in the portfolio are allowing fees negotiated below the average investor fee. This current trend with fees has allowed ABS to go back to its entire list of managers and perform a large-scale fee negotiation. ABS believes that fees will continue to drop in the hedge fund industry across the board in an effort to raise money.

In response to a question from the Chairman regarding reduction of manager fees, Mr. Murphy stated that 100% of the savings from reduced fees are being passed back to ERS via returns.

In response to a question from Mr. Muller regarding manager breakdown, Mr. Murphy stated that there are currently 27 managers in the global portfolio. Mr. Murphy stated that ABS sends out a monthly newsletter with the entire list of managers and would be happy to pass that along to the Board for review. In general however, the global long-short is the biggest portion of the portfolio with 5 or 6 managers. Other categories in the portfolio such as TMT equity, U.S. and Europe small cap equity may have just one manager each.

In response to a question from Mr. Muller regarding the reasoning behind the inclusion of hedge funds in the ERS portfolio, Mr. Caprio and Mr. Murphy stated that hedge funds protect the portfolio in down markets. There is also a lack or correlation to equity long-only. Except for the long-short funds, there is no tactical-type manager anywhere else in the portfolio. Hedge funds can go global and change from emerging markets, developed markets or the U.S. market and go wherever they see the best value. Hedge funds also serve as risk-reducers by adding equity exposure, without adding a great deal of volatility and sacrifice on returns. Finally, there is a great deal of broad diversification with 27 managers in the fund of funds.

In response to a follow-up question from Mr. Muller regarding concern over the effects of the current U.S. political budget turmoil on the market, Mr. Murphy stated that managers are concerned, but are not reacting at this point. Despite a very scary situation in Congress right now, the market is shockingly stable and has perhaps become numb to the whole threat, based on prior last minute resolutions. This has been one of the biggest changes occurring in the last 12 months, as these threats in Congress continue to repeat themselves and last-minute agreements are reached in the final hours. Mangers that pulled out and reduced their exposure in similar situations in the past missed out on giant rallies and large gains once a budget agreement was eventually passed.

In response to a question from the Chairman regarding any changes to manager selection or retention criteria, Mr. Murphy stated that there have been no changes at all. It has always been fundamental equity long-short, very global with smaller, newer mangers.

(b) K2 Advisors

Joe Hernandez and Brian Walsh of K2 Advisors distributed a booklet containing information on the custody services provided by K2 for ERS. Mr. Hernandez introduced himself as part of the investor relations team based in Chicago, and then introduced Brian Walsh as the head of the research team.

Mr. Hernandez first provided an overview of the firm, noting the announcement released last year regarding the purchase of K2 by Franklin Templeton Investments. The purchase deal closed on October 31, 2012 and K2 is nearing the end of the first year of its relationship with Franklin Templeton. Franklin Templeton has excellent credit ratings with 65 years of asset management experience. Franklin Templeton has $815 billion in assets under management, offices in 35 countries and investors in more than 150 countries.

K2 has more than 19 years of hedge fund investing experience. As of October 1, 2013, K2 has approximately $9.5 billion in assets under management, with half of that in long-short equity which is the hallmark of K2. Of that $9.5 billion, 95% comes from institutional investors. Of that 95%, about 40% comes from public pension systems like ERS. K2 is based in Stamford, Connecticut, with 119 employees globally in the U.S., United Kingdom, Japan, Australia and Hong Kong. K2 has been a pioneer in transparency. With access to a globally diversified pool of hedge fund managers and niche strategies, K2 has been a leader in the industry among fund of hedge funds firms.

In response to a question from the Chairman, Mr. Hernandez stated that there has been no change in K2's personnel or management structure since its relationship inception with Franklin Templeton. Part of the terms of the deal between Franklin Templeton and K2 was that the investment team and investment process would remain the same. The biggest change is probably increased flow of information due to the resources at Franklin Templeton Investments.

Mr. Walsh then discussed performance highlights for the ERS K2 long-short fund. As of September 2013, the fund is up nearly 11% compared to 8.75% at the end of 2012.

In response to a question from Ms. Van Kampen, Mr. Walsh indicated that the benchmark for the ERS K2 fund is the S&P 500. Obviously, because K2 invests in hedge funds, they review hedge fund benchmarks to judge performance, as well as various competitors, to the extent that the information is publicly available. Due to the unique characteristics of hedge funds however, it is not only how they perform versus the benchmark, but also how K2 performs relative to others and relative to the mandate of the fund. K2 is very happy with the funds' performance, especially in the last 12 months. While it has not always been a good environment for every strategy, it has been a good environment for this strategy. Over the past two years, stocks have been trading a little bit more based on their fundamental characteristics versus headline events such as European Union consolidation issues, or issues with Greece.

K2 currently has 20 managers in its portfolio. The intention is to construct a portfolio where each manager is worth investing in on its own, while simultaneously complementing other mangers in the portfolio. Performance has been reasonably good across the board, with the exception of the Asian manager, who focuses primarily on China. Over the last two years, the Chinese equity market has been somewhat slow and flat but despite this, K2 maintains its confidence with this manager. Generally speaking, performance is very broad-based and not dependent on concentration of any one style, which is what K2 prefers.

Mr. Walsh next discussed sector exposure. All managers in the K2 portfolio must report their positions at the end of every month. This is a critically important differentiator for K2 which dates back to 2001. If a manager does not report their exposure to K2, they cannot be hired as a manager. This information is beneficial to K2 and helps them make better judgments as to how to construct the portfolio and how to combine various managers. The largest sector exposure is consumer discretionary at 23%, but there is essentially no one single dominating sector exposure and K2 aims to avoid concentration and diversify exposure as much as possible.

A breakdown by strategy shows the largest weighting is currently in long-short U.S. equity. But once again, there is diversity in the portfolio allocation which includes diversity by sector, region, stock-picking method and exposure. K2 reviews its manager exposure and attempts to complement exposure among managers. K2 does not have any financial long-short equity managers in its portfolio. Currently it is just too difficult for managers to quantify and assess these types of companies.

Mr. Walsh then discussed the portfolio strategy tilts. K2 likes U.S. and global long-short equity managers. Improved conditions for equity managers have persisted into the third quarter of 2013, with plenty of opportunities across sectors and geographies. Equity activist managers remain a favored allocation in the portfolio. The current market environment is beneficial for managers to engage corporate management with change. While activist managers can be aggressive or benign, K2 prefers the more constructive and friendly activists because there is less headline risk, with an increased likelihood of success.

Mr. Walsh concluded with a discussion of recent changes to the portfolio. K2's Allocation Investment Committee reviews each portfolio monthly. Information on manager exposure is compiled, followed by a review of individual manager performance versus the benchmark, which is then used to identify the best opportunities in the current market. Recent manager additions include Doonbeg Fund, LP as of March 1, 2013, which is a technology focused manager. Recently, the technology sector has provided good investment opportunities because this market segment is going up. In addition, each time a new product is introduced to the technology sector, it seems to disrupt that part of the market segment, therefore creating change.

Managers seek out change to beat the long-short. Matrix Capital Management Fund, L.P. is another technology firm that was added as of August 1, 2013. Sarissa Capital Domestic Fund LP, a health care focused manager engaged in friendly activism, was also added as of June 1, 2013. Manager redemptions include Amici Qualified Associates, L.P. as of May 31, 2013. Amici was a generalist manager that just was not generating enough returns for the exposure they were employing. Second, as of June 30, 2013, dbX-US long-Short Equity 15 Feeder Fund was removed, which found it difficult to manage global industrial orientation. In general, the fund is dynamically managed with yearly additions and subtractions that only further increase the value of the fund.

In response to a question from Mr. Grady regarding the process involved for determining total number of managers, Mr. Walsh stated that the method is as much an art as it is a science. The first thing K2 reviews is the position count of each of the underlying manager investments. If there are too many securities in the portfolio, you essentially end up owning the entire market. Too much concentration also increases risk. K2 then reviews how each of the managers complements one another, while still providing diversification. Over the life of the fund, there have probably been between 19 and 29 managers, with 29 being the high 4 or 5 years ago. Realistically, K2 now believes that twenty managers is a more ideal number, and results in less investment risk.

In response to a question from the Chairman regarding monitoring of market volatility and changes in the value at risk ("VAR") of its own portfolio, Mr. Walsh stated that volatilities of markets have recently been very low. Despite the recent turmoil in Washington surrounding the budget deficit crisis, the markets are not reacting as they have in similar past situations. For example, in August of 2011, the S&P 500 was down 15% to 20% based on a similar budget disagreement. The VAR indicates that markets right now are very complacent. This could of course be subject to change if a budget agreement is not reached soon in Congress. The VAR is an informative measure but it does not entirely drive decisions, K2 has managers for both long and short to limit market exposure and reduce risk. Over the course of the last calendar year, with longs minus shorts, K2's net exposure to the market has been between 30% and 50%. Anything over 50% is more bullish and K2 prefers to keep a more modest risk category exposure.

In response to a follow-up question from the Chairman, Mr. Walsh affirmed that despite the recent government turmoil, K2 has not made any recent big changes. Regardless of the current events in Washington, stocks are currently moving based on their company fundamentals. This was not the case however at time of the inception of the ERS K2 fund in April of 2010. For example, events surrounding the Eurozone crisis in Greece in May of 2010 influenced how Pepsi was valued. The resulting hyperactive loop in stock was based on economic factors unrelated to Pepsi's products, earnings or balance sheets. The situation improved greatly in the fall of 2011 when the president of the European Central Bank, Mario Draghi, pushed through a series of economic measures which eased the Eurozone crisis, lowering credit fears. The markets interpreted this as a need to be a little less focused on current headlines and little more focused the companies themselves. Consequently, environments in 2012 and 2013 have been more stable, which has been beneficial for managers to add value, not just by being long, but by picking the right stocks in both the long and short.

In response to a question from Ms. Van Kampen regarding the range of exposure over the life of the fund, Mr. Walsh stated that in the fall of 2008, exposure was down to essentially zero. It was possible to be neutral in the market and still lose money, as the portfolio was still down around 14% in 2008 because it was illegal to short financial stocks, and GM was considered a financial stock due to its lending arm. The highest exposure of the portfolio was around 70% net long in 2006 and 2007. Today, exposure is running at the higher end of the spectrum of net market exposure.

(c) Marquette Associates Report

Ray Caprio of Marquette Associates discussed the possible implications of the looming October 17, 2013 U.S. debt default deadline.

Marquette views the probability of an actual U.S. debt default to be very small and does in fact expect lawmakers to reach a resolution in the final hours. It is most important to understand that any default would be driven by an unwillingness of U.S. policymakers to come to a political compromise, not an inability of the U.S. to make its contractual debt payments. Because the current issue is essentially a political one and not a financial or economic problem, Marquette believes it would be unwise to change portfolio allocation targets at this time.

In the unlikely event that a default does occur, the capital markets would likely be agitated, with risk assets, particularly equities and credit instruments, suffering the greatest losses. Treasury bonds would be one of the more difficult areas to predict. Treasuries are the very instrument which would default, leading to an increase in yields and investment losses.

However, the market size of $11 trillion has long made Treasuries the primary destination when a flight to quality emerges. Marquette believes that given the context of the default is merely an unwillingness to pay, yields may actually drop as a risk-off environment takes hold across capital markets. A similar situation occurred when yields went down in the summer of 2011, as the debt was downgraded, as opposed to an actual default.

It is likely that an actual default would lead to another downgrade of U.S. debt, which would lower the average credit quality of any bond portfolio holding U.S. government securities. If this were to occur, fixed income managers may be forced to sell some of the lower rated bonds in client portfolios to maintain average credit quality across the portfolio. J.P. Morgan maintains the ERS portfolio to an average credit quality of A-. Therefore, if a significant portion of the portfolio were downgraded to B or B+, J.P. Morgan might have to reposition the portfolio to keep the average credit quality at A or A-.

Marquette feels that at this time, the ERS portfolio is well positioned if anything were to happen. The portfolio is well diversified with real estate and the hedge fund managers have their net exposure in a position that would protect equity capital if there were a drawdown in the market. Bonds in the portfolio are very high quality and would be a safe haven.

In response to a question from Mr. Muller regarding the downgrade of U.S. debt in 2011, Mr. Caprio stated that the downgrade took U.S. securities from a rating of AAA down to AA+.

Mr. Muller then commented that he finds it hard to believe that a rating service would downgrade U.S. government securities in 2011 based solely upon an unwillingness to pay, especially when the Chinese were selling gold and buying U.S. securities in 2008.

Mr. Caprio then distributed and discussed the September 2013 monthly report.

Mr. Caprio first discussed the total fund composite. As of the end of September, the Fund stood at just a little over $1.8 billion in total assets. Appreciation in the portfolio has been very good during the first nine months of the year and it has been quite some time since the Fund has been at this level. Relative to the policy targets, the Fund is slightly below the 22% target in fixed income at 21%. With fixed income as high as 30% at the beginning of 2013, the timing of the recent reduction has been very beneficial as interest rates have gone up throughout the year, resulting in negative bond performance. Adding capital to real estate has also been very beneficial in 2013. U.S. equity is slightly overweight at 26.8% versus the benchmark of 25%. International equity is in line with a policy target at 20.5%. Hedged equity is slightly overweight to the target (10.9% vs. 10.0%), with ABS and K2 scheduled to send partial redemptions of $9.5 million and $7.5 million in January 2014. Real estate is slightly overweight at 9% versus 8.5% and infrastructure is slightly underweight at 7.3% versus 8.5%. J.P. Morgan infrastructure has an outstanding commitment of $25 million which is expected to be called by year-end. Capital for that commitment will be drawn from overweight areas, likely in U.S. equities. Private equity is slowly increasing to the policy target of 6%. Currently at 2.3%, it has been some time since private equity has been that high. Siguler Guff, which was a recent addition to the private equity portfolio last year, has been aggressively calling capital this year. Siguler Guff has called $18 million of the $40 million commitment just in the last few months and the net internal rate of return, at just a little over 16%, has had zero J-Curve effect. Siguler Guff has added good diversification to private equity, versus Adams Street. Marquette anticipates reaching the 6% private equity policy target over the next several years.

In response to a question from the Chairman regarding the infrastructure policy benchmark listed by individual manager, Mr. Caprio stated that there appears to be an error on the report at 3.5% per manager and he will make the necessary adjustment. The total policy target is 8.5% with no target between the two managers. Similar to real estate, the policy target under infrastructure by manager is left open-ended.

In response to a question from the Chairman regarding the method planned to attain the desired 6% private equity target, Mr. Caprio stated that the topic should be discussed within the next few months at a future Investment Committee meeting. Marquette believes that the addition of another Adams Street portfolio to the fund could be beneficial or perhaps, the addition of another focused manager like Siguler Guff Small/Mid Buyout. With the focus on reducing fixed income now complete, this is a good time to revisit the private equity commitment model.

Mr. Caprio next discussed annualized performance. Relative performance has been very good with positive numbers reflected across the board. The pension fund returned 5.1%, net of fees, for the third quarter of 2013, outperforming the policy benchmark of 4.3%. Year to date net of fees, the fund returned 9.9% versus the policy benchmark of 8.9%. Over all time periods, the Fund has outperformed the policy benchmark.

In response to question from the Mr. Muller regarding the composition of the total fund benchmark, Mr. Caprio stated that the policy benchmark consists of the public market indices weighted according to asset allocation targets. The performance benchmark will adjust in line with the Board's adopted asset allocation. The policy benchmark incorporates all historical changes made to the asset mix as of the date of the change. To construct the policy benchmark, Marquette uses the broadest most comprehensive index available for the asset class. For instance, the benchmark for the fixed income portfolio is the Barclays Aggregate, the Wilshire 5000 for U.S. equity, MSCI ACWI ex U.S. for international equity, NFI ODCE for real estate, HFRX Hedged Equity for hedged equity, S&P 500 for private equity, and CPI + 4% for infrastructure.

In response to a follow-up question from Mr. Muller regarding the inception date for each manager, Mr. Caprio indicated that he will include that information on a future report.

In general, 2013 has yielded strong performance and Marquette is pleased with the current asset allocation mix. Mr. Caprio stated that fixed income composite, net of fees, returned 0.5% for the third quarter of 2013, and -1.3% year to date, outperforming the BarCap Aggregate of -1.9%. The U.S. equity composite, net of fees, returned 7.6% for the third quarter of 2013, and 23.1% year to date, outperforming the Wilshire 5000 of 21.2%. The international equity composite returned, net of fees, 9.9% for the third quarter of 2013, and 10.7% year to date, outperforming the MSCI ACWI ex U.S. of 10.5%. The hedge fund composite returned, net of fees, 4.4% for the third quarter of 2013, and 11.7% year to date, outperforming the HFRX Hedged Equity index. Real estate returned 3.6% preliminary, net of fees, for the third quarter of 2013, and 10.3% year to date. Lastly, the preliminary infrastructure return of 1.6% for the third quarter of 2013 is entirely currency, as valuations lag about six months.

Mr. Caprio next discussed manager performance. Once again, there is good news, with a great deal of strong quarterly and year-to-date absolute and relative manager performance. Within fixed income, the active bond manager, J.P. Morgan, was outperformed -1.2% year to date vs. the BarCap Aggregate of -1.9%. All U.S. equity managers outperformed their respective benchmarks for the quarter and year to date, net of fees, with the exception of Geneva Capital in mid-cap growth. Same holds true for the trailing 12-month period. Earlier this year, the Board conducted investment manager searches to address performance issues in international equity. Searches to replace Barings international large cap and emerging markets, with Vontobel for international large cap and OFI for emerging markets, were completed in July. Funding of the new managers will take place in October and November.

In response to question from Ms. Van Kampen regarding the turnaround in performance for U.S. managers, Mr. Caprio stated that there has been a large dispersion at the stock level between risk and return, as opposed to the asset class level, which managers tend to exploit. In addition, good stock selection and growth area sectors of the market, such as consumer discretionary, technology and energy, which several of the managers tend to focus on, have all done very well.

Mr. Caprio continued the review of manager performance. Marquette is very pleased with the recent portfolio changes of hedge fund of fund managers ABS and K2. Both managers have been able to generate strong absolute returns of 12.5% and 10.9% respectively for the third quarter of 2013, while reducing volatility. Final third quarter numbers are not yet available for commercial real estate, but there is evidence of another solid quarter, with return projections coming in between 2.5% and 3%. Morgan Stanley reported a return of 4% for the quarter and is one of the best performing managers in the space. Morgan Stanley continues to be the bulk of the real estate portfolio with ERS. Real estate continues to exhibit increased transaction volume, higher appraisal values, moderate leverage, and a yield premium over traditional asset classes since the market's recovery in the first quarter of 2010. Infrastructure returns from IFM 3.1% and JP Morgan 0% for the third quarter of 2013 are currency only, until final valuations are reported, which typically lag 60-90 days post-quarter end.

Mr. Caprio concluded with a discussion of manager fees, noting that fees are very transparent against the industry average. Marquette continually reviews management fees for consistency with industry averages. Fees continue to remain very low for a portfolio of ERS's size and structure.

5. Investment Committee Report

There was no Investment Committee report because the October 7, 2013 meeting was cancelled.

The Chairman then acknowledged that this is the last Pension Board meeting Mr. Leonard will attend as a retiree member, because he will be stepping down at the end of October. On behalf of the Pension Board, the Chairman thanked Mr. Leonard for his dedicated service to ERS and stated that he will be missed. The Chairman expressed the Board's gratitude for Mr. Leonard, acknowledging his commitment to ERS through his dedicated service on the Pension Board, by diligently representing the interests of Milwaukee County employees and retirees. The Chairman presented Mr. Leonard with a plaque on behalf of the Pension Board commemorating the Board's appreciation for his outstanding service to the Employees' Retirement System.

Mr. Leonard then thanked the entire Board and noted that if it were not for Marilyn Mayr expressing interest in filling the position, he would have rerun for his seat. Mr. Leonard then expressed his respect for Ms. Mayr and praised her abilities, adding that she will do a fantastic job representing the retirees on the Pension Board.

6. Disability Matters

(a) Teresa Britton

In open session, the Chairman stated that Ms. Britton'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 ordinary disability pension application based on the Medical Board's determination. Motion by Mr. Leonard, seconded by Dr. Daugherty.**

(b) Michael Davis

In open session, the Chairman stated that Mr. Davis'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 ordinary disability pension application based on the Medical Board's determination. Motion by Mr. Leonard, seconded by Dr. Daugherty.**

(c) Patricia Helminiak

In open session, the Chairman stated that Ms. Helminiak'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 Mr. Leonard, seconded by Dr. Daugherty.**

Dr. Daugherty moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to items 6, 7, 8 and 9 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 6 through 9 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 6, 7, 8 and 9. Motion by Dr. Daugherty, seconded by Ms. Funck.**

7. Appeals

(a) Lesley Schwartz-Nason

The Pension Board discussed the matter in closed session.

After returning to open session, Ms. Schwartz-Nason stated that she did receive a copy of the correspondence mailed to her on July 5, 2013, which stated that ERS was willing to consider waiving the interest on the 100% offset amount, if she would sign an agreement releasing ERS from any and all potential claims. Ms. Schwartz-Nason then stated that she would like to request an attachment to the offset agreement detailing the offset payments. Ms. Schwartz-Nason added that something in the format of a timetable would be preferable, listing the effective date and amount of offset payments, through the date full monthly payments would resume.

That Chairman then stated that a revised settlement agreement, with the offset payment timetable, shall be prepared and sent to Ms. Schwartz-Nason.

**After returning to open session, the Pension Board, after full consideration of all facts and circumstances in light of the factors described in ERS Rule 1050 pertaining to offset amount, unanimously voted to approve the 100% offset settlement agreement of monthly pension payments to Ms. Schwartz-Nason, until the entire amount of the overpayment is recovered, excluding any interest, subject to Ms. Schwartz-Nason's request to specify in writing the specific payment terms of the offset by date and amount. Ms. Schwartz-Nason may appeal the Pension Board's decision regarding the offset under Rule 1016. Motion by Dr. Daugherty, seconded by Mr. Leonard.**

(b) Rosemary Wussow

The Pension Board discussed the matter in closed session.

After returning to open session, Ms. Wussow stated that her advisor is currently in a County budget meeting and will not be able to represent her at today's Board meeting. Ms. Wussow then requested that her appeal be postponed to a future date.

The Chairman then stated Ms. Wussow's appeal shall be moved to the November 2013 Pension Board meeting agenda.

8. 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

9. Report on Compliance Review

The Pension Board took no action on this item.

10. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, September 2013

Ms. Ninneman first presented the Retirements Granted Report for September 2013. Nineteen retirements from ERS were approved, with a total monthly payment amount of $22,205. Of those 19 ERS retirements, 7 were normal retirements, 11 were deferred and 1 was an accidental disability retirement. Seven members retired under the Rule of 75. Nine retirees chose the maximum option, and 3 retirees chose Option 3. Eight of the retirees were District Council 48 members. Five retirees elected backDROPs in amounts totaling $359,995.

Ms. Ninneman concluded by noting that ERS is currently sending out monthly communications to members once they reach deferred retirement eligibility. This ensures that members are aware of their retirement eligibility status and also provides ERS the ability to stay on top of any related monthly administrative paperwork.

(b) ERS Monthly Activities Report, September 2013

Ms. Ninneman presented the Monthly Activities Report for September 2013. ERS and OBRA combined had 8,009 retirees, with a monthly payout of $12,579,574.

Ms. Ninneman next discussed recent additions to ERS staff. A clerical specialist was recently hired and has been on the job for approximately two weeks. With this position filled, ERS is now fully staffed in the clerical area.

Due to a recent vacancy, an emergency appointment has also been requested for an open administrative specialist position. The position is for a Retirement Specialist which has been vacant for several months. During the recruiting and interviewing process for the clerical specialist position, a successful administrative specialist candidate was also found. ERS is currently waiting for Human Resources to approve the emergency appointment request. The proposed candidate is available to start at the beginning of November. This timeline will allow ERS to get the individual trained and in place for year-end OBRA administration.

ERS has also retained a temporary contractor to assist with calculating the proper final average retirement salaries of workers affected by the post-furlough settlement. It was taking ERS staff approximately 4 to 5 hours to recalculate the adjustments for each affected member. ERS has been receiving calls from the union, union president and various members requesting a timeline for completion of the process. With approximately 200 members affected, ERS concluded that it would take one person a full year to complete the necessary calculations. Upon further review, it was decided to contract out the work to two individuals who will compile the necessary data which should help complete the process within six months. Once the necessary data is compiled and calculated, ERS's retirement information specialist will be making the actual adjustments in the system.

In response to a question from Mr. Muller regarding the effect of the post-furlough settlement on final average salary calculations, Ms. Ninneman stated that through the post-furlough settlement, earnings were put back in, affecting two separate and different systems. The payroll system just paid out a flat settlement amount, while the pension system, which records pensionable earnings by pay period, will require adjustments in order to properly calculate final average salaries.

In response to a question from Ms. Funck regarding the effect of the post-furlough settlement agreement on service credits, Ms. Ninneman stated that allowances are made for up to 160 hours. Full service credit is based on 1,920 hours and a member could be absent without pay for up to 160 hours without any effect on service credit.

In response to a question from Mr. Muller, Ms. Ninneman and Mr. Grady stated that furloughs occurred in both 2010 and 2011. Depending upon union and job classification, furloughs lasted anywhere from 10 to 16 days. Because the furloughs also impacted service credit for some members who dropped below the 1,920 hours, calculations will be required to bring the affected members back up to the 1,920 hours for the full 1.0 service credit. This is a relatively small amount, but will still require many calculations and adjustments, which ERS is now working to complete in a timely fashion.

Ms. Ninneman then discussed the ongoing RFP process. ERS has received responses to both the investment consultant and custodian RFP's and are currently in the process of reviewing and responding to incoming questions.

Ms. Ninneman concluded with a discussion of open enrollment. ERS is including a beneficiary designation form for the member contribution accounts with the open enrollment packet for active employees. This will allow members to designate a beneficiary for their member contribution accounts should they happen to pass away while in active service without a spouse.

(c) Fiscal Officer

Mr. Gopalan first discussed the September 2013 portfolio activity report. The month of September was fairly standard, with the usual quarterly dividends received from Morgan Stanley real estate and J.P. Morgan infrastructure. Adams Street called $675,000 in capital and Siguler Guff returned approximately $2.5 million, the majority of which was in returned capital.

Mr. Gopalan then discussed the cash flow report for September 2013. For the month of September, funding for benefits and expenses were paid out of the general cash account. At the beginning of the month, there was enough cash in the general account to cover expenses but towards the end of the month, payment reserves were a little under the preferred two month reserve amount. However, the cash flow report does not include the overlay accounts, which currently have approximately $20 million in additional funds available if needed.

In response to a question from the Chairman, Mr. Gopalan affirmed that all necessary approvals have been made for liquidation to generate cash for fourth quarter benefits. In addition, some sales will be made in October which will also replenish the cash flow.

Mr. Gopalan concluded with a discussion of the third quarter check register, noting nothing out of the ordinary on the report.

In response to a question from the Chairman, Mr. Gopalan stated that the check issued to Everbank Commercial Finance Inc. was the lease payment for the scanner and copier.

11. Audit Committee Report

The Chairman reported on the October 2, 2013 Audit Committee meeting. The Audit Committee first discussed the $2000 death benefit Ordinance and its interaction with member contributions. In certain situations, when a member dies, the only benefit payable is a lump sum of $2,000. However now that there are member contributions, which may exceed $2,000, questions have arisen if one, or both amounts should be paid. The Audit Committee agreed with an analysis provided by Attorneys Grady and Huff that the original intent of the Ordinance was to provide both the $2,000 lump sum benefit and a full refund of the membership account balance in the event of a member's death. However, because the current Ordinance could possibly be interpreted several different ways, the Audit Committee recommends adopting a newly proposed Rule 1051, to clarify the payment of death benefits.

Mr. Grady then noted to the Board that while the Audit Committee is recommending a specific option, there are other options included in the proposed Rule 1051 for the Board to review prior to final approval. The specific option recommended by the Audit Committee is based on a study of historical interpretations of the Ordinance.

Mr. Huff then added for purposes of clarification that the proposed Rule does include a section that specifies the lump sum benefit is payable only if a member dies while in active service, which has always been ERS's interpretation.

After further discussion and review of the proposed options to Rule 1051, the Chairman asked if there were any further questions and requested a motion to approve proposed option 1 of Rule 1051.

**The Pension Board unanimously approved adopting ERS Rule 1051, with a selection as written in option 1, attached to these minutes as Exhibit A, effective October 17, 2013. Motion by Ms. Van Kampen, seconded by Mr. Leonard.**

The Audit Committee next discussed the 2014 budget. Ms. Ninneman and Mr. Gopalan presented a preliminary draft of the 2014 ERS budget, which is substantially the same as the 2013 budget and contains no major changes. The 2014 budget includes cost information on possible upgrades to the latest version of the V3 computer system, as well as additional programming needs required by the backDROP calculation changes. The 2014 budget will come before the full Board for review and approval in November.

The Audit Committee then discussed the actuarial services contract. Ms. Ninneman noted that a tentative agreement has been reached with Buck Consultants, which will allow Buck's contract to continue on a month-to-month basis, through the valuation period of July 2014. Discussions with Buck went well and ERS is waiting to hear back from Buck's legal team for final approval of the month-to-month agreement. ERS did notify Buck that ERS will be issuing an RFP for actuarial services in 2014. This is mainly due to the fact that Buck is updating their service contract to include a limitation on their liability up to fifteen times their fees, or approximately $1 million.

The Chairman then added that such a limitation on liability has not been included in any prior ERS actuarial service contracts. The proposed limitation on liability could potentially be a major issue. In the past, a lawsuit with Mercer regarding the backDROP modification resulted in a settlement amount well in excess of $30 million. While ERS understands that Buck would like to limit their liability, the Audit Committee feels this is an appropriate time to go out to the market and search for a contract without a limitation on liability. At that point, ERS could use the information to negotiate with Buck or make a change if necessary. If a change is made however, that will ultimately be a decision that would come before the full Pension Board. The Chairman noted that it is good to hear Buck is being flexible with the proposed month-to-month extension through July 2014.

The Audit Committee next discussed the 2014 proposed Pension Board and Committee meeting dates. The 2014 meeting schedule is substantially the same as the current year. The Chairman asked all Board members to review the proposed 2014 schedule with their calendars to check against any potential conflicts.

Ms. Ninneman then noted that Ms. Braun proposed polling active members to gauge any potential interest in attending the Annual Pension Board Meeting scheduled for April 16, 2014. A survey regarding the matter has been drafted and is currently with Human Resources for review and final approval. Once approved, the survey will be presented utilizing the SurveyMonkey software tool, hopefully within the next day or two.

The Audit Committee then discussed deferred retirement applications. The Retirement office is currently looking for guidance on what specific process should be followed to authorize and approve early deferred pensions. A proposed Rule will be drafted for the Audit Committee to review at a future date. Another question was also raised as to whether the 5% per year reduction is still an appropriate percentage and Ms. Ninneman has raised the issue with Mr. Langer at Buck Consultants for further review.

The Audit Committee concluded with a discussion of the early retirement reduction percentage. Because the County Board has changed the normal retirement age from 60 to 64 for most employee groups, ERS is looking for direction on how to apply this change to members requesting an age 55 early retirement. Ms. Ninneman will follow up with Buck Consultants to determine if there will be any cost to ERS before making any further decisions and report back the Audit Committee.

12. 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.

In response to a question from Ms. Ninneman regarding formal approval of the proposed 2014 Pension Board and Committees meeting schedule, the Chairman requested a motion to approve the 2014 meeting schedule as presented.

**The Pension Board unanimously approved the ERS 2014 Pension Board and Committees meeting schedule as presented. Motion by Mr. Muller, seconded by Dr. Daugherty.**

13. Adjournment

The meeting adjourned at 10:30 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(8.17) allows the Pension Board to construe and interpret the Ordinances governing ERS and decide all questions of ERS eligibility

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

4. Ordinance section 201.24(3.5) provides that upon the death of an eligible member, the member's beneficiary shall be paid the balance of the member's membership account provided, however, that if the member has chosen a joint and survivor option, or if a survivor benefit is payable under Ordinance section VI, the member's membership account balance will not be paid to the beneficiary.

5. Ordinance section 201.24(3.5) also provides that if the balance of a member's membership account exceeds the total payments due to a member's spouse and children under Ordinance sections 201.24(6.1, 6.2, 6.4 and 7.1), that excess is to be paid to the member's beneficiaries.

6. Ordinance section 201.24(6.3) provides that upon the death of an eligible member, the member's beneficiary shall be paid a lump sum benefit equal to one-half the member's final average salary, but not to exceed $2,000.

7. The Pension Board desires to clarify the interaction of Ordinance sections 201.24(3.5) and (6.3) and the benefits payable to a beneficiary upon the death of an active member prior to normal retirement age, or prior to commencing his or her pension benefit.

RESOLUTION

Effective October 17, 2013, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby adopts Rule 1051 to provide as follows:

**1051. Benefits Payable Upon the Death of a Member in Active Service**

1. If a member dies in active service and the member's beneficiary(ies) is otherwise eligible to receive the lump sum death benefit under Ordinance section 201.24(6.3), the member's beneficiary(ies) shall receive both the lump sum death benefit pursuant to Ordinance section 201.24(6.3) and a refund of the balance of the member's Membership Account as of the date of the member's death under Ordinance section 201.24(3.5).

2. The lump sum benefit under Ordinance section 201.24(6.3) and described in subsection (1) of this Rule shall not be payable unless a member dies in active service.

3. Members may designate different beneficiaries to receive the death benefit under Ordinance section 201.24(6.3) and the membership account refund under Ordinance section 201.24(3.5).