EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE DECEMBER 17, 2014 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, Wisconsin 53202.

2. Roll Call

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

   Others Present
   Marian Ninneman, CEBS, CRC, ERS Manager
   Mark Grady, Deputy Corporation Counsel
   James Carroll, Principal Assistant Corporation Counsel
   Vivian Aikin, CRC, ERS Sr. Pension Analyst
   Douglas Bennett, Vontobel
   Evelyn Orley, Vontobel
   Peter Nolan, GMO
   Tom Rosalanko, GMO
   Brian Wrubel, Marquette Associates, Inc.
   Ray Caprio, Marquette Associates, Inc.
   Steven Huff, Reinhart Boerner Van Deuren s.c.
   Kim Lisowski, Milwaukee County Employee
   Scott Schroeder, Milwaukee County Employee

3. Minutes—November Pension Board Meeting

The Pension Board reviewed the minutes of the November 19, 2014 Pension Board meeting.

The Pension Board unanimously approved the minutes of the November 19, 2014 Pension Board meeting. Motion by Mr. Smith, seconded by Ms. Braun.

4. Investments

(a) Vontobel

Douglas Bennett and Evelyn Orley of Vontobel distributed a booklet containing information on the investment management services provided by Vontobel for ERS.

Ms. Orley first provided an organizational overview of the firm. As of October 31, 2014, the firm's total assets under management were just under $49 billion, with approximately $7.5 billion of those assets in the firm's international equity strategy. Henry Schlegel, Vontobel's long-serving Chief Executive Officer ("CEO"), retired this past year and became the firm's Chairman of the Board in July 2014. Mr. Schlegel was succeeded by Rajiv Jain and Dr. Philipp Hensler, who now serve as the firm's Co-CEOs, while Mr. Jain also retains his position as the firm's Chief Investment Officer. Dr. Hensler joined the firm from Oppenheimer Funds earlier this year. The investment team remains unchanged and has a long history of working together.

Ms. Orley then discussed performance. Vontobel has been managing ERS's international equity growth portfolio since November 1, 2013. The fund ERS is invested in is a comingled fund. As of October 31, 2014, the fund's assets total just over $1.9 billion. ERS's initial funding on inception was $120 million. With no additional contributions or withdrawals, those assets have grown to $125 million as of October 31, 2014. The portfolio is benchmarked against the MSCI ACWI ex USA Index ("MSCI ACWI"). Although the past year was a volatile year in the market for equities, the portfolio tends to outperform in choppier markets and has currently outperformed the index by 4.5%, net of fees. Vontobel's performance investment objective is to obtain capital appreciation through a diversified portfolio, with investments in primarily equity securities outside of the U.S., including emerging market opportunities.

Ms. Orley next discussed the firm's investment philosophy. Vontobel focuses on long-only global investments with a bottom-up fundamental approach. Vontobel seeks to invest in high quality businesses that offer sustainable opportunities for growth regardless of the market environment. Vontobel believes that long-term, stable earnings growth drives consistent returns and leads to outperformance. Vontobel's performance investment objective is to obtain capital appreciation through a concentrated and diversified portfolio. Investments are primarily in equity securities outside of the U.S., including emerging market opportunities.

Mr. Bennett continued with a discussion of the portfolio's characteristics. The market cap of companies that Vontobel invests in tends to be quite high, with $73 billion as the weighted average. Vontobel strategically invests in high-valued companies because they believe that these companies will be stable earners and more profitable over the long-term. The portfolio's five-year historical earnings per share ("EPS") growth is approximately 15%, versus the MSCI ACWI at 9%. The companies in the portfolio are generally very profitable and have a return on equity of 30%, almost twice the market average. When measured against the approximately 2,000 securities in the MSCI ACWI, the number of securities in the portfolio is very limited at 64.

The portfolio's top ten holdings comprise approximately 40% of the portfolio. The portfolio's two largest positions are in tobacco companies, Philip Morris International and British American Tobacco. There are two pharmaceutical companies, Roche Holding AG, which is strong in oncology and Novo Nordisk, which focuses on diabetes. Other top ten holdings include the food company Nestle, SABMiller, which is a brewer with strong positions in Africa and Latin American, and the online travel company, Priceline. During 2014, Vontobel added to its positions in Priceline, Roche Holding AG and Reckitt Benckiser Group, a household products company. Companies that were eliminated from the portfolio in 2014 include financial services companies, UBS AG and HSBC Holdings and Rolls-Royce Holdings, the world's second largest manufacturer of aircraft engines. Vontobel cut back on banks this year due to the continuing regulatory issues stemming from the 2008 financial crisis. Rolls-Royce was eliminated because its business was more cyclical than anticipated.

Mr. Bennett next discussed currencies. Although many of the companies in the portfolio are based in Europe and report results in Pounds, Euros or Swiss Francs, much of their earnings are derived from the U.S. or countries that are U.S. dollar-linked. For example, Nestle derives approximately 25% of its profits directly from the U.S. and another 20% from China, where the Renminbi is basically linked to the U.S. dollar. As a result, Nestle and a number of other companies in the portfolio, such as Unilever and Roche Holding AG, will likely profit in 2014 from the strong U.S. dollar. Although there are some companies in the portfolio that do have most of their operations in emerging markets, Vontobel believes that the effect of currencies on performance will "wash out" over the long term and they are not overly concerned with currencies. Vontobel believes that it is still worth investing in higher growth countries such as India, even if a slight currency decline must be taken into consideration.

In response to a question from Mr. Smith regarding political risk and how it factors into Vontobel's investment decision making process, Mr. Bennett stated that approximately 55% of the portfolio is currently weighted in countries with almost zero political risk. The Russian Federation, which currently has very high political risk, has 0% weight in the portfolio. Vontobel does take political risk into consideration, but it is not necessarily in the forefront when making investment decisions because the portfolio is so well-diversified both geographically and by product. Nestle has operations in almost every country in the world. Therefore, if a political issue were to suddenly arise somewhere in the world, it would not negatively impact the company as a whole because it is so well-diversified geographically.

In response to a question from Mr. Leonard regarding the portfolio's underweight in the industrials sector, Mr. Bennett stated that industrial companies tend to be cyclical and experience extreme spikes in return on equity ("ROE"). Vontobel prefers to invest in more stable companies in areas such as tobacco and consumer staples, companies that will produce consistent ROE over the long-term. For example, Nestle was still earning a 20% margin during the 2008-2009 financial crises because consumers continued purchasing staples in pet care, water and coffee products.

In response to a follow-up question from Mr. Leonard regarding any concerns over the decline in use of tobacco products in the U.S., Mr. Bennett stated that while tobacco use is declining in the U.S., its use continues to grow in certain countries such as China, Russia, Brazil and the emerging markets in general. From an investment standpoint, tobacco still provides long-term and consistent earnings growth. Tobacco companies consistently raise their prices and buy back stock, and therefore, return large sums of money to their shareholders. While it is certainly an industry in the midst of a long-term decline, Vontobel is confident that tobacco will continue to be a profitable investment over at least the coming decade.

In response to a question from Ms. Van Kampen regarding the portfolio's overall exposure to emerging markets relative to the benchmark, Mr. Bennett stated that direct exposure to emerging markets in the portfolio is approximately 15%, with the bulk of that in India and some in Brazil. Factoring in the diversified geographic exposure in global companies such as Nestle, the portfolio's total exposure to the emerging markets is approximately 30% to 40%.

In response to a question from Mr. Smith regarding the reasoning behind the portfolio's underweights to Germany and Japan, Mr. Bennett stated that neither of those countries is currently experiencing any real growth. The portfolio is underweight in general in terms of exposure to the European economy. As of August 2014, unemployment in Europe was at 11.5%. Although Japan has a much lower unemployment rate at 4%, they have just experienced two quarters of negative growth and are essentially in the midst of a recession. Germany does have some great companies exporting to the U.S. However, Germany has also forged strong ties with Russia over the last 20 years and has been negatively impacted by the sanctions the West has imposed on Putin. Essentially, Vontobel is just not finding any attractive companies in these countries that meet their investment criteria. Vontobel operates under the general philosophy that it does not really matter what investments they do not own, because the risk lies with what they do own.

Mr. Bennett concluded with some insights on the current market environment. During the last three weeks, the overall market has been down. By design, the portfolio does not have a great deal of cyclicality to it and tends to outperform in these volatile markets. When the markets are down, cyclical companies tend to underperform because businesses stop investing and consumers pull back on purchasing. Consumers do typically continue to eat, drink, smoke and use personal care products and consumer staples will typically outperform in the more difficult markets. Although it is likely that returns will come down slightly, Vontobel expects that the portfolio should continue to outperform at year-end. As of yesterday, the portfolio is still reflecting positive performance for the year. The continued drop in oil prices should benefit consumers, as well as any non-oil producing county, as account deficits in these countries will be largely minimized. For every $10 drop in the price of oil, India's current account deficit should decrease by 50 basis points. Two years ago, India had a deficit of 5%, but that has decreased to 2.5% as of the last quarter and they may even end up with a surplus. U.S. consumers will also likely be purchasing more, as a result of the excess cash in their pockets due to decreasing gasoline prices. Vontobel is very comfortable with the current shifts in the market and is confident the portfolio will continue to outperform. Vontobel also believes there are continued opportunities for additional growth within the portfolio's emerging market exposure.

(b) GMO

Peter Nolan and Tom Rosalanko of GMO distributed a booklet containing information on the investment management services provided by GMO for ERS. Mr. Nolan introduced himself as a relationship manager for GMO and introduced Tom Rosalanko as a member of GMO's Global Equity Investment team.

Mr. Nolan first provided an overview of the firm. GMO is a private partnership, founded in 1977, which is solely devoted to the investment management business. All of GMO's strategies are value-orientated, and its investment process is anchored to valuation. GMO currently has $120 billion in assets under management. ERS is invested in GMO's international small cap strategy, which is closed to new investors and currently has $300 million in assets under management. Based in Boston, GMO has offices across the globe and employs over 550 individuals worldwide.

Mr. Rosalanko then discussed the international small cap strategy portfolio's performance. The last five-year time period has been very favorable for international small cap investments. As of November 30, 2014, the portfolio's net performance since inception on June 2, 2009, is at 11.84%, versus the MSCI EAFE Small Cap Index at 11.37%. However, the year-to-date net performance is not as favorable and the portfolio is currently underperforming at -5.33%, versus the index at -4.43%. Much of the portfolio's underperformance has occurred during the second half of 2014, as performance of small cap stocks in general was fairly strong, before a reversion in the markets began to take hold in late June. Although the U.S. economy is steadily improving and the dollar is relatively strong, issues surrounding the European economy, decreasing oil prices and the Federal Reserve's stance on interest rates have all created turmoil in the markets.

In response to a question from Ms. Van Kampen regarding the portfolio's value orientation and its characteristic performance in down markets, Mr. Rosalanko stated that the portfolio does not always underperform in down markets. Performance as a whole is linked to the portfolio's individual investments, and the more cyclical stocks in industrials, materials and energy are taking a hit right now. However, GMO is confident that the portfolio's performance will rebound over time.

Mr. Rosalanko continued with a discussion of GMO's investment team. The portfolio is managed jointly by GMO's asset allocation team and its global equity team. GMO's asset allocation team provides investment oversight for the overall portfolio, developing top-down views with seven-year asset class forecasts. The global equity team manages the day-to-day implementation of the portfolio and reviews stock selection from a bottom-up basis. The teams combine their bottom-up and top-down approaches to select the best stocks in the most attractive asset classes. The teams operate under a contrarian approach, focusing on overlooked and out of favor stocks. GMO will typically purchase stock from out of favor companies as investors sell off stock at relatively low prices. Although it may take some time, valuations on these cheaper stocks typically pay off over the long-term.

Mr. Rosalanko next discussed the seven-year return forecast. The projected seven-year real return forecast for U.S. large cap and U.S. small cap stocks is not very favorable, at -1.7% and -2.9% respectively. The seven-year real return forecast for U.S. high quality stocks is somewhat more favorable at 1.5%. The outlook improves for international stocks over that same time period, with international large cap, at 1.9%, and international small cap at 2.1%. Emerging markets stocks, which also have a place in the portfolio, are projected to have the best seven-year real return forecast within the equities space at 3.8%. However, GMO believes that emerging market stocks are also riskier, and they do take that factor into consideration when making emerging market investment decisions. From a growth vs. value perspective, both international small cap and international large cap stocks have a much higher projected seven-year real return on value stocks. After the 2008 financial crisis, growth stocks tended to perform better than value stocks. However, GMO expects that over time, the gap between growth and value will narrow and value will become more attractive.

Mr. Rosalanko then discussed GMO's global equity investment process. GMO values companies using two different valuation assessments, group valuation and security valuation. Through analysis of asset class valuations, group valuation defines the larger picture and overall shape of the portfolio's opportunity set from the broader investment universe. Security valuation assessment analyzes and values individual stocks. The security valuation process utilizes GMO's quantitative methods to initially identify inexpensive stocks and next incorporates the factor of quality. GMO views cyclical, low-quality and inexpensive stocks as extremely attractive. GMO utilizes a quality-valuation trade off to identity the best and most attractively valued companies for the portfolio. GMO also has a small team of six fundamental analysts. Each of the fundamental analysts monitors approximately five of some of the most attractive stocks around the world and are able to perform a much more in-depth analysis of these stocks. Where there is a high degree of conviction, GMO will override their quantitative analysis with its fundamental analysis.

In response to a question from the Chairman regarding the stocks monitored by GMO's fundamental analysts, Mr. Rosalanko stated that those stocks include a wide range of both large and small cap stocks across the globe. Only a small percentage of those stocks are currently in ERS's portfolio.

Mr. Rosalanko continued with an analysis of the portfolio. The portfolio's weighting by both region and country are fairly close to the benchmark. The portfolio's largest allocations by region are currently 38.8% in Europe ex UK, and 27.7% in Japan. There is an 8.4% allocation to emerging markets, but that risk is well-diversified and spread across a variety of markets. GMO focuses its investments in markets with the most attractive opportunities, such as Japan, the United Kingdom, France, Germany and Italy. The portfolio's largest emerging market country exposure is to Korea at 1.6%. GMO finds attractive valuations in cyclical stocks and the portfolio's largest sector weighting is to industrials at 23.6%. The portfolio's second largest sector weighting is 21.8% in consumer discretionary, followed by financials at 16.1% and materials at 11.5%. GMO perceives healthcare and consumers staples as expensive and more fully valued and therefore, both of those sectors are currently underweight.

In response to a question from Ms. Van Kampen regarding the portfolio's relative earnings growth rate, Mr. Rosalanko stated that he does not have that information because GMO measures in terms of valuations, not growth. The only measure of growth GMO tracks is return on equity.

Mr. Rosalanko then reviewed the portfolio's top ten holdings as of October 31, 2014. Unlike the large cap arena, most of the small cap companies in the portfolio are not household names but are well-known in their home markets. The majority of companies are scattered throughout Europe, with one company located each in Russia and Japan. The largest holding is in the German-based agricultural company, K+S AG, which is one of the world's largest salt manufacturers and supplier of fertilizer. The second largest holding, Rexel S.A., is based in France and is a wholesale distributor of electrical supplies. Man Group, the third largest holding, is a hedge fund manager based in the U.K. The portfolio's top ten holdings comprise 7.4% of the portfolio. The portfolio's 8% exposure to emerging markets is strategically spread across Russia, Brazil, India, China and South Korea to reduce risk.

In response to a question from Mr. Smith regarding the exposure to Russia, Mr. Rosalanko stated that it has been a drag on performance. The returns for Russia are not specifically broken out and are embedded within the emerging market year-to-date performance figures.

In response to a question from Ms. Braun regarding the portfolio's relatively large weighting to Japan, Mr. Rosalanko stated that while GMO does use the benchmark as a measure, it is not necessarily used as a guide to construct the portfolio. From a value perspective, GMO has found a number of very attractive and undervalued investment opportunities in Japan.

Mr. Rosalanko concluded by stating that although the market environment for small cap stocks has quickly reverted in the latter half of 2014, GMO firmly believes in its valuation process and the well-diversified portfolio will once again outperform over time.

(c) Marquette Associates Report

Brian Wrubel and Ray Caprio of Marquette Associates, Inc. distributed and discussed the November 2014 monthly report. Mr. Wrubel first reviewed manager status. Both of the hedged equity managers were recently placed on alert, ABS for performance-related issues and K2 for organizational issues. Geneva Capital, under the U.S. equity composite, also remains on alert for performance issues.

Mr. Wrubel then discussed the Fund's asset allocation. As of November 30, 2014, the Fund's total assets were slightly over $1.8 billion. Asset allocation is a key driver of Fund performance. The Fund's fixed income allocation, at just over 19%, is up approximately 6% year-to-date and has performed unexpectedly well this year. U.S. Treasuries and high quality corporate bonds have both performed unexpectedly well in 2014. Conversely, high yield bonds have sold off this year and many high yield companies with a focus on energy and technology have significantly underperformed.

In response to a question from Mr. Grady, Mr. Caprio stated that the range on the Fund's fixed income allocation is plus or minus 5% of the 22% policy target. The Fund is still well within that range with a current allocation of 19%.

Mr. Wrubel continued by stating that under U.S. equity, high-quality, large cap stocks have also performed very well this year, while small cap stocks have performed poorly. Because the Fund has historically had a slight overweight to small cap stocks, this has had a slight negative impact on the Fund's performance. The Fund's current allocation under international equity is just under 20%, and similar to U.S. equity, international large cap stocks have also outperformed international small cap stocks in 2014. Currencies have been a driving force under international equity performance this year, resulting in a negative impact of approximately 9%. Hedge funds have performed reasonably well and real estate continues to perform very well.

Infrastructure has also continued to provide consistently positive returns, but currencies have also had a short-term negative impact on performance as well. The valuations are not yet fully in for private equity but overall, it has performed fairly well in 2014.

In response to a question from the Chairman, Mr. Caprio confirmed that with the exception of private equity, all of the Fund's asset allocations are very close to policy targets and no rebalancing is required at this time. A natural rebalancing will also occur as normal cash withdrawals, which have been averaging $12 to $15 million per month, occur periodically for funding benefits and expenses.

Mr. Caprio next discussed performance. The total Fund composite one-month return was a positive 1%, net of fees, and the three-month return was a positive 0.4%, net of fees. The Fund's total year-to-date return is currently at 5.7%, but that figure will likely change towards year-end, as real estate, private equity and infrastructure have not yet fully reported. The year-to-date return on fixed income is at 5.6% and the U.S. equity composite is up at 8.9% year-to-date, versus the benchmark at 12.8%. U.S. Equities and real estate have been the two largest contributors to the Fund's performance in 2014. The international equity composite year-to-date return is at 1.7%, outperforming the benchmark at -0.3%. The returns on real estate have been very healthy throughout 2014, and with a year-to-date return of 9.2%, real estate is on target to achieve projected annual returns in the 7% to 10% range. While currencies did impact 2014 performance under the infrastructure composite, it remains a very solid asset class, with a three-year return of 6.6% and a four-year return of 7.2%. The assets under private equity are not yet fully valued. The bulk of the private equity portfolio is invested in Siguler Guff and solid performance should begin as current efforts continue to attain the 6% policy target allocation. On an annualized basis, private equity has been the strongest performing asset class, with a ten-year return at 13%.

Mr. Caprio continued with a discussion of individual manager performance. Under fixed income, J.P. Morgan is slightly outperforming the benchmark with a one-month return of 0.8%, versus the Barclays Aggregate at 0.7%. J.P. Morgan's year-to-date return is currently at 5.5%, versus the index at 5.9%, but their long-term numbers have remained very solid and performance is expected to rebound. Under U.S. equity, both Artisan Partners and Geneva Capital continue to experience performance issues. Although Geneva Capital is down 7% year-to-date, their numbers have started to improve slightly over the last three months. Marquette is meeting with Geneva on a monthly basis and there are beginning signs of a reversion in the market, where high-quality stocks are starting to outperform low-quality stocks.

In response to a question from Mr. Smith regarding any monthly dialogue Marquette may be having with Artisan about their continued decline in performance, Mr. Caprio stated that Marquette does get a monthly summary from every manager. It is important to note that Geneva and Artisan are two completely different strategies and it is difficult to compare the two. While both Artisan and Geneva did underperform in November, Artisan is a slightly more aggressive manager, with at least a market weight to the benchmark in energy. Consequently, Artisan's performance was more negatively impacted by decreasing oil prices in November.

Ms. Van Kampen then expressed concerns that Artisan has underperformed relative to the benchmark throughout the year and their returns have in fact continued to significantly decline. This could perhaps suggest that Artisan is in the early stages of their underperformance, while Geneva may now be reverting to the mean.

Mr. Wrubel then noted that Artisan has had six or seven successive calendar years of outperformance and, from a valuation standpoint, their underperformance is largely due to cyclical shifts that are affecting the stocks that they own.

In response to a question from Mr. Smith, Mr. Caprio stated that Artisan has continued to hold their position on energy. Managers will not typically make changes to their strategy because of short-term spikes in the market. The mid cap growth U.S. equity manager performance issues could be a topic for further in-depth review and discussion at an upcoming Investment Committee meeting. If significant underperformance continues into 2015, a decision can be made at some point next year regarding a possible search for replacement managers.

In response to a question from Mr. Smith regarding the possibility of placing Artisan on alert today for performance issues, Mr. Wrubel stated that Marquette is waiting on the December 2014 returns before they will make any firm-wide recommendation to place Artisan on alert. Often, a growth manager can make up a fairly significant amount of space between the index in a one month period.

After continued discussion, the Board members agreed that the continuing concerns surrounding the U.S. equity mid-cap growth manager performance should be reevaluated and discussed in further detail at the January or February 2015 Investment Committee meeting.

Mr. Caprio concluded his review of manager performance. Both ABS and K2 under the hedged equity composite had a good month and were up 2.3% and 2.2% respectively. However, the year-to-date returns for both managers have been disappointing. Because real estate is valued quarterly, the monthly return is currently listed at zero. But performance during the last quarter was very solid, and positive returns are expected to continue.

In response to a question from Ms. Braun regarding the best benchmark to use for gauging hedged equity manager performance, Mr. Caprio and Mr. Wrubel stated that while hedged equity is a difficult strategy to benchmark against, the HFRX Equity Hedge Index is the best benchmark to use in terms of an "apples-to-apples" comparison.

5. Investment Committee Report

There was no Investment Committee report because the December 1, 2014 Investment Committee meeting was cancelled.

6. Audit Committee Report

Ms. Westphal reported on the December 4, 2014 Audit Committee meeting. Mr. Henke and Ms. Middleman from Baker Tilly first provided an educational overview of the new pension accounting standards under Governmental Accounting Standards Board ("GASB") rules 67 and 68. Mr. Henke explained that rule 67 applies to financial reporting for the Fund and will impact ERS, while rule 68 applies to county financial reporting for pensions and will impact Milwaukee County. Mr. Henke continued with a comprehensive overview of GASB rules 67 and 68 and answered several questions from those in attendance. Ms. Middleman reviewed and compared ERS's current financial statements to how they will appear under rule 67.

Ms. Westphal then provided a high level overview to the Pension Board of the Baker Tilly GASB rules presentation. The changes imposed by GASB rules 67 and 68 will involve accounting reporting changes and are being implemented for transparency reasons. The focus will now move from income statements to a balance sheet focus. Accounting and funding will no longer be linked and Milwaukee County will pick up the unfunded liability on financial statements. Another impact from the GASB changes will likely result in an increased accounting liability, which may affect the County's credit rating. The rating agencies have already factored in the GASB rule 67 and 68 changes. The changes will add a layer of complexity to an already complex topic and may increase scrutiny to the Fund. The changes imposed by GASB rules 67 and 68 will require additional discussion at future Audit

Committee meetings. The changes will be effective for ERS at the end of 2014 and for Milwaukee County at the end of 2015.

The Audit Committee concluded with a discussion of the 2015 pre-audit letter. Ms. Middleman distributed the 2015 pre-audit letter and explained its purpose as part of Baker Tilly's required communications to the Audit Committee. Baker Tilly's preliminary audit field work will begin the week of January 5, 2015, with the final field work scheduled for the week of April 6, 2015. A draft of the audit findings is tentatively scheduled for completion on June 4, 2015.

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

The Pension Board unanimously agreed by roll call vote 8-0 to enter into closed session to discuss agenda items 7 through 10. Motion by Ms. Braun, seconded by Ms. Funck.

Ms. Ninneman recused herself from the discussion of *Tietjen v. ERS* by leaving the closed session meeting, leaving no ERS personnel in the room during that discussion.

7. <u>Proposed Adoption of Rule 1054 - Retention of Amounts Held in the Membership Account</u>

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board unanimously approved adopting ERS Rule 1054, attached to these minutes as Exhibit A, effective December 17, 2014. Motion by Ms. Van Kampen, seconded by Mr. Smith.

8. Disability Matters

(a) Kim Lisowski

In open session, Ms. Lisowski summarized the events surrounding her work-related accident and application for an accidental disability pension. Ms. Lisowski first noted that although she was involved in a motor vehicle accident in October 2006 and did sustain some injuries, she was able to receive treatment for those injuries and successfully resume her normal job-related duties within two weeks of that auto accident.

Ms. Lisowski continued by stating that she began her employment with the County in April 2000 and started working for the Sheriff's Department as a clerical assistant in 2004. Ms. Lisowski stated that while reporting for work on the morning of December 2, 2007, she slipped and fell on some untreated ice on the steps at the entrance of the County jail, sustaining injuries to her back and neck. Ms. Lisowski stated that after her fall, she developed neck and back aches, and suffered from frequent migraines. Ms. Lisowski further stated that she was diagnosed with fibromyalgia in 2008 and also underwent cervical surgery on July 11, 2008. After returning to work following her 2008 surgery, Ms. Lisowski stated that the County made no workplace accommodations to help her cope with the continuing effects of her injuries. Ms. Lisowski also noted that she has been prescribed various medications for her ailments which cause her to be very sleepy. The effects of those medications, combined with her fibromyalgia symptoms, make it very difficult for her to get out of bed in the morning or to even hear her alarm clock at times. Ms. Lisowski noted that she was suspended from County employment in June 2014, after being written up for failure to call in sick and other health related absences.

Ms. Lisowski continued by describing the difficult workplace environment following her 2008 post-surgery return. Ms. Lisowski stated that she believes she was bullied at work by her supervisor on a daily basis for things such as health related attendance issues, to her need for handicapped parking. Ms. Lisowski further stated that throughout her 14 years of working for the County, she has not had any attendance related issues until this past year. However, on July 26, 2014, Ms. Lisowski stated that she received a call from Internal Affairs at her mother's home notifying her that she was being suspended and recommended for termination.

Ms. Lisowski then stated that she settled a Workers Compensation claim with the County in January 2014 related to her 2007 fall. Ms. Lisowski alleged that part of that Workers Compensation settlement included an agreement with the County that they would not discipline her for any health related absences. Ms. Lisowski suggested that the County has now clearly violated that agreement. Ms. Lisowski expressed frustration because she initially filed her disability retirement application in February 2014, but was subsequently asked by ERS to fill out two more applications. Ms. Lisowski also claimed that her medical records dispute what was written in the Medical Board's report and therefore, she cannot understand how the Medical Board arrived at its conclusion to deny her accidental disability application.

Ms. Lisowski concluded her remarks by stating that she is fighting for her livelihood and cannot survive on her current monthly income. Ms. Lisowski stated that she is 100% certain that all of her current medical issues arose from her December 2007 fall at the County jail, and her medical records further support that. Ms. Lisowski expressed concern that at age 58, no other employer will want to hire her because of her ongoing health related issues. Ms. Lisowski stated that she needs a disability pension to provide a foundation, so she can find more a flexible, part-time job closer to her home.

The Chairman then thanked Ms. Lisowski for her comments and appearance before the Board. Ms. Lisowski left the meeting.

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board voted 7-0-1, with Mr. Leonard abstaining, to accept the Medical Board's recommendation to deny the accidental disability pension application. Motion by Mr. Smith, seconded by Mr. Gedemer.

(b) Scott Schroeder

During open session, in response to a question from the Chairman, Mr. Schroeder stated that he had no comments for the Board regarding his disability application.

The Board discussed the matter in closed session.

After returning to open session, the Pension Board voted unanimously to lay over the decision regarding Mr. Schroeder's ordinary disability application, pending clarification of the inconsistent wording on the Certificate of Medical Board that runs counter to the Ordinance. Motion by Mr. Smith, seconded by Ms. Van Kampen.

Mr. Grady requested that Mr. Huff draft a letter for the Chair's signature, informing Mr. Schroeder that the Board hopes to have a decision on the matter by the January 2015 Pension Board meeting.

9. Pending Litigation

(a) Stoker v. ERS

The Pension Board took no action on this item.

(b) AFSCME v. ERS

The Pension Board took no action on this item.

(c) Tietjen v. ERS

The Pension Board took no action on this item.

(d) Brillowski & Trades v. ERS

The Pension Board took no action on this item.

(e) AFSCME v. ERS

The Pension Board took no action on this item.

(f) Weber v. ERS

The Pension Board took no action on this item.

(g) Angeles v. ERS

The Pension Board took no action on this item.

10. Report on Compliance Review

The Pension Board discussed the matter in closed session.

11. Reports of ERS Manager and Fiscal Consultant

(a) Retirements Granted November 2014

In open session, Ms. Ninneman first provided an update on staffing. Tina Lausier, who is currently employed with the County as V3 Systems Administrator, has applied for and accepted an offer for the Fiscal Officer position. Ms. Lausier is a Certified Public Accountant and has a Master's Degree in Accounting. Ms. Lausier is scheduled to begin her position as Fiscal Officer the week of January 5, 2015.

Interviews have been underway for the two open retirement specialist positions and offers for those positions should be extended by the end of this week. The Assistant Fiscal Officer position remains vacant and a clerical assistant in the records room just resigned this week. It is hoped that all vacant positions will be filled by February 2015.

Ms. Ninneman then presented the Retirements Granted Report for November 2014. Twenty-one retirements from ERS were approved, with a total monthly payment amount of $31,599.66. Of those 21 ERS retirements, 14 were normal, 6 were deferred and one was an ordinary disability retirement. Nine members retired under the Rule of 75. Twelve retirees chose the maximum option and 2 retirees chose Option 3. Ten of the retirees were District Council 48 members. Ten retirees elected backDROPs in amounts totaling $1,757,046.06.

In response to a question from Mr. Grady, Ms. Ninneman stated that the Retirements Granted Report distributed today was amended to correct a typo from a previous version relating to a member's backDROP amount calculation.

(b) <u>ERS Monthly Activities Report, November 2014</u>

Ms. Ninneman presented the Monthly Activities Report for November 2014. ERS and OBRA combined had 8,055 retirees, with a monthly payout of $14,265,439.

There was nothing out of the ordinary for the month of November and trends witnessed throughout the year have continued. The Retirement Office is full with appointments for the month of January, which is normal, as members typically wait for their vacation time to accrue before retiring.

In response to a question from Ms. Funck regarding disability income reviews, Ms. Ninneman stated that because there is a certain annual threshold, disability income reviews are performed annually.

In response to a follow-up question from Ms. Funck regarding the statistics on medical reviews performed for disabilities, Ms. Ninneman stated that those figures will be forthcoming but there is currently a backlog of medical reviews until the new Medical Review Board is in place. Those metrics could be included in future Monthly Activities Reports if the Board would like to review those statistics on a regular basis.

In response to a question from the Chairman regarding the Medical Review Board request for proposal ("RFP"), Ms. Ninneman stated that the RFP was sent to eight potential proposers and was posted to the ERS website. The RFP responses are due in early January 2015.

Ms. Ninneman then discussed the Annual Report timeline. Ms. Ninneman recently met with Baker Tilly, Buck Consultants and the County Controller to discuss the Annual Report timeline and the updated financial statements required by GASB Rule 67 that will go into effect at the end of 2014. During the meeting, the question was raised as to whether ERS should use the current data method or the roll forward data method which would use data from the prior year. Ms. Ninneman noted that she will have a written document from the actuary and the auditor on the pros and cons of each method for the Board to consider at its January 2015 meeting. However, once a decision is made to use either the roll forward data method or the current data method, the method cannot be changed unless GASB issues further changes.

In response to a question from the Chairman, Mses. Ninneman and Westphal stated that the topic of choosing a reporting method under GASB rule 67 could be added as a future Audit Committee agenda item. Ms. Ninneman noted that because of the timeline for issuing the Annual Report, a decision on the matter should be made by no later than February 2015.

(c) <u>2015 Budget Approval</u>

Ms. Ninneman discussed ERS's 2015 preliminary budget. The 2015 preliminary budget is slightly lower, but similar to last years' budget. Some funds for educational and travel expenses for Board members were removed from the 2015 budget because they were not being used and have created a surplus in that area. In the 2014 budget, $1.8 million was approved for retirement software, but that was subsequently removed because there was a question as to whether it could be funded by bonding. That $1.8 million has now been reincorporated into the 2015 budget because it was discovered it cannot be funded by bonding. There were some consulting fee increases based on work that needs to be completed before the software upgrade, which includes expenses for a Joxel Group project manager. Recent staffing changes in the Fiscal Office have resulted in delays to finalizing the 2015 preliminary budget. The two temporary employees currently working in the Fiscal Office have been busy writing training manuals and updates to the procedural guidelines so the manuals can be finalized before the new permanent employees are in place.

In response to a question from the Chairman, Ms. Ninneman stated that while GASB rules 67 and 68 should not increase the audit fees, they will result in increased actuarial fees.

In response to a question from Mr. Smith regarding the reason for the large reduction in the 2015 investment manager fees, Ms. Ninneman stated that she has already posed that question to Mr. Yerkes and is waiting on a response.

After further review of the 2015 investment manager fees, Mr. Smith and Ms. Braun noted that both Vontobel and Mesirow were not included in the breakout of investment manager fees.

The Pension Board voted unanimously to provisionally approve the 2015 ERS Budget, subject to further clarification of investment manager fees. Motion by Ms. Van Kampen, seconded by Mr. Leonard.

(d) Fiscal Officer

Ms. Ninneman noted that both the Portfolio Activity and Cash Flow Reports for November 2014 were included in today's meeting materials.
Ms. Ninneman then asked the Board members to submit any questions they may have regarding the Fiscal Officer reports to her and she will provide answers once she has received the appropriate information.

In response to a question from Mr. Grady regarding the need for 2015 first quarter funding approval, Mr. Huff and Ms. Ninneman stated that 2014 fourth quarter funding was previously approved. Ms. Ninneman noted that the amounts approved for 2014 fourth quarter funding were considerably larger than normal to grant Mr. Yerkes' request for a two-month cash reserve. Therefore, the amount approved for the 2014 fourth quarter funding should be sufficient until the new Fiscal Officer is scheduled to be in place in January 2015.

12. Administrative Matters

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

In response to a question from Mr. Smith regarding the topic of potential changes to the Fund's 8% assumed rate of return, Ms. Westphal and Mr. Grady stated that Buck Consultants should be involved in those discussions. Those discussions with Buck could begin at the Investment Committee level before a final decision on the matter is brought before the full Board.

13. Adjournment

The meeting adjourned at 12:45 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 General Ordinances of Milwaukee County (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").

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

3. ERS members contribute to ERS pursuant to Ordinance sections 201.24(3.11) and (3.3), and members historically made payments to ERS pursuant to Ordinance section 201.24(11.1) and ERS Rule 207. These contributions and payments are held within the member's membership account.

4. Ordinance section 201.24(2.11) provides that a non-vested member ceases to be a member and forfeits his or her service credit if the member is absent from service for five (5) consecutive years or five (5) years in a period of ten (10) consecutive years after last becoming a member.

5. Ordinance section 201.24(3.5) provides that a member who terminates employment is entitled to receive a refund of the balance as of the date of termination of his or her membership account, with interest. Ordinance section 201.24(3.11) provides that if a member requests a refund of his or her accumulated contributions, provided that the request is made within one hundred eighty (180) days after termination of County employment, the member will receive a refund of all assets held in his or her membership account at that time.

6. The Pension Board desires to adopt a rule clarifying when amounts held in a member's membership account are retained in the account, when they may be refunded to the member, and when they may be forfeited or removed from the account.

RESOLUTIONS

Effective December 17, 2014, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby adopts Rule 1054 to read as follows:

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, 7.1 or 7.2 or if the member's employment is terminated due to fault or delinquency under section 4.5.

(2) *Optional member contributions made pursuant to Ordinance section 201.24(3.3).*

(a) *Contributions remain while service remains*. All optional member contributions made pursuant to Ordinance section 201.24(3.3) 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 optional member contributions associated with a nonvested member's service credit shall remain in the member's membership account until the member requests a refund of his or her membership account pursuant to Ordinance section 201.24 (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 such service credit is forfeited, the member shall be entitled to receive a refund of any optional member contributions associated with that service credit.

(c) *Vested members*. The optional member contributions associated with a vested member's service credit shall remain in the member's membership account until the member requests a refund of his or her membership account pursuant to Ordinance section 201.24(3.5) or upon the commencement of a benefit by the member or beneficiary or survivor of the member pursuant to the Ordinances and Rules. Upon the commencement of a benefit by the member or beneficiary or survivor of the member pursuant to the Ordinances and Rules, the Retirement Office shall remove any optional member contributions from the membership account because the member is not entitled to receive a refund of such amounts.

(3) *Amounts used to purchase service credit for purposes of a buy back or buy in pursuant to Ordinance section 201.24(11.1) or Rule 207.*

(a) *Incomplete buy back or buy in*. Amounts paid for incomplete purchases of service credit for purposes of a buy back under Ordinance section 201.24(11.1) or buy in under Rule 207 shall remain in the member's membership account until the member terminates employment with the County for any reason. Upon termination of employment, the member shall receive a refund of any such amounts paid to purchase service credit if the payments do not otherwise violate the Ordinances and Rules.

(b) *Completed buy back or buy in*. Amounts paid for completed purchases of service credit for purposes of a buy back under Ordinance section 201.24(11.1) or a buy in under Rule 207 shall remain in the member's membership account until the member requests a refund of his or her membership account pursuant to Ordinance section 201.24(3.5) or upon the commencement of a benefit by the member or beneficiary or survivor of the member pursuant to the Ordinances and Rules. In the case of a refund of his or her membership account pursuant to Ordinance section 201.24 (3.5), the member shall receive a refund of any such amounts paid to purchase service credit if the payments do not otherwise violate the Ordinances and Rules. Upon the commencement of a benefit by the member or beneficiary or survivor of the member pursuant to the Ordinances and Rules, the Retirement Office shall remove any amounts paid to purchase service credit from the membership account because the member is no longer entitled to receive a refund of such amounts.

(c) *Nonvested members*. 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 such service credit is forfeited, the member shall be entitled to receive a refund of any amounts paid to purchase service credit.

(d) *Alternative Refunds*. Notwithstanding the foregoing, refunds of payments made to purchase service credit for purposes of a buy back under Ordinance section 201.24(11.1) or a buy in under Rule 207 may be made outside the terms of this Rule 1054 when required by law and as directed by the Internal Revenue Service.