

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE FEBRUARY 17, 2016 PENSION BOARD MEETING**

1. Call to Order

The Chairman called the meeting to order at 8:35 a.m. at the Marcus Center for the Performing Arts, 929 North Water Street, Milwaukee, WI 53202.

2. Roll Call

Members Present

Laurie Braun (Vice Chair)
Aimee Funck
Michael Harper
Patricia Van Kampen
Vera Westphal
Dr. Brian Daugherty (Chairman)

Members Excused

Linda Bedford
Norb Gedemer
D.A. Leonard

Others Present

Mark Grady, Deputy Corporation Counsel
James Carroll, Assistant Corporation Counsel
Erika Bronikowski, Retirement Plan Services Manager
Vivian Aikin, Sr. Pension Analyst
Tina Lausier, Fiscal Officer
CJ Pahl, Budget and Management Coordinator, Office of the Comptroller
Josh Lieberman, J.P. Morgan Asset Management
Joseph Hisdorf, J.P. Morgan Asset Management
Rich Walsh, OFI Global
Mike Quinn, OFI Global
Brett Christenson, Marquette Associates, Inc.
Christopher Caparelli, Marquette Associates, Inc.
Steven Huff, Reinhart Boerner Van Deuren s.c.
Deputy Andrew Wendt, Milwaukee County Employee
Sarah Kochanski, Former Milwaukee County Employee
Louvenia Wilson, Former Milwaukee County Employee (present but left before called)
Ray Kress, Retiree

3. Chairman's Report

The Chairman congratulated Mr. Grady on his forthcoming retirement and noted that today will be Mr. Grady's final Pension Board meeting as counsel. The Chairman thanked Mr. Grady for his dedicated service to the Pension Board as Deputy Corporation Counsel.

Mr. Grady thanked the Chairman and expressed his desire to stay involved with the Pension Board. Mr. Grady indicated that he plans to run in the fall 2016 retiree member election and hopes to fill Mr. Leonard's expiring seat on the Pension Board.

4. Minutes—January 20, 2016 Pension Board Meetings

The Pension Board reviewed the minutes of the January 20, 2016 Pension Board meeting.

The Pension Board unanimously approved the minutes of the January 20, 2016 Pension Board meeting. Motion by Ms. Westphal, seconded by Ms. Funck.

5. Investments

(a) J.P. Morgan Asset Management

Josh Lieberman and Joseph Hisdorf of J.P. Morgan Asset Management distributed a booklet containing information on the fixed income investment management services provided by J.P. Morgan for ERS. Mr. Lieberman introduced himself as a Relationship Manager based in the firm's Chicago office and thanked ERS for its continued investment with J.P. Morgan's core bond strategy. Mr. Lieberman noted he has been with the firm for 11 years and works with a variety of institutional clients throughout the Midwest.

Mr. Lieberman began the discussion by reporting that the Chief Investment Officer of the firm's value-driven Columbus platform, Doug Swanson, announced in September 2015 that he would be taking a personal leave of absence. Barb Miller has subsequently transitioned to replace Mr. Swanson as head of the firm's U.S. value-driven platform in Columbus, Ohio.

Mr. Lieberman then introduced Mr. Hisdorf as a Client Portfolio Manager from the fixed income platform in the firm's Columbus office. Mr. Hisdorf continued providing an update of the firm. Mr. Hisdorf explained that all the team members from J.P. Morgan's value-driven strategy are in the firm's Columbus, Ohio office. Doug Swanson and Barb Miller previously worked together on the U.S. value-driven strategy, with Mr. Swanson managing the

strategy's institutional portfolio and Ms. Miller managing the strategy's mid-institutional portfolio. When Mr. Swanson announced his leave of absence, the firm made Ms. Miller head of the entire value-driven strategy. Ms. Miller has over 30 years of experience in the industry and has worked with Mr. Swanson for 17 of those years, implementing the same investment philosophy and process. The portfolio's construction and the composition of the individual investment teams under the U.S. value-driven strategy remains unchanged.

In response to a question from Mr. Grady, Mr. Hisdorf confirmed there have been no changes to the investment team managing ERS's funds.

Mr. Hisdorf next discussed the market environment. As commodities fell at the end of 2014, the markets took a downward turn in the beginning of 2015. Market volatility continued throughout 2015 as China and the emerging markets failed to stabilize, and the Federal Reserve (the "Fed") backed away from its stimulus program. The resulting impact to inflation and growth expectations resulted in a bullish interest rate environment throughout 2015. Treasury yield as of December 31, 2015 was at its highest level of the year, particularly in the short end of the curve. The yield on two-year bonds rose to 105 basis points, its highest level in five years. Repricing occurred in the short end of the yield curve, which is more sensitive to action by the Fed, and J.P. Morgan expects continued flattening of the yield curve in 2016. The portfolio is underweight to U.S. corporate investment grade bonds, which underperformed in 2015 and was a key performance driver in 2015.

Mr. Hisdorf then discussed portfolio performance. Performance was favorable in 2015 and the portfolio was up 84 basis points gross-of-fees for the one-year period as of December 31, 2015. The portfolio's 4% underweight to the corporate sector and 4% underweight to the non-corporate sector also enhanced performance.

In response to a question from Ms. Van Kampen, Mr. Hisdorf stated the portfolio's 4% underweight to the corporate sector is relatively modest. Mr. Hisdorf explained that J.P. Morgan imposes internal limits on its sector ranges based on a risk management scenario analysis. However, J.P. Morgan's sector limits are fairly broad, because relative value may present itself in any sector and J.P. Morgan does not want to impose strict limitations on its portfolio managers.

Mr. Hisdorf concluded the discussion of performance. J.P. Morgan's high-quality portfolio is biased towards financials over industrials, which was also an important factor contributing to 2015 outperformance. There was a clear divergence in performance between financials and industrials

throughout 2015, with financials outperforming treasuries by 40 basis points for the year. A marked increase in leverage in the industrials sector was largely a function of increased merger and acquisition activity. It is now very difficult to engage in mergers and acquisitions on any large scale from a regulatory standpoint. The energy subsector underperformed by approximately 260 basis points relative to treasuries. With increased regulations also appearing in the financial industry, financial markets must now be more liquid and less leveraged, but the regulatory concerns here are not as great relative to industrials. The portfolio is approximately 10% overweight in mortgage-backed securities and this sector also performed well in 2015. As the economy continues to improve, J.P. Morgan has gradually added sector allocations to commercial mortgage-backed securities ("CMBS") and asset-backed securities ("ABS"). The CMBS and ABS markets are very consumer-sensitive. The ABS investments are primarily in auto-backed securities, as the auto market has been very bullish and the need to securitize loans has increased. The majority of CMBS investments are agency-backed which provides some embedded protection.

In response to a question from Mr. Christenson regarding the increased lack of liquidity in the bond market, Mr. Hisdorf stated that because of the Dodd-Frank regulatory reforms, the larger banks are generally no longer acting as principal and purchasing securities for their own portfolios. With the large banks no longer acting as shock-absorbers, it is much more difficult to match buyers and sellers and, therefore, it now takes longer to sell securities. The lack of liquidity in the market is an element that J.P. Morgan has factored into the portfolio's overall construction. Mr. Hisdorf noted that approximately half of the portfolio is invested in amortizing securities. These amortizing securities produce monthly principal and interest, which serve as a natural source of liquidity. The portfolio also has a great deal of high-quality AAA securities that can be easily sold in the market if additional liquidity is needed. J.P. Morgan is a long-term investor relative to its peers and does not execute frequent trades. Therefore, J.P. Morgan can also capitalize on the outflows in the marketplace by purchasing bonds at distressed levels.

In response to a question from Mr. Grady and the Chairman regarding the Fed's recent messaging on additional interest rate increases, Mr. Hisdorf stated that late last year, the Fed was telegraphing four rate increases in 2016 and four additional increases in 2017. However, that messaging from the Fed has now appeared to change and J.P. Morgan is factoring a 50% possibility of only one or two additional rate increases in 2016. Mr. Hisdorf noted that, for reasons beyond the Fed's control, there is even a small possibility that rates may revert to zero. Current events taking place outside

of the U.S. related to the Chinese economy, emerging markets, the European Central Bank and the Bank of Japan are making it very difficult for the Fed to execute additional rate increases. The market already appears to be repricing the possibility of interest rates stagnating for the longer-term and there could be additional flattening of the yield curve in 2016.

(b) OFI Global

Rich Walsh and Mike Quinn of OFI distributed a booklet containing information on the emerging markets investment management services provided by OFI for ERS. Mr. Walsh introduced himself as the Senior Relationship Manager for ERS's global portfolio. Mr. Walsh noted that he has 30 years of experience in the industry and has been with the firm for 8 years. Mr. Walsh remarked that he presented at ERS's 2015 Annual Meeting and enjoyed meeting and answering questions from ERS participants.

Mr. Walsh began by summarizing key market events in 2015. The key market disruptors in 2015 were macro-driven and mainly revolved around events in China, the Federal Reserve raising interest rates and declining oil prices. OFI has made no changes to its investment philosophy because of these events and continues to construct its portfolio around exceptional companies. However, some repositioning has occurred in the portfolio relative to changing valuations in 2015. OFI's focus on purchasing exceptionally high-quality companies remains one of its key investment principles. The volatile market has presented very attractive valuations in certain emerging markets companies which OFI has been purchasing for years. Mr. Walsh concluded his remarks, noting that other than the retirement of its general counsel, there have been no additional changes relative to personnel exiting the firm. Art Steinmetz remains in place as the firm's President and Chief Executive Officer. Mr. Walsh then introduced Mr. Quinn as the Senior Client Portfolio Manager for the OFI Global investment team.

Mr. Quinn continued the discussion by providing an update of the firm. Justin Leverenz remains the portfolio manager for OFI's emerging markets equity investment team. Jacqueline Zhang was recently added to the team as a research analyst. Ms. Zhang is fluent in Mandarin, which has become a very desirable skill as China becomes a larger part of the investment universe. OFI believes that in the next five to ten years, China may comprise half of the emerging markets investment universe. John Paul Lech has been with the firm for seven years and was recently promoted as the team's co-portfolio manager and director of research. This change will allow Mr. Leverenz to focus on research and portfolio construction by

removing some of the daily administration duties associated with the investment team.

Mr. Quinn then discussed 2015 sector and stock performance. The Financials sector performed well in 2015 and was largely due to the fact that OFI avoids investing in banks. OFI is most comfortable investing in banks in geographical areas with consolidated markets, low credit penetration and decreased competition in financial services. While some of these characteristics do exist in Indian, Mexican and Latin American banks, they are not common throughout most emerging market geographies. Mr. Quinn noted that OFI would never invest in Chinese banks. The healthcare sector also performed well in 2015. OFI has attractive investments with certain Indian generic pharmaceutical companies and hospitals that also outperformed in 2015. Indian pharmaceutical companies hold approximately 25% of the U.S. generic drug market and OFI maintains a very favorable outlook for this sector of the market. While OFI does not heavily invest in industrials, 2015 returns in this sector were favorable and can be largely attributed to a company that manages airports in Thailand. Ctrip.com was a noteworthy stock which performed very well in 2015. Ctrip is a Chinese travel aggregator that increased 75% in value in 2015. New Oriental Education and Technology Group, Inc. is a Chinese company that also had favorable results in 2015. New Oriental is a provider of private educational services in China that specializes in teaching English. The portfolio does not maintain investments in the utilities sector. The information technology sector underperformed in 2015. Technology holdings in Baidu Inc., JD.com and Alibaba Group were particularly weak performers but OFI did add to these positions in 2015. OFI maintains its long-term confidence in these technology companies and was able to purchase additional shares at deep discounts in 2015. JD.com maintains 75% of the e-commerce market share in China, which is a rapidly growing industry in China. OFI believes that JD.com will be valued somewhere in the range of \$400 to \$500 billion over the next three to five years.

Messers Walsh and Quinn then explained that attractive investment opportunities resulting from recent market volatility also allowed OFI to consolidate its portfolio in 2015. OFI maintained its investment philosophy while adding 21 names and trimming 49 positions in the portfolio in 2015.

In response to a question from Ms. Van Kampen, Mr. Quinn stated the portfolio's typical turnover rate is 25% to 30%. The turnover rate in 2015 was approximately 38%, which is typical in a period where prices are very attractive.

In response to a question from Ms. Braun regarding when ERS might expect to see positive long-term performance from OFI, Mr. Quinn explained that emerging markets underperform when interest rates increase in reserve currency. There has been a great deal of speculation regarding interest rates since mid-2013 and the strong U.S. dollar has also negatively affected returns in emerging markets. Central banks around the world have flattened volatility in fixed income markets. For example, Japan is purchasing all of its government issuance and there is no volatility in interest rate-sensitive instruments. This is not sending a proper signal relative to the cost of capital or the expectation of return on capital. Market stress is appearing in the currency markets because central banks do not participate in currency markets. Increased market stress is also reflected in credit spreads and commodity pricing which tend to be more challenging areas in emerging markets. A Russian company may appear to be performing quite well when viewed in rubles but when viewed in U.S. dollars, that same Russian company appears very weak. Emerging markets have been down approximately 50% since 2011. However, absent a recession in the developed world, OFI believes that the emerging markets are likely approaching the end of this extended underperformance cycle.

In response to a question from Mr. Christenson regarding the effect structural changes in China may have over the next five years, Mr. Quinn first noted that China is the most dynamic emerging market with very vibrant growth prospects. However, China is now struggling with the fact that they have too much capacity. The Chinese government has already signaled that it will not grow its economy by building unnecessary bridges and apartment blocks. OFI believes there will be a large consolidation of Chinese trade structures to increase efficiency. Chinese state-owned enterprises are now evaluating their management based on returns of invested capital instead of revenue growth. This suggests a shift in focus to profitability. Growth becomes less important when the focus shifts to profitability and such a shift will not require any extreme action. Valued at \$11 trillion, China is the only sizeable economy in the world where any substantial reforms are currently taking place that will result in enhanced future economic prospects.

Mr. Walsh added that one of the greatest challenges facing China today is learning how to regulate its internal markets and many have recently questioned China's decision-making processes. Chinese policy making relative to recent regulation and control of its internal markets is the most troubling short-term aspect of the changes occurring in China. In redirecting its economy, China must do things it has never done before, and that will inadvertently create surprises that will result in market volatility.

Mr. Quinn concluded by noting that OFI will only invest in dynamic areas of the Chinese markets such as e-commerce, education, travel and tourism. OFI does not invest in riskier areas of the Chinese markets such as banks or industrials.

(c) Marquette Associates Report

Brett Christenson and Christopher Caparelli of Marquette Associates distributed the January 2016 monthly report.

Mr. Christenson began with a discussion of the January flash report. As of January 31, 2016, the Fund's total market value was approximately \$1.65 billion. The markets are off to a difficult start in 2016. The U.S. stock market lost 5.5% of its value in January 2016 and is down an additional 4% month-to-date. The international market is down approximately 13% month-to-date. Mr. Christenson explained that the Fund is structured to protect assets in a down market and maintaining a high quality fixed income manager such as J.P. Morgan has also helped to protect assets. In this difficult environment, Marquette would like to keep the Fund's asset classes relatively close to the investment policy targets to ensure optimal performance. The fixed income composite currently has a slight overweight of \$7 million, but Marquette is liquidating \$10 million from fixed income for benefit payments and that will bring fixed income closer to its target allocation. The international and U.S. equity composites are both underweight by -\$28 million and -\$25 million respectively. The hedged equity and infrastructure composites are currently overweight by \$10 million each. Real estate is currently overweight by \$77 million, but the Board recently approved reallocating \$35 million from Morgan Stanley real estate by the end of March 2016. Private equity is currently underweight by -\$75 million. Total cash equivalents were at \$22 million as of January 31, 2016. However, \$15 million was drawn from cash equivalents for benefit payments this month, in addition to the \$10 million drawn from fixed income. There were also \$8 million in capital calls which has resulted in cash equivalents being fairly close to zero.

Real estate remains the main area of overweight, at \$42 million, once the \$35 million in queue is reallocated. Mr. Christenson stated that Marquette would like to complete rebalancing a significant portion of the Fund's remaining overweight real estate assets by June 30, 2016. Mr. Christenson indicated that because a 90-day notice is required for real estate, Marquette would like to address rebalancing of the remaining assets either today or at next month's Board meeting at the latest. Marquette recommends reallocating \$40 million from Morgan Stanley real estate and designating those assets for rebalancing current underweights in equities.

In response to a question from Mr. Harper regarding the importance of addressing the Fund's current underperformance versus focusing on rebalancing, Mr. Christenson first reported that the Fund's total net-of-fees return for the month of January was -3.0% versus the benchmark at -3.1%. The Fund's total return is down an additional -2% month-to-date and is currently at -5%. However, Mr. Christenson explained that despite recent disappointing returns, Marquette adheres to a longer-term investment perspective relative to the Fund's total return. Marquette focuses on maintaining favorable asset allocations to achieve optimal performance over the long-term. The Investment Committee and Pension Board have devoted a great deal of time to reviewing the Fund's asset allocation targets over the last six months. Significant changes were recently made to increase the Fund's private equity allocation and attempt to reach the Fund's 8% assumed rate of return, while maintaining sufficient cash flows and managing overall risk to the Fund. Due to the nature of private equity investments, it will take some time to reach the Fund's recently revised 10% private equity target allocation.

Mr. Christenson continued by noting that at 18.2% net-of-fees, the Fund's real estate investments have provided significant returns on a seven-year basis, which have far outpaced all other returns in the portfolio. However, the exceptional performance in real estate is an anomaly. That anomaly is largely due to the fact that the Fund purchased its real estate assets in 2009, when base properties were underpriced by 25% to 35% following the 2008 financial crisis. As these properties regained their value, the Fund was able to capture much of that value over the last several years. Mr. Christenson explained that Marquette values real estate on the cap rate. The cap rate is currently at historic lows and may be an indication that the real estate is currently overvalued and market conditions are becoming frothy. The Fund's target allocation for real estate is 8.5%. Real estate is overweight at 13% and the overweight has been maintained for some time due to very favorable returns. However, because of the current signs in the market, Marquette recommends reducing the overweights in real estate to rebalance the more undervalued areas in the equity markets.

In response to a question from Ms. Van Kampen, Mr. Christenson confirmed that due to the current market conditions, Marquette is revising its recommended timeframe to rebalance the Fund's real estate assets now, instead of waiting until the third or fourth quarter of 2016 as it originally discussed with the Investment Committee. In addition, there is also a need for \$10 to \$20 million in monthly cash flows to fund monthly benefits and expenses for the Fund.

The Pension Board unanimously approved the liquidation of \$40 million in real estate assets from the Morgan Stanley Prime Property Fund. The amounts withdrawn are to be reallocated as determined by Marquette Associates. Motion by Ms. Van Kampen, seconded by Mr. Harper.

In response to a question from Ms. Van Kampen, Mr. Christenson confirmed that the \$40 million redemption approved by the Board today is in addition to the \$35 million redemption from Morgan Stanley real estate approved by the Board in December 2015. Once the two pending transactions are complete, real estate should be relatively close to its 8.5% target allocation.

Mr. Christenson continued with a discussion of individual manager performance. January was a difficult month for many of the Fund's managers but some did outperform for the month despite the down market. Geneva Capital's January one-month return was notable at -5.6% net-of-fees, versus its benchmark at -7.6%. The Fund's international small cap manager, GMO, continues to underperform over the longer-term and Marquette discussed launching a search for a possible replacement at the last Investment Committee meeting. Mr. Christenson noted that Marquette has prepared a request for proposal ("RFP") that it would like to post as soon as possible. Marquette would like to ask applicants to respond to the RFP by March 7, 2016, to allow Marquette sufficient time to compile responses and discuss the results at the March 2016 Pension Board meeting.

Mr. Christenson then reviewed some of the primary manager qualifications as outlined in the RFP. To be considered, a manager must have a non-U.S. small cap equity product with a minimum three-year track record. As of December 31, 2015, the firm must have at least \$500 million in total assets under management. The manager must also have a minimum of \$200 million and a maximum of \$2 billion in assets in the proposed non-U.S. small cap equity product as of December 31, 2015. Mr. Christenson noted that Marquette reviewed several managers that met these qualifications with the Investment Committee.

In response to a question from Mr. Christenson, Mr. Grady stated that the Board does not have to approve the form of the RFP but it must approve the issuance of an RFP. Mr. Grady then suggested the Board vote on the matter during the Investment Committee meeting discussion on today's agenda.

Mr. Caparelli concluded with a discussion of the recent acquisition of Fiduciary Management Associates ("FMA") by Mesirow Financial. FMA is one of the Fund's small cap U.S. equity managers with a 3% position in the

portfolio. FMA has agreed to be acquired by Mesirow and Marquette believes the transaction is a positive organizational move for FMA. However, as standard practice, Marquette recommends placing FMA on alert for organizational issues for a period of approximately one year. Mr. Caparelli then explained that FMA is a boutique firm with six employee-owners and 18 employees. FMA manages \$1.7 billion in assets across its small and mid cap strategies, with the majority of those assets in its small cap strategy which ERS invests in. FMA's entire team is being purchased by Mesirow and the majority of its employees will be retained by Mesirow, except for a few compliance personnel whose positions will become redundant as the merger is complete. No members from Mesirow's small and mid cap teams will join FMA. Employment contracts are in place and it appears likely that FMA's six employee-owners will become owners of Mesirow once it offers equity sometime later in the year. The acquisition will provide FMA additional time to focus on managing its portfolio assets by moving away from compliance-related matters, which will now be outsourced to Mesirow's well-established groups. Mr. Caparelli noted that because ERS has private equity investments with Mesirow, Mesirow has already been through Marquette's due diligence process and Marquette has a great deal of confidence in Mesirow. Mesirow requires that a majority of its clients consent to the merger and ERS will be asked to respond to Mesirow's client consent letter by March 31, 2016.

The Pension Board unanimously approved placing Mesirow Financial on alert for organizational issues and authorizes the Chairman to execute Mesirow's consent to the merger with FMA. Motion by Ms. Van Kampen, seconded by Ms. Braun.

In response to a question from Mr. Grady, Mr. Christenson confirmed that the organizational issues as previously discussed by the representatives from J.P. Morgan and OFI do not rise to the level of requiring an alert.

In response to a question from the Chairman, Mr. Christenson indicated that the Chairman's signature to authorize consent to the merger can be coordinated by Marquette electronically in the coming month.

6. Investment Committee Report

Ms. Van Kampen reported on the February 1, 2016 Investment Committee meeting. The Investment Committee first discussed rebalancing. Mr. Christenson reported to the Committee that the Board-approved \$35 million reduction to Morgan Stanley real estate is in process and \$20 million of that amount will be designated to fund a capital call from UBS. The Investment Committee also discussed accelerating the reduction of the

remaining overweight to real estate. Mr. Christenson also reported that capital calls for Siguler Guff were in process.

The Investment Committee continued with a discussion of the Fund's international portfolio. The Committee analyzed the continued underperformance of the Fund's international small cap manager, GMO. Marquette recommended placing GMO on alert for performance-related issues and launching a search to review potential replacement managers.

Ms. Van Kampen then explained to the Pension Board that the timeframe to search for a replacement for GMO has been accelerated. The proposed timeline includes selecting and interviewing candidates at upcoming Investment Committee and Pension Board meetings. The Investment Committee hopes to have a final replacement manager recommendation ready for presentation at the May 2016 Pension Board meeting. Marquette has recommended a target of July 2016 for transferring assets from GMO to the replacement manager.

In response to a question from the Chairman and Mr. Grady, Mr. Caparelli confirmed the Pension Board placed GMO on alert for performance issues at its January 20, 2016 meeting.

The Pension Board voted unanimously to authorize Marquette to conduct a search for a replacement international small cap value manager. Motion by Ms. Van Kampen, seconded by Mr. Harper.

Ms. Van Kampen continued reporting on the Investment Committee meeting. The Investment Committee next discussed updated investment guidelines. Marquette reviewed updates to the Fund's Statement of Investment Policy which will require approval by the Pension Board.

Ms. Van Kampen explained to the Pension Board that the Investment Committee had originally intended to present the updated investment guidelines for approval at today's Board meeting. However, an issue was recently discovered regarding the interpretation of a 75% equities limitation as stated in the Ordinances. The specifics regarding the 75% limitation will require further analysis by the Investment Committee. The Investment Committee plans to present the updated investment guidelines for approval at the March 2016 Pension Board meeting.

Mr. Grady then explained to the Pension Board that that Ordinance refers to a 75% limit in common stock investments for the Fund. However, there is some question as to how that 75% limitation is defined and how it should be interpreted. Mr. Huff will conduct further analysis of the issue and will

present optional interpretations for the Investment Committee to review at its next meeting.

Ms. Van Kampen concluded her report and stated the Investment Committee ended with a discussion of actuarial data relative to the Fund's assumed rate of return. Marquette contacted Buck Consultants and asked Buck to prepare an analysis of what the projected member and County contributions would be if the Fund's assumed rate of return is revised to 7.75%, 7.5%, 7.25% or 7%, with all other assumptions unchanged. It is hoped that Buck can present its analysis results at the March 2016 Pension Board meeting. This timeframe would allow the Pension Board sufficient time to make an informed decision on implementing any changes to the Fund's assumed rate of return for inclusion in the 2017 actuarial valuation.

In response to a question from Mr. Harper regarding possible measures to improve timely receipt of requested information from the actuary, Mr. Grady acknowledged the Board's concern. However, Mr. Grady noted that while persistent follow up is typically required by ERS, Buck typically provides the requested information.

7. Audit Committee Report

Ms. Westphal reported on the February 4, 2016 Audit Committee meeting. The Audit Committee first discussed the disability retirement process. The Audit Committee conducted an in depth review of proposed changes to the Ordinances and Rules regarding disability retirement. The Audit Committee decided to continue discussing the topic at its March meeting and hopes to present its recommendations to the full Pension Board in the near future.

The Audit Committee next discussed the statement of economic interest ("SEI") filing frequency. The Audit Committee discussed a proposed Ordinance amendment that would change the requirement for Pension Board members to file the SEI report from quarterly to annually to be uniform with other County reporters. Ms. Van Kampen then noted the proposed amendment presented to the Audit Committee is slightly different than the version presented to the full Pension Board today and asked counsel to summarize the current proposal.

Mr. Grady summarized the proposed Ordinance amendment to the Board. Mr. Grady noted that he recently discussed the SEI filing requirements at length with Jerry Heer, the Director of Department of Audit, because Mr. Heer was one of the primary forces behind the change to require quarterly SEI reporting for Pension Board members. Therefore, if the proposed Ordinance amendment is sent to the County Board, the County

Board will likely seek Mr. Heer's input. Mr. Grady stated that because of his discussion with Mr. Heer, he believes the County Board is more likely to approve the proposed Ordinance amendment if the Pension Board requests annual SEI reporting frequency while also offering to complete an additional annual financial disclosure statement. Mr. Grady referred to the proposed addition to lines 87 through 98 of the proposed amendment in Exhibit 5B. Mr. Grady explained that because an annual SEI would only be a snapshot of a Board member's activity as of December 31, 2015, the additional annual reporting requirement is designed to disclose any activities that a Board member may have had during the year that could be a conflict of interest. For example, an annual SEI would not capture a Board member's investments with one of ERS's investment managers if those investments were purchased in 2015, but sold prior to December 31, 2015. The additional annual financial disclosure report would cover any possible gaps with connections throughout the entire year that could be a conflict of interest. The additional annual financial disclosure statement would be in a yes or no format as prescribed by the ethics board. Mr. Grady stated the additional financial disclosure statement would be more comprehensive than the current quarterly reporting method because quarterly SEI reports are only creating a snapshot in time.

In response to a question from Ms. Braun, Mr. Grady stated that no other County SEI reporters are required to complete an additional annual financial disclosure statement.

Ms. Braun stated that she believes all County SEI reporters should be held to the same requirements and standards. If the Pension Board is held to its quarterly SEI filing standard, then all other County SEI reporters should be required to file quarterly. If the Pension Board is allowed to change to an annual SEI filing standard, but also required to file an additional annual financial disclosure statement, then all other County SEI reporters should be required to file the additional annual financial disclosure.

Mr. Grady stated that the language in the proposed Ordinance amendment is ultimately the Pension Board's decision and the inclusion of the additional annual financial disclosure reporting requirement can be easily stricken from the proposed amendment.

Ms. Braun indicated that she also discussed this matter with Mr. Heer. Ms. Braun reported that during their discussion, Mr. Heer suggested sufficient time had passed and the original issues that resulted in the quarterly SEI filing requirement for Board members no longer exist. Therefore, Ms. Braun suggested that now would be an opportune time for the Pension Board to recommend that it no longer be held to a unique SEI

reporting standard. Ms. Braun further suggested that the Pension Board should not be held to a special additional annual reporting standard.

In response to a question from Ms. Funck regarding the exact nature of the prior reporting issues, Mr. Grady stated that several former Pension Board members were convicted for a variety of ethical violations related to the acceptance of gifts and other matters contrary to the Code.

In response to a follow-up question from Ms. Funck, Mr. Grady stated that the current SEI form addresses gift reporting. The additional financial disclosure report is intended to enhance the current reporting standards for the Pension Board while also proposing the Board change to annual SEI reporting.

In response to a question from Ms. Van Kampen, Mr. Grady confirmed that the Pension Board is completing the same SEI report that all other County reporters must file. However, the Pension Board members are the only SEI reporters required to file quarterly instead of annually.

Mr. Grady then stated that a revised draft of the proposed Ordinance amendment could be prepared and presented to the Pension Board for review at its next meeting. Alternatively, Corporation Counsel could make any revisions requested by the Pension Board today and implement those changes on behalf of the Pension Board without further review. The Pension Board could then vote today on the concept of such changes.

Ms. Funck indicated she was comfortable with Corporation Counsel making the requested changes on behalf of the Pension Board and voting to approve such changes today.

Ms. Braun remarked that the revised amendment should be issued to all Pension Board members for informational purposes. Ms. Braun also opined that it is not appropriate to hold Pension Board members to unique SEI filing standards and noted her disagreement with including an additional annual reporting requirement for the Pension Board.

The Chairman indicated that he believes it is acceptable for the Pension Board to request it be held to the same SEI reporting standards as all other County SEI reporters. The Chairman suggested that such request may be denied by the County Board and the default would be for the Pension Board to continue submitting its quarterly SEI reports. The Chairman observed that the quarterly SEI filings are a minor nuisance for him but he understands circumstances may be different for other Pension Board members.

In response to a question from Mr. Harper, the Chairman indicated that he does not have sufficient experience to answer whether increased SEI reporting frequency improves ethics. The Chairman added, however, that he does not believe additional SEI reporting would cause any unethical person to become ethical.

Ms. Westphal stated that she also believes the Pension Board should be held to the same reporting standards as other County reporters. If an additional reporting requirement is added for the Pension Board members, that same requirement should be also made of all other County SEI reporters.

The Pension Board voted unanimously to recommend to the County Board an Ordinance amendment that would delete the quarterly SEI reporting requirement for Pension Board members and place Pension Board members on the same annual SEI reporting schedule as other County SEI reporters. Motion by Ms. Braun, seconded by Ms. Funck.

Ms. Westphal continued reporting on the February 4, 2016 Audit Committee meeting. The Audit Committee next discussed the normal retirement age 64 early retirement possible Ordinance amendment. Mr. Grady presented a draft Ordinance amendment regarding early retirement for members with a normal retirement age of 64. The Audit Committee agreed to continue its discussion of the matter at its next meeting.

The Audit Committee concluded with a discussion of ERS Rule amendments to conform to recent Ordinance Amendments on optional benefits. The County Board recently amended Ordinance section 201.24(7.1) and repealed Ordinance section 201.24(7.2). Certain ERS Rules must now be amended to correspond to those Ordinance changes. Mr. Huff presented a draft of the proposed Rule changes to the Audit Committee for review. After further review and discussion, the Audit Committee agreed to recommend the proposed Rule changes for approval by the full Pension Board at its February 2016 meeting.

Mr. Huff then addressed the Pension Board and recognized Mr. Grady's major achievement in effectuating the Ordinance changes to eliminate the Option 1 and Option 7 pension benefits from ERS. Mr. Huff noted the benefit changes will reduce the workload of ERS staff and prevent future lawsuits that would have likely occurred due to the extremely complicated nature of benefit Options 1 and 7. Mr. Huff explained that the amendments presented for approval today are designed to clean up the Rules to accurately reflect the remaining optional forms of benefits available under ERS.

The Pension Board voted unanimously to adopt amended ERS Rules 1013, 1014, 1054, and 1056, and to repeal ERS Rules 1021 and 1035, attached to these minutes as Exhibit A, effective February 17, 2016. Motion by Mr. Harper, seconded by Ms. Van Kampen.

8. Proposed Ordinance Amendments to Section 2.18 & 4.1 DA Investigators — Normal Retirement Age and Rule of 75; Firefighters — Rule of 75 — Referred to Pension Board under Section 8.17 for Possible Comment

Mr. Grady explained that the proposed Ordinance amendments to sections 201.24(2.18) and 201.24(4.1) which the Pension Board discussed in detail at its January 2016 Board meeting have now been formally referred to the Pension Board for possible comment.

Mr. Grady then summarized the proposal. The proposed Ordinance amendment originated from the district attorney and would provide district attorney investigators ("D.A. Investigators"), who are sworn law enforcement officers, parity to the Rule of 75 normal retirement age with deputy sheriffs and other sworn law enforcement officers in the County. D.A. Investigators currently do not have parity with the Rule of 75 normal retirement age and they believe they should have a similar benefit structure with other sworn law enforcement officers. The current normal retirement age for D.A. Investigators is age 60 or 64, dependent on date of hire. The proposal would change the normal retirement age to age 57 for all D.A. Investigators. There are approximately 19 D.A. Investigators but only two are currently affected by the proposed change. Buck Consultants has prepared a fiscal analysis of the proposed benefit change. In its analysis, Buck reported a relatively small increase in liability of \$111,762 would be allocated to the County and ERS members resulting from the benefit change. The proposed Ordinance amendment would also provide the same benefit to the small number of management firefighters.

In response to a question from Mr. Grady and the Chairman, Messes Lausier and Bronikowski stated that any administrative reprogramming costs associated with the proposed benefit change would be *de minimis*.

In response to a question from Ms. Funck regarding any proposed changes to the contribution rates for D.A. Investigators, Mr. Grady stated he does not believe there are any proposals to change the current rates. State statute requires that nonrepresented law enforcement officers pay the same contribution rates as represented law enforcement officers. Accordingly, three D.A. investigator supervisors pay the same contribution rates as deputy sheriffs. The County Board sets other D.A. investigator rates based on the actuary's recommendation for public safety workers. Mr. Grady stated that

he does not believe the actuary has been asked to change anyone's contribution rate, but also noted the actuary has previously discussed the possibility of eliminating the different rates between public safety and nonpublic safety employees. Mr. Grady added that while law enforcement officers do in some ways have enhanced benefits relative to other general employees, law enforcement officers never received the backDROP benefit or the pension enhancements passed in 2000. Ultimately, however, it is the County Board that determines the member contribution rates through its annual budget, based on the recommendations from the actuary.

The Chairman called for additional questions from the Board members and there were none.

The Pension Board voted unanimously, motion by Mr. Harper, seconded by Ms. Van Kampen, to approve the adoption of the following resolution:

The Pension Board offers no formal comment regarding the proposed Ordinance amendments to sections 201.24(2.18) and 201.24(4.1) of the Milwaukee County Code of General Ordinances regarding eligibility for the Rule of 75 for employees who transferred from a represented position to a nonrepresented position after September 29, 2011, and waives the balance of its 30 day comment period provided for under section 201.24(8.17) of the Milwaukee County Code of General Ordinances.

Ms. Braun then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f) with regard to items 9 and 10 for considering the financial, medical, social or personal histories of the listed persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of those persons, and may adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g) with regard to items 9 through 13 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board unanimously agreed by roll call vote 6-0 to enter into closed session to discuss agenda items 9 through 13. Motion by Ms. Braun, seconded by Ms. Funck.

Messes Aikin, Bronikowski and Lausier recused themselves from and left the room during the closed session discussion of agenda items 10(a) and 10(b).

9. Disability Retirement Application - Andrew Wendt

In response to a question from the Chairman, Mr. Wendt confirmed he would be comfortable discussing his disability application in open session.

Mr. Wendt stated he reviewed all of the Medical Review Board reports personally and had no additional information to add. Mr. Wendt noted that his disability application has been pending for a long time but acknowledged that a new Medical Review Board was implemented while his application was pending which created some additional delays. Mr. Wendt remarked that he was glad to have finally reached this point in the review process.

The Chairman thanked Mr. Wendt for his patience and for appearing before the Board today. The Chairman explained that the Board will notify Mr. Wendt in a timely manner of its determination in writing if he did not wish to wait for the Board to return from closed session.

Mr. Wendt indicated that he would wait for the Board to return from closed session and receive a verbal decision today.

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board unanimously approved granting the accidental disability pension application based on the Medical Board's determination. Motion by Ms. Van Kampen, seconded by Ms. Funck.

10. Appeals

(a) Sarah Kochanski

In open session, Ms. Kochanski addressed the Board and stated she had little to add to the comments she provided at the January 2016 Pension Board meeting.

Ms. Kochanski then asked if Mr. Grady would explain what additional information the Pension Board requested relative to her appeal since its January 2016 meeting. Mr. Grady indicated to Ms. Kochanski that he had no issue with disclosing the additional information but explained that because he discussed that information with the Pension Board in closed

session, it is privileged, and the Board must determine whether he discloses it.

In response to a question from Mr. Grady, the Board members indicated they did not object to Mr. Grady disclosing the additional information he discussed with the Board in closed session pertaining to Ms. Kochanski's appeal.

Mr. Grady explained that the only additional question the Board asked counsel to research was what effect, if any, Ms. Kochanski's work-related injury had on her service credit. After further investigation, Corporation Counsel discovered that even if Ms. Kochanski had received service credit during her injury, she ultimately would not have five years of service credit.

In response to a follow-up question from Ms. Kochanski, Mr. Grady confirmed that Ms. Kochanski did not receive service credit for the time she was off work due to her injury.

The Chairman called for additional questions and there were none.

The Chairman thanked Ms. Kochanski for appearing today and explained that the Board will notify Ms. Kochanski in a timely manner of its determination in writing if she did not wish to wait for the Board to return from closed session.

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board unanimously voted, motion by Ms. Westphal, seconded by Mr. Harper, to deny the appeal by Sarah Kochanski 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:

Factual Background

1. Sarah Kochanski enrolled in ERS on November 7, 2005. She terminated County employment on March 11, 2009 with 3.08189 years of service credit.¹ During her employment, Ms. Kochanski states she was injured. Ms. Kochanski was not vested at the time of her termination of employment.

¹ The Retirement Office reviewed Ms. Kochanski's file and confirmed that she earned 3.08189 years of service credit. The May 13, 2015 letter to Ms. Kochanski incorrectly states that she earned 2.88745 years of service.

2. Prior to her termination of employment, Ms. Kochanski requested to purchase service credit in ERS for her time spent as an optional employee. In a letter dated April 5, 2007, the Retirement Office informed Ms. Kochanski she could purchase 1.10398 years of service credit in four annual installments of \$853.96, with the first payment due by July 6, 2007.
3. Ms. Kochanski made a payment in July 2007 for \$853.96 toward the purchase of service credit. Ms. Kochanski also made a second payment in July 2008 in the amount of \$853.96. Ms. Kochanski did not make the final two payments which were due in July 2009 and July 2010.
4. On May 15, 2009, after she terminated County employment, Ms. Kochanski requested to receive a refund of her membership account, consisting of the amounts she paid to purchase service credit. She received a refund on June 25, 2009 in the amount of \$1,729.27.²
5. On March 11, 2014, Ms. Kochanski had been absent from County service for five years. In accordance with the Ordinances and Rules, Ms. Kochanski's service credit in ERS was cancelled.
6. In May 2015, Ms. Kochanski contacted the Retirement Office and requested to apply for an accidental disability retirement pension ("ADR"). The Retirement Office reviewed the request and sent Ms. Kochanski a letter dated May 13, 2015 denying her request to apply for an ADR because Ms. Kochanski was no longer an ERS member.
7. In a letter dated August 28, 2015, Ms. Kochanski appealed the Retirement Office's decision.
8. Ms. Kochanski was scheduled to appear at the October 2015 Pension Board meeting but requested that her appeal be postponed until the December Pension Board meeting. In November, Ms. Kochanski requested that her appeal be moved to the January Pension Board meeting.
9. On January 6, 2016, Ms. Kochanski sent a letter to the Retirement Office confirming her attendance at the January 2016 Pension Board

² Per the Retirement Office, Ms. Kochanski's refund was processed manually, which resulted in interest continuing to be posted to her membership account each year even though her account balance was zero. This is why some of her benefit statements after 2009 state that there is interest owed on her membership account.

meeting. In this letter she also reiterated that she is under the care of a doctor for the injuries sustained while employed with the County. She is also receiving workers compensation for these injuries. She noted in the letter that she did not apply for an ADR previously because she was under the care of a doctor and not officially informed by her doctor that she could not perform the duties of a firefighter. She also argued that it is unfair and unreasonable to suffer a "career ending injury and be barred from applying for disability."

10. The Pension Board reviewed Ms. Kochanski's appeal at its January 20, 2016 meeting. Ms. Kochanski appeared at the meeting and provided an explanation to the Pension Board about why she did not apply for an ADR sooner. She stated she was not aware of the fact that she had until March 2014 to apply for an ADR, and she is currently under a doctor's care for her injury. Ms. Kochanski explained that she would not apply for a disability pension until her doctor has medically determined that she can no longer perform her job duties, and her doctor had just recently made that determination. Ms. Kochanski further explained that she contacted the Retirement Office after receiving a letter in the mail from OBRA, because she was uncertain if OBRA was related to the firefighter pension. Ms. Kochanski stated that it was not until after contacting the Retirement Office that she learned she would not be receiving a pension. Ms. Kochanski told the Pension Board that she believes she is being unfairly penalized. Ms. Kochanski explained that she is disabled at age 43 and may not be able to find suitable work to support herself.
11. During the Pension Board's review of Ms. Kochanski's appeal in closed session, the Pension Board asked Corporation Counsel's office to confirm an issue related to Ms. Kochanski's service credit. Accordingly, Ms. Kochanski's appeal was laid over to the Pension Board's February meeting. Prior to the February meeting, Corporation Counsel's office confirmed that Ms. Kochanski was not entitled to any additional service credit.
12. The Pension Board again reviewed Ms. Kochanski's appeal at its February 17, 2016 Pension Board meeting. Ms. Kochanski attended the meeting and requested information related to the issue researched by Corporation Counsel's office for the Pension Board. With the permission of the Pension Board, Mr. Grady explained to Ms. Kochanski that the question was related to what effect, if any, her injury had on her service credit and whether it would affect the

amount of service credit she had earned. Mr. Grady explained that after review, Corporation Counsel's office confirmed that it had no effect, and Ms. Kochanski was not entitled to any additional service credit.

Pension Board Conclusions.

13. Ordinance section 201.24(4.3) requires an individual to be a member of ERS in order to be eligible to apply for an ADR.
14. Pursuant to Ordinance section 201.24(2.11), if a non-vested member terminates County employment and is absent from County employment for more than five years in a 10-year period, the member's service credit will be cancelled and the individual will no longer be a member of ERS.
 - a. Based on the facts presented to the Pension Board, Ms. Kochanski enrolled in ERS in November 2005. For members who enrolled in ERS after January 1, 1982 and earned service credit after January 1, 2001, Ordinance section 201.24(5.15) requires members to have earned five years of service credit to be vested.
 - b. Ms. Kochanski had earned 3.08189 years of service credit at the time of her termination of employment. Accordingly, the Pension Board finds that Ms. Kochanski was not vested in ERS at the time of her termination of employment.
15. Ms. Kochanski also commenced a purchase of service credit, which would provide her with additional service credit toward vesting. However, she did not complete this purchase as she only made the first two payments (2007 and 2008) toward the purchase.
 - a. Pursuant to Rule 207, which was in effect at the time of Ms. Kochanski's purchase, if a member does not make all four consecutive payments to purchase service credit, the member is unable to retain the purchased credit.
 - b. Ms. Kochanski failed to make her 2009 and 2010 payments toward the purchase of service credit. Additionally, Ms. Kochanski requested to receive a refund of her membership account, which consisted of her payments to purchase service credit, in May 2009. Therefore, the Pension Board finds that

Ms. Kochanski is not eligible to retain any of the purchased credit or complete her purchase of service credit.

16. Moreover, even if Ms. Kochanski had completed her purchase of service, she still would have had only 4.18587 years of service credit, and she would not have been vested at the time she terminated her employment. Accordingly, Ordinance section 201.24(2.11) would still apply, and ERS would have cancelled her service credit due to her five-year absence as a non-vested member.
17. ERS is a tax-qualified plan under the Internal Revenue Code (the "Code") and must comply with Code requirements applicable to governmental plans, including being administered in accordance with the Ordinances and Rules.
18. Ordinance section 201.24(4.3) requires an individual to be a member of ERS to be eligible for an ADR. At the time Ms. Kochanski requested to apply for an ADR, she had been absent from ERS service for more than five years in a ten-year period, and her service credit had been cancelled after the five-year absence because she was not a deferred vested member at the time of her termination of employment. Because Ms. Kochanski's service credit was cancelled in 2014, the Pension Board finds she was not a member of ERS when she applied for an ADR in May 2015. As a non-member, the Pension Board further finds that Ms. Kochanski is not eligible to receive an ADR.

(b) Louvenia Wilson

Ms. Wilson was present at the start of the meeting but left before being called. In response to a question from Mr. Grady, Ms. Aikin indicated that Ms. Wilson made no remarks prior to leaving the meeting.

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board unanimously voted, motion by Mr. Harper, seconded by Ms. Van Kampen, to deny the appeal by Louvenia Wilson 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:

Factual Background

1. Louvenia Wilson commenced County employment as a corrections officer in January 2008.
2. On September 19, 2012, Ms. Wilson was kicked in the left knee while attempting to restrain an inmate. For a number of months Ms. Wilson was placed on temporary work restrictions.
3. In October 2013, it was determined that Ms. Wilson was permanently subject to work restrictions, and she could no longer perform the duties of her position as a corrections officer. At this same time, Ms. Wilson was referred to the County's Job Relocation Program, and she applied for an accidental disability retirement pension ("ADR") from ERS.
4. On December 24, 2013, the Medical Board recommended that the Pension Board deny Ms. Wilson's ADR application.
5. On April 21, 2014, Susan Chase, the Employment Accessibility Coordinator for the County, sent Ms. Wilson a letter notifying her that there were no job vacancies that met her qualifications and job relocation services will no longer be offered to her.
6. The Pension Board denied Ms. Wilson's ADR application at its July 2014 meeting.
7. According to Ms. Wilson's attorney, because the County was unable to find any suitable employment for Ms. Wilson, she was terminated. On September 2, 2014, Ms. Wilson appeared before the Milwaukee County Personnel Review Board ("PRB") to dispute her discharge. On September 30, 2014, the PRB determined that Ms. Wilson was permanently disabled and could not perform the duties of a corrections officer. The PRB further determined that the County did not have any jobs for Ms. Wilson based on her education, training and experience.
8. Ms. Wilson appealed the Pension Board's July 2014 decision to deny her ADR application and a hearing was held before Judge Gerlach on November 19, 2014. Judge Gerlach affirmed the Pension Board's denial because he determined that her injury did not prevent her from performing "any duty" for the County. However, Judge Gerlach concluded that Ms. Wilson was permanently disabled as a result of the accident that occurred on September 19, 2012.

9. Ms. Wilson requested that the Pension Board review Judge Gerlach's decision. At its July 15, 2015 meeting, the Pension Board reviewed Judge Gerlach's decision and decided to "accept Judge Gerlach's decision regarding Ms. Wilson's medical determination, and to reverse the previous decision of the Pension Board by granting Ms. Wilson whatever accidental disability pension to which she is entitled from ERS."
10. After the Pension Board meeting, ERS was performing an estimate of Ms. Wilson's monthly benefit at Ms. Wilson's request when it was discovered that Ms. Wilson requested and received a refund of her employee contributions in October/November 2014.
11. ERS sent a letter to Ms. Wilson dated July 30, 2015 explaining the discovery and denying Ms. Wilson's ADR application as she is no longer a member.
12. Mr. DeKosky, attorney for Ms. Wilson, sent a letter dated November 12, 2015 requesting an appeal of the Retirement Office's decision and providing arguments regarding why Ms. Wilson is entitled to receive an ADR.
13. Mr. DeKosky did not appear before the Pension Board at its February 17, 2016 meeting. Ms. Wilson attended a portion of the meeting but left before the Pension Board could review her appeal. Mr. DeKosky sent the Retirement Office a letter dated February 12, 2016 acknowledging that he would not be able to appear at the Pension Board meeting and noting that Ms. Wilson's arguments in support of her appeal are sufficiently discussed in the November 12, 2015 letter.

Pension Board Conclusions.

14. Ordinance section 201.24(3.11)(6)(b) provides that if a member receives a refund of his or her employee contributions, the member shall cease to be a member of ERS and shall have no further right to any benefit from ERS.
15. Ordinance section 201.24(3.11)(6)(a) requires the Retirement Office to send every member who terminates employment notice of their right to withdraw their employee contributions.
16. If a member desires to receive a refund of the member's employee contributions, the member must sign the Consent to Membership

Account Distribution or Retention at Termination of Employment form (the "Consent Form").

- a. This Consent Form provides: "I understand and acknowledge that, by cashing out my Membership Account, my service credit under ERS is terminated, I will cease to be a member of ERS, and I shall have no further right to any benefit under this plan."
17. Ordinance section 201.24(4.3) requires an individual to be a member of ERS in order to receive an ADR.
18. At no time prior to the end of July 2015 was Corporation Counsel or the Pension Board aware that Ms. Wilson had received a refund of her employee contributions. Therefore, to the knowledge of the Pension Board and Corporation Counsel, Ms. Wilson remained a member of ERS.
19. ERS is a tax-qualified plan under the Internal Revenue Code (the "Code") and must comply with Code requirements applicable to governmental plans, including being administered in accordance with the Ordinances and Rules.
20. Ms. Wilson requested and received a refund of her employee contributions in October/November 2014 after signing the Consent Form. The Pension Board finds that upon receipt of that refund, Ms. Wilson was no longer a member of ERS. The Pension Board further finds that because Ms. Wilson is no longer a member of ERS, she is not eligible to receive an ADR under Ordinance section 201.24(4.3).

Ms. Wilson's Arguments

21. In the November 12, 2015 letter, Ms. Wilson makes several arguments with regard to why she should be entitled to an ADR. Each of these arguments is reviewed below, but none of the arguments change the Pension Board's determination that Ms. Wilson is not eligible for an ADR because none of the arguments contend that Ms. Wilson is eligible to receive an ADR under the Ordinances and Rules. As stated above, the Pension Board is required to administer ERS in accordance with the Ordinances and Rules. To allow Ms. Wilson to receive an ADR even though it is not provided for under the Ordinances and Rules, would result in an

operational error that would need to be corrected by ERS in accordance with the IRS's correction program.

22. Ms. Wilson first argues that the first paragraph of the Consent Form describes the specific sections of the Ordinances that affect a member's right to receive a distribution. She states that those sections are Ordinance sections 201.24(4.1), (4.5), (6.1), (6.2), (6.4), (7.1) or (7.2) and notes that Ordinance section 201.24(4.3) is not part of this list.
 - a. In accordance with Ordinance section 201.24(3.5), the Consent Form provides that if a member is eligible for the present receipt of a benefit under one of those listed sections at the time a refund is requested, the member cannot receive a refund. Therefore, this list of Ordinance sections relates to a member's eligibility to request a refund and does not provide a list of benefits that a member is no longer eligible to receive if the member receives a refund.
23. In the November letter, Ms. Wilson also argues that the Consent Form does not explicitly advise the member that by receiving a refund, the member is waiving his or her rights to an ADR.
 - a. As stated above, the Consent Form states that the member understands that by receiving a refund, "I will cease to be a member of ERS, and I shall have no further right to any benefit under this plan."
 - b. While the Consent Form does not explicitly state that the member will not be eligible for an ADR if the member receives a refund, because an ADR is a benefit under the plan and requires membership in ERS, the Pension Board finds that the Consent Form provides sufficient information for a member to understand that the member is not eligible for an ADR upon receipt of a refund.
24. Ms. Wilson further argues in the November letter that she did not knowingly and intentionally waive her right to ADR benefits. She argues that she was actively pursuing an ADR at the time she requested a refund and continued to pursue the ADR after receiving a refund.
 - a. As stated above, the Consent Form clearly provides that if Ms. Wilson received a refund, she would no longer be a

member of ERS, her service credit would be cancelled and she would not be entitled to any further benefits. The Pension Board finds this Consent Form provided Ms. Wilson with reasonable notice that she would not be entitled to any further benefits from ERS, which includes disability benefits.

25. In the November 2015 letter, Ms. Wilson contends that ERS is a fiduciary to ERS members and the plan. As a fiduciary, she argues that ERS is obligated to disclose material information to members and has a duty not to mislead a member. Therefore, she argues that ERS breached its fiduciary duty to her by failing to advise her that signing the Consent Form would affect her ADR benefits.
 - a. The Pension Board is the named fiduciary for ERS. The Pension Board is responsible for maintaining the tax qualified status of ERS, investing ERS's assets, and administering ERS based on the Ordinances and Rules. *See* Ordinance section 201.24(8.1). Because the Pension Board cannot administer ERS on a daily basis, the Pension Board has delegated its role of administering ERS to the Retirement Office. The Ordinances and Rules do not impose a fiduciary duty on the Retirement Office. The Retirement Office processed and distributed Ms. Wilson's refund.
 - b. Even if the Retirement Office owed a fiduciary duty to Ms. Wilson, the Consent Form put her on notice that by signing the form, she was no longer entitled to any benefits under ERS. Because an ADR benefit is a "benefit under this plan," the Consent Form adequately informed Ms. Wilson that by signing the form, she would forfeit her claim for ADR benefits.
 - c. The Consent Form further states, "I represent that I have had a reasonable opportunity to review this decision and any related documentation, and to review and discuss this election and related documentation with my family and my personal advisors, including, but not limited to, my legal, financial and/or tax advisors." Accordingly, if Ms. Wilson questioned whether she could pursue her claim for ADR after receiving a refund, she represented that she had the opportunity to discuss it with her advisors, including her attorney. She did not ask any questions about the effect of signing the Consent Form of the Retirement Office.

- d. Additionally, under Ordinance section 201.24(3.11(6)), the Retirement Office is required to "send to an employe who terminates employment a written notice of the refund option" Thus, the Retirement Office satisfied its duty under the Ordinances by providing the Consent Form to Ms. Wilson and notifying her of her eligibility to request a refund.
 - e. The Pension Board finds that the Retirement Office cannot be expected to fully review a member's file and situation each time it receives a distribution request, especially if the member does not ask any questions. Had Ms. Wilson asked the Retirement Office if a refund would harm her eligibility for an ADR, the Retirement Office would have had an opportunity to provide clear instructions to her on this issue.
26. Ms. Wilson further claims in the November 2015 letter that equitable estoppel prevents the Pension Board from denying Ms. Wilson an ADR. One of the elements of equitable estoppel is that an action induced reasonable reliance. Ms. Wilson suggests that she reasonably relied on the Consent Form provided to her and on ERS's failure to advise her that she would waive her right to an ADR benefit claim if she received a refund.
- a. As noted above, the Consent Form provides that by signing the form, a member gives up her rights to all benefits under the plan. Accordingly, if Ms. Wilson reasonably relied on the Consent Form, she would have understood that she waived her right to an ADR claim.
 - b. In addition, a court in at least one prior case has determined that the Pension Board is not authorized to grant equitable relief when the relief requires the Pension Board to circumvent the language of the Ordinances and Rules. *See Mielcarek v. Pension Bd. of the Emps.' Retirement Sys. of the Cnty. of Milwaukee*, No. 11-CV-1095 (Wis. Cir. Ct. Branch 8 Oct. 31, 2011). The Ordinances and Rules state that only members are eligible for ADR benefits. Accordingly, when Ms. Wilson signed the Consent Form and relinquished her status as an ERS member, she also relinquished her right to receive an ADR benefit.
27. Ms. Wilson's final argument in her November 2015 letter is that the terms of the Consent Form are unfair because they require a member

to decide within 180 days of separation of employment whether to request a refund or lose the right to receive a refund. She argues that this is especially true in the context of an ADR applicant who may not know the status of his or her application 180 days after termination of the member's employment.

- a. The Consent Form's deadline of 180 days after termination of employment reflects the deadline in Ordinance section 201.24(3.11). As stated above, the Pension Board is required to administer ERS in accordance with the Ordinances and Rules. Because the Ordinances establish a deadline of 180 days, the Pension Board finds it is appropriate for the Consent Form to reflect this deadline.

11. Pending Litigation

- (a) Tietjen v. ERS

The Pension Board took no action on this item.

- (b) Trapp, et al v. Pension Board

The Pension Board took no action on this item.

- (c) Mecouch v. ERS

The Pension Board took no action on this item.

- (d) Walker v. ERS

The Pension Board took no action on this item.

- (e) Baldwin v. ERS

The Pension Board took no action on this item.

12. Actuarial Valuation Error

The Pension Board took no action on this item.

13. Report on Compliance Review

The Pension Board took no action on this item.

14. Reports of ERS Manager & Fiscal Officer

(a) Retirements Granted, January 2016

Ms. Bronikowski introduced herself as the new Retirement Plan Services Manager, replacing Peggy Kubricky.

The Chairman welcomed Ms. Bronikowski on behalf of the Pension Board.

Ms. Bronikowski presented the Retirements Granted Report for January 2016. Fourteen retirements from ERS were approved, with a total monthly payment amount of \$21,521.03. Of those 14 ERS retirements, 7 were normal retirements and 7 were deferred. Four members retired under the Rule of 75. Five retirees chose the maximum option and 4 retirees chose Option 3. Five of the retirees were District Council 48 members. Six retirees elected backDROPs in amounts totaling \$975,926.89.

In response to a question from Ms. Braun, Ms. Bronikowski confirmed that a number of retirees on the January 2016 Retirements Granted Report retired in early to mid-December of 2015. Messes Bronikowski and Lausier explained that depending on when a member's retirement date falls in the payroll cycle, it can take up to six weeks to finalize the necessary calculations and process a member's retirement.

(b) Retirement Plan Services Update

Ms. Bronikowski reported that ERS recently filled a clerical specialist opening and two retirement specialist positions remain vacant. The retirement specialist positions have been posted and applicant interviews should begin within a week. The Retirement Office hopes to fill the retirement specialist vacancies by mid-March at the latest.

Ms. Bronikowski noted that 38 retirement appointments were held in the month of January, and 39 appointments are scheduled for February and 24 are scheduled for March. This is typically the busiest time of the year for retirements and the Retirement Office remains understaffed. Despite being understaffed, the Retirement Office is managing the heavy workload very well. The Retirement Office is expecting 47 retirements for February, which is up significantly from the 14 retirements in January. The higher volume is normal and is mainly due to the fact that members typically wait to receive their annual vacation allotments before retiring.

(c) Administrative Errors

Ms. Bronikowski indicated that she had no new information to report relative to administrative errors since last month's Pension Board meeting.

Messes Westphal and Braun then remarked that they understood administrative errors should have been added as a future topic for the Audit Committee and removed from the full Pension Board.

Mr. Grady and the Chairman suggested following up with Ms. Ninneman on the matter.

(d) Employee Election

Ms. Bronikowski concluded with an update on the election for the employee member seat on the Board expiring this month. With approximately 500 employees voting, there was a decent turnout for the primary election last week. The two candidates who will compete in the final election are Aimee Funck and Dave Sikorski. ERS is sending out election reminders and continuing its efforts to promote the employee election to members who may not have computer access.

Ms. Funck remarked that she thought the instructions on how to vote were excellent but noted many employees told her the instructions were too detailed and, therefore, they did not take the time to read them.

In response to a question from Ms. Braun regarding ERS's efforts to increase voter participation, Ms. Bronikowski stated that the previous plans to recommission the voting bus and implement voting tablets are not presently a viable option because the Retirement Office is currently understaffed. As it has in past years, ERS has issued e-mail blasts and added more election information to its website. ERS will revisit alternative methods to reach out to its members relative to the election process as staffing capacity allows.

(e) Fiscal Officer

Ms. Lausier distributed the December 2015 Cash Flow Report, noting that it was not available in time for the January 2016 Pension Board meeting. Ms. Lausier stated that the January 2016 Cash Flow Report also could not be prepared in time for today's meeting because ERS has been experiencing some delays with obtaining the necessary data from BNY Mellon.

Ms. Lausier also distributed the January 2016 Portfolio Activity Report and the report detailing the funds approved by the Board for disbursements. Ms. Lausier reported that \$16 million in cash flow was transferred for

December 2015 disbursements and an additional \$16 million for January 2016 disbursements. Ms. Lausier noted she is anticipating heavy backDROPs in February and March and disbursements are currently estimated at approximately \$20 million for each of those months. Ms. Lausier then requested an additional amount of \$50 million to cover funding and operational expenses for the second quarter of 2016.

The Pension Board unanimously approved the liquidation of assets to fund cash flow of \$50 million for the second quarter of 2016. The amounts should be withdrawn from investments designated by Marquette. Motion by Ms. Van Kampen, seconded by Ms. Westphal.

Ms. Lausier concluded with a discussion of ERS's current expenses relative to its budgeted expenses as of December 31, 2015 and explained that some adjustments have recently been made on the budget to actual expense report. Salaries and wages are now listed as under budget by approximately \$400,000 because the Retirement Office has been understaffed for some time. Capital purchases are listed as under budget by \$2.6 million because the software upgrade scheduled for 2015 will not take place until all outstanding issues are cleaned up with the current version of software.

In response to a question from Ms. Braun regarding the additional \$100,000 actuary consultant fee in 2015, Ms. Lausier stated that some of the excess fee is related to the additional reports the actuary prepared relative to the funding policy changes implemented by the Pension Board in 2015. Some additional expenses were also related to the 2015 reporting changes implemented under GASB Rules 67 and 68.

In response to a question from the Chairman regarding contractual arrangements for additional work performed by the actuary, Mr. Grady stated that Buck's contract includes a flat fee for the actuarial valuation and any additional services are assessed at an hourly rate.

15. Administrative Matters

The Pension Board concluded with a discussion of additions and deletions to the Pension Board, Audit Committee and Investment Committee future topic lists.

Ms. Westphal requested that administrative errors be added as a future topic on the Audit, Budget and Compliance Committee agenda.

In response to a question from Mr. Harper, Mr. Grady stated that requests for future Investment Committee meeting topics should be directed to

Ms. Van Kampen and requests for future Pension Board meeting topics should be directed to the Chairman.

In response to a question from Mr. Harper regarding last month's discussion to change the regular meeting schedule of the Pension Board, the Chairman suggested that the Pension Board revisit the issue with Ms. Ninneman at its March 2016 meeting. The Chairman suggested that any changes to the regular meeting schedule would likely not occur until mid-2016 at the earliest.

16. Adjournment

The meeting adjourned at 12:00 p.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 Milwaukee County Code of General Ordinances (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").

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

3. Rule 1013 provides optional forms of benefits members may elect that are not contained in the Ordinances, including the Option 7 benefit. Rule 1035 describes the procedures governing the Pension Board's review of applications for Option 7 benefits.

4. The Milwaukee County Board of Supervisors recently eliminated the Option 1 and Option 7 forms of benefit by amending Ordinance section 201.24(7.1) and repealing Ordinance section 201.24(7.2). The amendment to Ordinance section 201.24(7.1) also added provisions describing the remaining forms of optional benefits under ERS: the 25% survivor benefit, 75% survivor benefit and ten-year certain annuity.

5. To reflect the amendment to Ordinance section 201.24(7.1) and repeal of Ordinance section 201.24(7.2), the Pension Board desires to amend Rule 1013 and repeal Rules 1021 and 1035.

6. The Pension Board also desires to amend other Rules that reference Option 1 and Option 7 benefits to ensure the Rules accurately reflect remaining optional forms of benefits available under ERS.

RESOLUTIONS

Effective February 17, 2016, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby amends Rules 1013, 1014, 1046 and 1054 to read as follows:

1013. Optional forms of payment.

- (1) *Payment of benefits.* Section 201.24(7.1) of the Milwaukee County Code of General Ordinances provides the forms of benefit available. Payment shall be made on the last business day of the month. Also, for purposes of the forms of benefit that provide annuities to survivors after the death of the member, benefit payments shall be made as follows:
 - (a) During the month of the member's death, the beneficiary and the member's estate will each receive a pro rata portion of the member's lifetime benefit payment payable for the month of the member's death.
 - (b) Benefit payments will commence to the beneficiary as of the first day of the month following the month in which the member dies.
- (2) *Beneficiary designation.* If a member elects a form of benefit under which benefits may continue to a beneficiary after the member's death, then the member shall be required to designate a beneficiary in writing on forms approved by the board and submitted to the board at the time the member elects such a form of benefit.
 - (a) A member being paid a ten-year certain annuity pursuant to section 201.24(7.1)(1)(e) of the Milwaukee County Code of General Ordinances may change the designation of the named beneficiary at any time. A member electing a 25%, 50%, 75% or 100% survivor benefit pursuant to sections 201.24(7.1)(1)(a)-(d) may not change the designation of the named beneficiary after the later of: (1) the member's retirement effective date or, (2) if the member is an emergency retirement applicant, the date on which the member permanently elects a benefit option and designates a beneficiary.
- (3) *Changes to Form of Benefit.* A member may not change the form of benefit he or she elects after the later of: (1) the member's retirement effective date or, (2) if the member is an emergency retirement applicant, the date on which the member permanently elects a benefit option and designates a beneficiary.

1014. Actuarial equivalent.

"Actuarial Equivalent," as used in section 201.24(2.13) of the Milwaukee County Code of General Ordinances shall have the following meaning:

- (a) *Converting Maximum Annual Benefit Limitation - PreAge 62.* For purposes of calculating the reduced dollar limit on annual benefits payable for a

member who begins benefits prior to age sixty-two (62), as required by section 201.24(12.3), the term "actuarial equivalent" shall mean an amount having the same actuarial present value when computed on the basis of:

- (1) *Mortality Table.* The mortality table specified by the Internal Revenue Service in Revenue Ruling 2007-67, or any successor revenue ruling thereto. Effective as of December 31, 2012, the mortality table is the 2013 Applicable Mortality Table, and
 - (2) *Interest Rate.* An interest rate of five (5) percent compounded annually.
- (b) *All Other Purposes.* For all purposes under section 201.24(2.13) of the Milwaukee County Code of General Ordinances other than those specifically noted elsewhere in this Rule 1014, the term "actuarial equivalent" shall mean an alternative form or time of payment having the same actuarial present value when computed on the basis of:
- (1) *Mortality Table.* RP-2000 Blue Collar Mortality Table (Male/Female 50/50) with generational mortality improvements for healthy participants, and
 - (2) *Interest Rate.* An interest rate of eight (8) percent compounded annually.

1046. Calculation of Ten-Year Certain Annuity with a BackDROP

A member electing a ten-year certain annuity under Ordinance section 201.24(7.1)(1)(e) who also elects a backDROP under Ordinance section 201.24(5.16) shall have his or her benefit calculated as follows: The ten-year certain period will commence on the individual's retirement date. The amount of the member's monthly benefit for the backDROP payment and monthly payment purposes will equal an actuarially adjusted certain benefit for the number of years in the backDROP period plus ten (10), creating an actuarially equivalent benefit which guarantees ten (10) years of payments after the individual's retirement date.

1054. Retention of amounts held in the membership account.

Contributions that members make to ERS pursuant to Ordinance sections 201.24(3.11) and (3.3), and payments that members historically made to ERS pursuant to Ordinance section 201.24(11.1) and Rule 207, are held in the member's membership account. These amounts are retained in the membership account pursuant to the following conditions.

- (1) *Accumulated contributions made pursuant to Ordinance section 201.24(3.11).*
 - (a) *Contributions remain while service remains.* All accumulated contributions associated with a member's service credit shall remain in the member's membership account as long as the member retains the service credit.
 - (b) *Nonvested members.* The accumulated contributions associated with a nonvested member's service credit shall remain in the member's membership account until the member timely requests a refund pursuant to Ordinance sections 201.24(3.11) and (3.5). Notwithstanding anything within section 201.24 of the General Ordinances of Milwaukee County or these rules to the contrary, pursuant to Ordinance section 201.24(2.11), the service credit of a nonvested member is forfeited if the member is absent from service for more than five (5) years in a period of ten (10) consecutive years (which includes any period of more than five (5) consecutive years) after last becoming a member. At the same time that such service credit is forfeited, any accumulated contributions associated with that service credit shall be forfeited and the Retirement Office shall remove the accumulated contributions from the membership account.
 - (c) *Vested members.* The accumulated contributions associated with a vested member's service credit shall remain in the member's membership account until the member timely requests a refund of such amounts pursuant to Ordinance sections 201.24(3.11) and (3.5). Additionally, upon the commencement of a benefit by the member or a beneficiary or survivor of the member pursuant to the Ordinances and Rules, the Retirement Office shall remove any accumulated contributions from the membership account because the member is no longer eligible to request a refund of such amounts.
 - (d) *Members excluded from requesting a refund.* Pursuant to Ordinance section 201.24(3.5), a member shall not be eligible to request a refund of accumulated contributions if the member or beneficiary of the member is eligible, at the time the request for a refund is made, for the present receipt of any monthly annuity benefit under sections 4.1, 4.5, 6.1, 6.2, 6.4 or 7.1 or if the member's employment is terminated due to fault or delinquency under section 4.5.

Effective February 17, 2016, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby repeals Rules 1021 and 1035.