EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE APRIL 15, 2015 ANNUAL PENSION BOARD MEETING

1. Call to Order

   Vice Chair Laurie Braun, serving as Acting Chair, called the meeting to order at 9:45 a.m. in the Grand Ballroom at the Italian Community Center, 631 East Chicago Street, Milwaukee, Wisconsin 53202.

2. Roll Call

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

Others Present:
Scott Manske, Milwaukee County Comptroller
Marian Ninneman, CEBS, CRC, ERS Manager
Mark Grady, Deputy Corporation Counsel
Peggy Kubricky, Assistant ERS Manager
Larry Langer, Buck Consultants
Brett Christenson, Marquette Associates, Inc.
Ray Caprio, Marquette Associates, Inc.
Rick Walsh, OFI Global Asset Management
Steven Huff, Reinhart Boerner Van Deuren s.c.
Marilyn Mayr, Prior Pension Board Member
Cliff Van Beek, Prior Pension Board Member
Guy Stuller, Prior Pension Board Member
John Martin, Prior Pension Board Member
Milwaukee County Retirees and other attendees

3. Pension Board Acting Chair Remarks

Laurie Braun introduced herself as Acting Chair of the Pension Board of the Employees' Retirement System. Ms. Braun welcomed the retirees and other attendees, thanking them for participating in the annual meeting and taking an interest in the performance of the Pension Fund.

Ms. Braun then introduced the members of the Pension Board, ERS staff and consultants assembled. D.A. Leonard holds a seat on the Pension Board as the retiree-elected member. Norb Gedemer holds a seat on the Pension Board as a representative of the Milwaukee Deputy Sheriffs' Association. Aimee Funck holds a seat on the Pension Board as one of three employee-elected representatives. Gregory Smith serves on the Pension Board as one of the County Executive's appointees. Patricia Van Kampen was also appointed to the Pension Board by the County Executive. Ms. Van Kampen also serves as Chair of ERS's Investment Committee. Dr. Brian Daugherty, a County Executive appointee, is Chairman of the Pension Board but was unable to attend today's meeting. Also unable to attend today's meeting is employee-elected Pension Board member Vera Westphal. Ms. Westphal also serves as Chair of ERS's Audit Committee. Mark Grady is Deputy Corporation Counsel for Milwaukee County. Marian Ninneman serves as ERS's Director of Retirement Plan Services. Steven Huff, from Reinhart Boerner Van Deuren, serves as ERS's outside counsel and as Secretary of the Pension Board. Brett Christenson and Ray Caprio are both from Marquette Associates, Inc. and serve as the Fund's investment managers. Larry Langer is from Buck Consultants and serves as ERS's actuary. Rich Walsh is the Senior Relationship Manager at OFI Global Asset Management.

4. ERS Actuary Remarks—Buck Consultants

Ms. Braun introduced Larry Langer of Buck Consultants. Buck Consultants has served as the actuary for ERS since 2006.

Mr. Langer first discussed the role of ERS's actuary. The ERS Pension Fund is actuarially prefunded, which means that Milwaukee County makes its contributions to the Pension Fund on a member's behalf during the course of each member's career. The County and member contributions, combined with investment earnings, are estimated to result in sufficient funds to pay benefits upon a member's retirement. It is the role of the actuary to determine the amount of annual contributions necessary to ensure the availability of sufficient funds upon a member's retirement. If the actuarial projections are accurate, there should be sufficient funds available to pay benefits. The process used to determine the amount of annual contributions is called the actuarial valuation.

Mr. Langer then discussed the actuarial valuation process. There are many unknown variables involved in the retirement process which can present challenges when predicting the amount of annual contributions. To estimate the amount of future retirement benefits that will be paid, the actuary will collect relevant data from ERS's Retirement Office. This data includes variables such as membership data, benefit provisions and the amount of Fund assets. The actuary analyzes the collected data and develops an actuarial projection model related to life span, retirement age and salary data. The actuarial model is then used to predict the amount of contributions needed now to sufficiently cover future benefits. From these assumptions, the actuary will develop a funding target and work with ERS staff and the Pension Board to develop and approve a funding policy that is designed to systematically pay for the projected benefits. The Board and actuary then present the recommended annual contribution funding request to the County Executive.

Mr. Langer concluded with a discussion of ERS's funding status. The Fund is currently in good condition from an actuarial perspective. There are sufficient assets in the Fund to pay projected benefits for all current retirees. The remaining amounts necessary to pay for future benefits are scheduled to be contributed over the course of time. Total Fund assets are currently at around $1.8 billion. The amount necessary to pay benefits for all current retirees is approximately $1.4 billion to $1.5 billion. From an actuarial perspective, there should ideally be $2 billion in the Fund, but that contribution shortfall is systematically scheduled to be made over the course of time via the funding policy.

ERS is currently funded better than the national average. This is largely due to the fact that both the Pension Board and ERS staff follow prudent actuarial polices, which help to ensure that members' benefits are appropriately funded over time. For example, the actuarial valuation reports are completed within five months of the data snapshot date. The actuarial data collected as of January 1 for any given year is generally presented and discussed at the May Pension Board meeting. It takes approximately five months for the actuary to sufficiently analyze the data and prepare the annual actuarial valuation report. Both the Board and ERS staff work very hard to ensure that all necessary information is gathered and presented to the actuary in a timely fashion. Another important factor that should not be taken for granted is that Milwaukee County makes the recommended contribution amounts adopted by the Pension Board. Not all public funds contribute the amounts recommended by the actuary and such policies will eventually result in a poorly-funded plan. During 2009, the influx of $397 million in pension obligation bond proceeds added a tremendous layer of security to the Fund. Milwaukee County is currently up-to-date on its contributions and, in fact, cumulative contributions over the past 15 years have exceeded the Pension Board's funding recommendations by approximately $400 million. Recent benefit contribution reforms for active members have also helped contribute to the sustainability of ERS. Finally, the underlying assumptions used in the actuarial valuations are reviewed every five years. It is a best practice to review the actuarial assumptions regularly because, if the assumptions are outdated, then the outputs generated will be deficient.

5. Comptroller Remarks

Ms. Braun introduced Milwaukee County Comptroller, Scott Manske.

Mr. Manske discussed the financial status of Milwaukee County. Milwaukee County is financially strong. The financial strength of Milwaukee County is important to ERS because it allows the County to make the annual contribution to the Pension Fund. In addition to the 2009 pension obligation bond proceeds, the County has made its annual contribution to the Pension Fund over the years as recommended by the Pension Board and actuary. Over the last several years, Milwaukee County has been financially impacted by a variety of issues, including the general U.S. economy. The County's expenses continue to grow faster than its incoming revenue, which has resulted in a yearly budget deficit. Milwaukee County's revenue has declined for several different reasons. Both the State of Wisconsin and the Federal government have capped the amount of revenue that they will provide to the County. The State of Wisconsin has also ruled that Milwaukee County can only increase its property taxes by the amount of new construction in the County. These combined limits on revenue mean that the County must find other ways to reduce its expenditures. During the last several years, the County has made initiatives to reduce its debt.

With new construction, the County's property tax revenue has risen from $260 million in 2009, to $283 million. However, with the current restrictions in place, that amount cannot increase any further. Milwaukee County has been able to increase the funds in its general reserves from $131 million in 2009, to $260 million. Much of that increase has been in capital assets, because the County has been addressing a great deal of deferred maintenance issues with its buildings and parks. Consequently, Milwaukee County's investment in capital assets has grown from $198 million in 2009, to $372 million.

Equalized value is another issue which has financially impacted Milwaukee County over the last few years. Equalized value is an estimate of the market value of property and it determines how property taxes can be allocated. Since the 2008 financial crisis, the amount of equalized value in Milwaukee County has dropped significantly. In 2009, the amount of equalized value for all of Milwaukee County was $68 billion but over the last five years, that amount has decreased to $57 billion. The City of Milwaukee has a number of foreclosed homes and demolished properties that it is trying to enhance. However, the City of Milwaukee has experienced a significant problem funding these types of projects. Despite these issues, Milwaukee County is beginning to see some positive new growth.

Milwaukee County has been making a concerted effort to reduce its debt over the last several years. The County has been on a "debt diet" and does not incur more debt in one year than its payments on current debt. Milwaukee County's total debt in 2009 was $836 million and that figure has now decreased to $699 million. Over the last five years, the County has decreased its total debt by $137 million and that figure continues to decrease.

Milwaukee County has also had surpluses in 2012 and 2013, and another surplus is projected for 2014. The County has been using these surpluses to address its deferred maintenance issues. Surpluses are used for one-time expenses only, because it would create more problems if surpluses were used for operational expenses and those additional funds were not available the following year.

Mr. Manske concluded by stating that Milwaukee County is steadily strengthening its finances so it can continue to make the recommended contributions to the Pension Fund. Although the County has additional financial improvements to make, the local bond rating agencies have rated Milwaukee County positively due to its strong management and improving financial statements. Milwaukee County continues to work hard towards maintaining a strong financial plan by monitoring its expenditures, reducing its debt, and increasing the value of its capital assets by addressing its deferred maintenance issues. These efforts combined should aid in providing a financially stable Pension Fund for current and future retirees.

6. ERS Fund 2014 Results, Asset Allocation Strategy and Update—Marquette Associates

Ms. Braun introduced Brett Christenson and Ray Caprio from Marquette Associates, Inc. Marquette Associates has served as the Fund's investment manager since 2009.

Mr. Christenson first discussed the role of Marquette. Marquette acts as a consultant, advising the Board on investment matters related to the Pension Fund. Marquette meets monthly with the Pension Board and ERS's Investment Committee to assist the Board in determining the best allocation of stocks, bonds and other alternative asset classes in the Fund. Marquette also advises the Board with regard to which investment managers it should hire to best manage the Fund's investments. Marquette provides monthly reporting to the Board and monitors the investment managers' performance to ensure favorable results for the Fund. As lead consultant, Mr. Christenson partners with Ray Caprio, as well as a research team of over 60 employees at Marquette, to provide the reporting and advice necessary for the Board to make investment decisions.

Mr. Christenson then expressed his admiration for the Pension Board, noting the combined expertise of its members, and the great deal of time each member voluntarily devotes to the Fund on a monthly basis. The Pension Board also carefully adheres to industry best practices in terms of managing the Fund's assets. For example, the Pension Board meets with Marquette monthly to review and analyze the status of the Fund's investments. Marquette will generally invite one or more of the Fund's investment managers to present at the monthly Board meetings. In addition to the monthly Pension Board meetings, Marquette schedules monthly meetings with ERS's Investment Committee to discuss, as needed, any specific investment-related matters in greater detail. Throughout the year, there are over 20 meetings in which at least an hour is dedicated to discussing the Fund's investments.

Mr. Christenson next discussed the Fund's market values as of December 31, 2014. The fixed income asset class, which includes bonds, U.S. Treasuries, mortgages and corporate bonds, represents approximately $330 million of Fund's total portfolio. Fixed income is the most stable asset class in the portfolio and, at 18.9%, is slightly underweight to the Fund's 22% investment policy target. The underweight in the fixed income asset class is strategically designed because of the current low yield on bonds. The Fund's U.S. equity asset class represents $460 million of the portfolio and is relatively in line with the investment policy target of 25%. With an allocation of 19%, the international equity asset class totals $340 million. The long-short equity asset class is a component of hedge funds and represents approximately $190 million or 10% of the total portfolio.

The long-short asset class is an alternative investment which is designed to capture stock market-like returns, while the shorts in the portfolio are intended to minimize losses in down-market cycles. Real estate is another alternative investment in the Fund. The total value of the Fund's real estate asset class is approximately $180 million. At 10.4%, real estate is slightly over the policy target of 8.5%, but this asset class has been performing very well over the last several years. Infrastructure is another unique niche in the market which large pension funds are able to invest in. ERS's infrastructure portfolio is comprised of two investment managers that invest globally in wind farms, pipe lines, cell towers, toll roads, ports and bridges. Totaling approximately 6% to 7% of the Fund's annual income, infrastructure is a very high income alternative component in the portfolio. While the infrastructure investments are not as stable as the bond portfolio, these investments are fairly conservatively-valued and provide consistent cash flows at relatively low-risk. Totaling 4.1% of the total portfolio, the private equity asset class is currently under the policy target of 6%. Similar to infrastructure, private equity is a fairly conservative, yet high-income producing asset class. The goal with private equity is to outperform stocks in the Fund. Over the last 50 years, private equity has fairly consistently earned 3% to 4% more than stock investments. One complicating factor with private equity is that this asset class is very illiquid and investments typically run a course of 5 to 6 years. Consequently, the Fund's target allocation for private equity remains fairly conservative at 6%, and potential investments are carefully and thoroughly reviewed.

Mr. Christenson continued with a discussion of the Fund's 2014 returns. Real estate has been one of the top-performing asset classes in the Fund for the last three to four years. With a 2014 return of 13% net-of-fees, real estate was the best-performing asset class in the Fund. At 12.2% net-of-fees, private equity was the second best-performing asset class in the Fund for 2014. Because current returns in the fixed income portfolio are not sufficient to achieve the Fund's 8% investment rate of return, these alternative asset classes are important components to the Fund which are designed to add diversification and provide consistent returns over time. The U.S. equity portfolio 2014 return was up at 9.5% net-of-fees. The fixed income portfolio had a better than expected return for 2014 of 5.6% net-of-fees. The long-short equity portfolio was up 5.3% net-of-fees in 2014.

Both the infrastructure and international equity portfolios had negative returns for 2014. Infrastructure was down -0.4%, while international equity was down -2.2%. The main driver behind much of that underperformance was currencies. There are no structural deficiencies in these two portfolios, but head-wind on the strengthening U.S. dollar over all other currencies diminished returns on international investments. With roughly only half of its investments overseas, the infrastructure portfolio was less affected by currencies than the international equity portfolio. Although the impact of currencies has continued into 2015, the international equity is currently the best-performing asset class to date and is up over 4%.

Mr. Christenson next discussed the Fund's asset allocation mix versus the median U.S. public pension fund. ERS has historically been more conservative, with lower volatility and less risk, than the median public pension fund or peer group. The median public pension fund has fixed income assets allocated at 30%. ERS is strategically underweight with a fixed income allocation of 18.9% because the current yield on the bond portfolio is under 2%. As a very conservative asset class, fixed income is necessary to act as an anchor in the Fund to provide consistent payments for benefits. However, it is the role of the Board and Marquette to try and consistently earn an annual return on the Fund of 8%. Therefore, allocations in alternative investments such as real estate, infrastructure and hedge funds are strategically higher than the median peer group. These alternative investments are designed to enhance returns while maintaining a relatively low-risk profile. Because equities are the most volatile asset class in the portfolio, ERS has approximately 10% less allocated to equities than the median peer group. As was witnessed during the 2008 financial crisis, when the Fund was down 21%, a difficult market cycle can have a very detrimental effect on equity returns. By taking less risk, ERS is following a more conservative approach than its peer group, while utilizing alternative investments to enhance returns.

Mr. Christenson then discussed the Fund's investment managers. There are currently over 20 different investment managers in the portfolio. Index funds are one way to reduce costs in the Fund because index managers have extremely low fees. Currently, slightly less than half of ERS's portfolio is in index funds. Mellon Capital is an index manager in the Fund under the fixed income and U.S. equity portfolios. Northern Trust is an index manager in the international equity portfolio. The real estate, infrastructure and long-short equity asset classes cannot be indexed, but the resulting returns for those investments have far outweighed the cost of higher fees. Marquette continually monitors the individual performance of all active managers in the Fund versus their assigned benchmarks. If a particular manager begins to struggle with performance over time, decisions will be made as to whether or not they should be replaced.

Mr. Christenson next discussed the Fund's historical net returns. The Fund earned a total return of 5.5% in 2014. Changes to fine tune the portfolio are continually being made to adapt to the market and achieve the Fund's 8% return. As a result of the 2008 financial crisis and the resulting market volatility, the Fund was down approximately -22% in 2008. With the exception of 2011, which was essentially a flat year, the Fund had a favorable run and earned double digit returns from 2009 to 2013. After all fees, these figures translate to a five-year annualized return of 8.8% as of December 31, 2014. The Fund's ten-year annualized rate of return is 6.2%, but that figure includes the 2008 returns. However, when compared to the Fund's peer group, the 6.2% ten-year return is still relatively strong and ERS ranks in the 37th percentile of its peers for performance over the last ten years. The Board has done an excellent job as stewards of the Fund's assets, producing consistent above-peer performance, while maintaining a fairly conservative investment approach.

Mr. Christenson continued with a summary of 2014 cash flows. The beginning market value of the Fund was slightly over $1.8 billion in 2014. Net withdrawals, mostly representing benefit payments, totaled $163 million. The Fund had a return on investment earnings of approximately $98 million in 2014. After all fees were paid, the Fund's 2014 ending market value was just under $1.8 billion. Unless future annual returns are at or above 10%, the Fund's assets will continue to remain between $1.8 billion and $2 billion, because returns are needed to fund benefits.

Mr. Christenson concluded with a summary of significant agenda items for 2014. Searches were conducted in 2014 for hedged equity, private equity and cash overlay managers. To increase the Fund's private equity allocation, the Board added a third private equity manager, Mesirow Financial, and committed an additional $30 million to the Adams Street co-investment Fund. A replacement cash overlay manager was hired to help facilitate residual cash investments in the Fund. The Board recently replaced one of the Fund's hedged equity managers.

7. Investing Overview - OFI Asset Management

Ms. Braun introduced Richard Walsh, Senior Relationship Manager from OFI Global Asset Management.

Mr. Walsh first provided an overview of the firm. OFI Global Asset Management is an active investment manager that offers a wide range of investments solutions across equity, fixed income and alternative asset classes such as infrastructure. OFI serves a broad spectrum of clients that includes corporate and public pension funds, foundations and endowments, and individual mutual fund investors. OFI is exclusively dedicated to asset management and has just under $240 billion in total assets under management as of December 31, 2014. OFI draws upon the strength and experience of OppenheimerFunds Inc., which was founded in 1960, and its parent company, Mass Mutual.

By design, OFI employs a boutique-approach to investing, with small teams of seasoned investment analysts. This approach allows for a quicker flow of information within the organization which is critical for success in today's market environment. OFI has established an innovative and proven investment process that delivers strong, consistent investment performance combined with risk management. OppenheimerFunds was one of the first firms to see the potential for investing in stocks outside of the United States and created one of the world's first multi-sector bond funds in 1989. In 2012, OFI acquired Dallas-based SteelPath, a leader in energy infrastructure master limited partnerships. In 2014, Art Steinmetz became the Chairman, CEO and President of OFI. Mr. Steinmetz has been employed with the firm for 28 years and is OFI's first Chairman and CEO to come from its investment side of the business. Krishna Memani serves OFI's Chief Investment Officer and Head of Fixed Income. OFI employs different teams of investment professionals under a variety of boutiques, including global equity, domestic equity and emerging markets. ERS is invested in OFI's emerging markets portfolio.

Mr. Walsh continued with a discussion of OFI's emerging markets investment team. OFI's emerging markets equity strategy is one the largest emerging market funds in the world. Justin Leverenz serves as the Senior Portfolio Manager for the team, which is based in New York. Senior research analysts on the team include Russian physicist, Igor Tishin, and John Paul Lech, who specializes in financials. Other research analysts on the team include Tan Van Nguyen, specializing in technology, and Agata Strzelichowski. Mr. Leverenz and his team of analysts travel the globe four to six months per year in search of unique investment opportunities. OFI strives to invest in extraordinary companies and maintain those investments for an average of seven years. OFI carefully manages risk in the portfolio and will adjust the concentration or incrementally exit an investment if it becomes overvalued. OFI seeks to invest in companies that have proven products with long-term growth capabilities.

Mr. Walsh next discussed performance of OFI's emerging markets equity fund. Due to the strengthening U.S. dollar and its negative effect on currencies, 2014 was a difficult year for the international markets. The portfolio's one-year gross return was down at -3.22%, versus the MSCI Emerging Markets Index of 0.44%. The dramatic decrease in the price of oil also had a negative impact on the portfolio. As a result of the decreasing oil prices, OFI has repositioned some of its energy holdings in the portfolio. Due to a 50% drop in the price of oil and reports of corruption in the company, OFI recently exited its position in the Brazilian oil company Petrobras.

The portfolio's annualized historical performance has fluctuated dramatically. The portfolio was down -47.31% during the 2008 financial crisis, but rebounded to 84.04% in 2009. Another challenging year was 2011 and the portfolio was down -16.99%. With 2013 performance at 9.84%, the portfolio favorably outperformed the benchmark by approximately 12%.

Mr. Walsh then discussed sector and country weights in the portfolio. Consumer discretionary is currently overweight at 19.39%, versus the index of 9.41%. The consumer staples sector is also overweight at 13.84%, versus the benchmark of 8.11%. Consumer staples was the overriding sector several years ago, but OFI has been slowly reducing its position in this sector because it has recently become overvalued. Consumer discretionary is now on top because of the excessive growth in countries such as China and India. India and China combined represent 40% of the world's population and approximately 80% of the world's population under the age of 30 lives in emerging market countries. As populations in these countries continue to migrate from farming communities to manufacturing jobs, the demand for consumer discretionary products is steadily increasing. The portfolio is currently underweight in China at 17%, versus the index of 23%. India is overweight at 15%, versus the index at 7%. Although some areas of India are overvalued, OFI has profited from financial investments related to an increasing desire for home ownership in India. Because many individuals in India put down over 80% on initial home purchases, there is not a great deal of risk on mortgage investments in India. Because there is also a tremendous opportunity for infrastructure growth in India, OFI has heavily invested in Indian cement companies.

Mr. Walsh continued with a discussion of the top-ten holdings in the portfolio. Baidu Inc., an information technology company in China that similar to Google, is one of the largest holdings at 4.65%. The Housing Development Finance Corporation Limited is a mortgage company in India and is weighted at 3.8%. At 3.41%, Infosys Limited is one of the largest producers of information systems and software in India and is similar to IBM. At 3.19%, Tencent Holdings is a profitable Chinese information technology company that offers gaming and online services. At 3.07%, Magnit is a powerful and well-managed Russian consumer staples company. OFI purchased Magnit at a very favorable price during the Crimean invasion. At 2.25%, Taiwan Semiconductor Manufacturing Co. sells semiconductors that are used in smartphones in Asia and throughout the world. Holdings in luxury goods include Prada and Louis Vuitton. OFI also has holdings in America Movil, a telecommunications company in Mexico, and Novatek, a natural gas company in Russia.

Mr. Walsh concluded with a discussion of risk management. Risk management is integral throughout the entire investment process. The 2008 financial crisis was a reminder of what risk truly entails. As a result of the 2008 market crisis, OFI changed its techniques for risk management reporting. OFI's risk management team now holds monthly meetings and reports directly to the CEO. In addition to monitoring individual security holdings across the entire firm, OFI's risk management team performs comprehensive portfolio reviews with the individual investment teams and senior management. OFI's portfolio management teams rely heavily on the information provided by the risk management team for implementing and maintaining positions in the portfolio.

8. <u>Questions and Answers</u>

Ms. Braun concluded her remarks by stating the Pension Board is honored to serve the active members and retirees of ERS. The members of the Pension Board all contribute a tremendous amount of time, talent and effort towards managing the Fund's investments.

Over the past year, the Board and Marquette Associates have taken various actions to reduce investment manager fees. Lower fees are important to the long-term financial health of the Fund and the Board takes such matters very seriously. Compared to the median governmental pension plan in its peer group, ERS has lower than average fees. In addition to acting as fiduciaries for the Fund, the Board members also have a stake in the Fund and want it to continue to grow and remain financially sound for current and future retirees.

Ms. Braun then called for questions from those assembled.

In response to a question regarding the reason for the decrease in the Fund's 2014 total return, Mr. Christenson stated that underperformance in both the U.S. and international equity markets were the major factors resulting in the Fund's 5.5% total return. Most of the other asset classes in the Fund produced returns that were fairly consistent with returns from 2013.

In response to a question regarding the reason for hiring active managers, versus utilizing index funds to manage the Fund's investments, Mr. Christenson stated that fixed income, U.S. equity and international equity are the only three asset classes in the Fund that can be indexed. The other alternative asset classes in the Fund cannot be indexed. Slightly less than half of the Fund's total assets are currently indexed at very low fees. The Fund's indexed products with Mellon Capital and Northern Trust are within the two- to five-basis point range. Because it is essentially impossible to outperform the S&P 500, Marquette believes that large cap stocks should be indexed. Approximately half of large cap international equity stocks are currently indexed. ERS is currently utilizing active managers in areas such as small cap stocks and emerging markets where it is possible to outperform the benchmark. Marquette and the Board continually monitor all active manager performance. If an active manager begins to struggle with performance, the Board and Marquette will review alternative options which may include replacement with an index fund. The Pension Board is moving towards increased indexing but is also trying to add value through active management.

In response to a question regarding the total amount of investment fees paid annually, Mr. Christenson stated ERS's fees are approximately 0.6%. Marquette lists all fees in their monthly investment reports. Ms. Braun also reiterated that when compared to the median public pension fund, ERS pays less than average fees.

In response to a question regarding the status of the Voluntary Correction Program ("VCP") submitted to the IRS to correct the buy-in/buy back errors, Mr. Grady stated that the County Board recently passed Ordinance amendments designed to correct most of the buy-in/buy-back operational failures. This is the first time that the County Board has issued a position on the type of policy it would like to implement to correct as many individuals as possible. Mr. Huff has subsequently forwarded those Ordinance amendments to the IRS for approval as part of the VCP submission. Counsel does believe that the IRS will find the Ordinance amendments to be acceptable, which would correct most of the affected individuals. ERS will be issuing letters shortly to the individuals affected that will state ERS is fairly confident their situation will be corrected. However, there is a certain category of individuals that cannot be corrected via the Ordinance amendments and those individuals will have to wait for the IRS to issue a formal response. Because the IRS agent assigned to review the VCP has no response deadline, counsel cannot know for certain when a formal response from the IRS will be issued.

Ms. Braun then noted that the Pension Board recommended the proposed Ordinance amendments for approval by the County Board in May 2014. The Pension Board takes the buy-in/buy-back errors very seriously and understands those affected individuals are frustrated by the process.

In response to a question regarding any penalty related to the VCP, Mr. Huff stated that Milwaukee County has already paid $25,000 to the IRS. That $25,000 did not come out of the Pension Fund and the IRS has since refunded $12,500 of the payment to the County.

In response to a question regarding annual recommended contribution amount, Mr. Grady stated that there are no federal laws or state statutes that directly govern the contributions to the Pension Fund. The annual contribution amount is based upon County Ordinances and the actuary's recommendation. There are many different assumptions that go into the actuarial valuation. The actuary recommends various assumptions which are based on recommended best practices in the industry. The Pension Board reviews and approves the actuary's recommendation and then passes the contribution recommendation on to the County Board and County Executive for approval. The County has been making the full annual requested contribution amounts. One factor the County Board must decide is the timeline for paying off any unfunded liability in the plan.

In response to a follow-up question regarding employee contributions, Mr. Grady stated that the Wisconsin State Legislature passed Act 10 in 2011. Act 10 mandated that County employees must contribute half the amount of contributions towards their pension benefit. Employees pay for half of the normal cost of benefits and half the portion of any unfunded liability in the plan. The employee contribution percentage is also calculated by the actuary based on the assumptions built into the Fund's valuation. The amount of employee contributions is not determined by the County Board. The actuary also performs a separate calculation for sheriffs and firefighters, because their benefit structure differs slightly from other active employees and they pay slightly higher amounts.

In response to a question regarding any possibility that ERS would merge with the State of Wisconsin's pension plan or become a multi-employer plan, Mr. Grady and Ms. Braun stated that there are currently no such proposals. There is no way to predict what could happen politically in the future, but the Pension Board does not get involved in those types of political issues. The Pension Board serves as fiduciaries and administers the Fund to ensure sufficient assets for payment of current and future benefits.

An attendee then expressed a concern regarding the amount of time it is taking for ERS to receive a response from the IRS on the VCP submission. The attendee suggested that funding cuts approved by politicians currently in office are severely affecting governmental agencies that provide a variety of benefits and services to Americans. The IRS is now greatly underfunded and understaffed. If the Country continues down this current path, its citizens will continue to be negatively impacted.

In response, Ms. Braun noted that ERS's tax counsel is continually communicating and following up with the IRS agent assigned to review the VCP. It is anticipated that the IRS should accept the proposed correction and a communication to those affected individuals should be issued sometime in the near future.

In response to a question regarding the current number of active members and retirees in the Fund, Ms. Braun stated that there are approximately 4,000 active members, 8,000 retirees and 1,500 deferred vested members.

The President of REMCO then thanked current retiree representative, D.A. Leonard, and former retiree representative, Marilyn Mayr for attending the REMCO meetings and keeping the retirees informed on matters related to the Fund.

Ms. Braun thanked the President for his comments and encouraged the retirees to participate in REMCO.

In response to a question regarding the availability of the Fund's annual report, Ms. Ninneman stated that the Fund's annual report is now distributed online to reduce printing costs. If an individual does not have computer access, the Retirement Office does produce a limited number of hard copies which can be mailed upon request. This year's annual report will likely be available sometime in July.

9. Adjournment

The meeting adjourned at 11:35 a.m.

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