EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE JANUARY 21, 2015 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	Member Excused
Laurie Braun (Vice Chair)	
Dr. Brian Daugherty (Chairman)	
Aimee Funck	
Norb Gedemer	
D.A. Leonard	
Gregory Smith	
Patricia Van Kampen	
Vera Westphal	

Others Present
Marian Ninneman, Director-Retirement Plan Services
Mark Grady, Deputy Corporation Counsel
Scott Manske, Comptroller
Raisa Koltun, Chief of Staff to County Executive Chris Abele
James Carroll, Principal Assistant Corporation Counsel
Tina Lausier, Fiscal Officer
Vivian Aikin, CRC, ERS Sr. Pension Analyst
Josh Lieberman, J.P. Morgan Asset Management
Robert Pease, J.P. Morgan Asset Management
Jojo Granoff, IFM Investors
Brett Christenson, Marquette Associates, Inc.
Scott Schroeder, Milwaukee County Employee
Joan Mitchell, Retiree
Yvonne Mahoney, Retiree
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Minutes—December 17, 2014 Pension Board Meeting

The Pension Board reviewed the minutes of the December 17, 2014 Pension Board meeting.

The Pension Board unanimously approved the minutes of the December 17, 2014 Pension Board meeting. Motion by Mr. Smith, seconded by Mr. Leonard.

The Chairman stated that the Pension Board will next take the printed agenda out of order and enter into closed session to discuss disability matters, pending litigation, report on compliance review and medical review board RFP.

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 4 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 5 and 6 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, and may adjourn into closed session under Section 19.85(1)(e) with regard to item 7 for the purpose of deliberating the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session. 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 4 through 7. Motion by Ms. Braun, seconded by Ms. Funck.

Ms. Westphal recused herself from and physically left the room during the discussion of agenda item 6.

4. Disability Matters

(a) Scott Schroeder

The Pension Board discussed the matter in closed session.

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

The Chairman then communicated to Mr. Schroeder that the Pension Board has approved his application. After indicating that he had no further questions, Mr. Schroeder left the meeting.

5. Pending Litigation

(a) Stoker v. ERS

The Pension Board discussed the matter in closed session.

(b) AFSCME v. ERS

The Pension Board discussed the matter in closed session.

(c) Tietjen v. ERS

The Pension Board discussed the matter in closed session.

(d) Brillowski & Trades v. ERS

The Pension Board discussed the matter in closed session.

(e) AFSCME v. ERS

The Pension Board discussed the matter in closed session.

(f) Weber v. ERS

The Pension Board discussed the matter in closed session.

(g) Angeles v. ERS

The Pension Board discussed the matter in closed session.

(h) Trapp, et al v. Pension Board

The Pension Board discussed the matter in closed session.

6. Report on Compliance Review

The Pension Board discussed the matter in closed session.

7. Medical Review Board RFP

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board voted unanimously to terminate Columbia St. Mary's as ERS's Medical Review Board by not assigning any future reviews and to approve a contract with Aurora Health Care as ERS's new Medical Review Board, consistent with the authority in Milwaukee County Code of General Ordinances section 201.24(8.12), and to approve the adoption of the following resolution, effective January 21, 2015:

The Pension Board oversees the benefit payment process and administration of the Employees' Retirement System ("ERS") in accordance with the Milwaukee County Code of General Ordinances (the "Ordinances") and ERS Rules. Ordinance section 201.24(8.12) requires the Pension Board to designate a medical board that shall arrange for and pass upon all medical examinations required by ERS, investigate all statements and certificates by or on behalf of a member in connection with an application for disability retirement and report to the Pension Board its conclusions and recommendations upon all matters referred to it. Under the authority granted to the Pension Board in Ordinance section 201.24(8.12), the Pension Board delegates to ERS the discretion to assign members' disability applications or examinations to any medical board approved by the Pension Board to perform such services. That medical board shall then conduct the member's medical examination or investigate the member's disability application and such assignment shall be final and binding upon all persons dealing with the Pension Board or ERS or claiming any benefit thereunder.

Motion by Mr. Leonard, seconded by Ms. Braun.

8. Investments

(a) J.P. Morgan Asset Management

Josh Lieberman and Robert Pease of J.P. Morgan Asset Management distributed a booklet containing information on the investment management services provided by J.P. Morgan for ERS. Mr. Lieberman introduced himself as a relationship manager from J.P. Morgan's Chicago office, and introduced Mr. Pease as a client portfolio manager from J.P. Morgan's infrastructure investments group in New York.

Mr. Pease first discussed recent developments in the J.P. Morgan Infrastructure Investments Fund. The fund had a successful close to 2014,

raising over $1 billion in total capital. J.P. Morgan closed on two new investments in December 2014 and an additional pending transaction is expected to close in late January 2015. J.P. Morgan continues to raise additional capital to allow for continued growth and diversification within the fund.

In response to a question from Mr. Grady regarding any future constraints on the size of the fund, Mr. Pease stated that the fund is currently at $3.5 billion in total assets under management and there is no specific target regarding fund size. As an open-ended perpetual life fund, J.P. Morgan hopes to continue to raise anywhere from $750 million to $1.5 billion per year in capital.

In response to a follow-up question from Mr. Grady regarding the source of additional capital, Mr. Pease stated that capital raised during 2014 came from a mixture of new clients and existing investors making additional commitments to the fund. The fund is currently yielding around 6% and investors can either choose to receive distributions or reinvest that capital. Approximately two-thirds of the investors in the fund chose to reinvest capital in 2014. Although some larger transactions in the market have become very expensive, J.P. Morgan is still finding attractive investment opportunities in smaller mid-market deals, ranging from $100 to $400 million in equity.

In response to a question from Mr. Christenson, Mr. Pease confirmed that there is no cash drag on the portfolio because any additional capital raised remains in queue until needed. J.P. Morgan strives to avoid long queues, because they believe such practice introduces the wrong types of incentives and is unfair to new investors committing to the fund.

Mr. Pease next discussed J.P. Morgan's infrastructure investments fund strategy. The fund is an open-ended, global core plus infrastructure fund. J.P. Morgan's investment strategy involves building a well-diversified portfolio across various subsections of infrastructure, with a focus on developed markets. J.P. Morgan seeks to invest in companies with monopolistic positions that are providing essential services within their markets, coupled with sustainable business models.

Mr. Pease then discussed ERS's performance in the fund as of September 30, 2014. Since inception in October 2014, ERS's total commitment in the fund is at $85 million. Approximately $17.5 million has been made in distributions, with $1.3 million of that reinvested in the fund. Approximately $1.6 million of accrued distributions from the 2014 fourth quarter are scheduled for payment in the next quarter. Performance since

inception is 6.13% net of fees. With some negative impact driven by foreign currency movements in the global portfolio, the one-year return is at a disappointing 4.35% net of fees. Depreciating foreign currencies in the portfolio, including the Australian dollar and the British pound, have adversely impacted the fund's performance over the past year. Several assets in the portfolio were also somewhat challenged during 2014 because of regulatory reviews, but J.P. Morgan expects performance of those assets to rebound in 2015. The fund is targeting a cash yield of 5% to 7% and has been well within that range for the past four years. During that four-year period, the majority of yield was derived from six of the nine investments in the portfolio. Because additional measures have been taken to enhance the yield of the remaining three investments, future yield is expected to increase.

Mr. Pease continued with an overview of the portfolio. Including two recent transactions, regulated utilities now comprise 54% of the portfolio. Contracted power is at 22% and transportation at 24% of the total portfolio. The portfolio's two largest investments in regulated utilities include Southern Water and Electricity Northwest. Each of these assets just completed their five and eight year regulatory reviews. While the results of the eight-year regulatory review for Electricity Northwest were relatively benign, the five-year review for Southern Water, and the water industry as a whole, proved more challenging. Although a final determination from Southern Water's regulatory review was just issued in December 2014, J.P. Morgan had already incorporated preliminary review data from the summer into their valuations. Therefore, much of the negative impact on the portfolio's performance has already been realized. Now that the regulatory outcomes are complete, long-term forecasts for these two assets are favorable.

Mr. Pease then discussed changes to J.P. Morgan's investment team. Positive changes to J.P. Morgan's investment team began two years ago, when Paul Ryan joined the firm as Chief Executive Officer of its Organization for Economic Cooperation and Development ("OECD") infrastructure platform. Mr. Ryan was formerly co-head of public finance at the Investment Bank of J.P. Morgan. During that time, Matt LeBlanc also joined the firm as its Chief Investment Officer. Before joining J.P. Morgan, Mr. LeBlanc spent 11 years serving as Principal at Arclight Capital Partners, a leading private equity firm focused on North American energy infrastructure assets. As a result of the change in senior management, several other positive changes were also made to the team's investment strategy. Acquisitions are now integrated as an ongoing asset management function. Each investment principal is now responsible for

the investments they make and for ensuring those investments deliver favorable performance. A risk management system was also implemented to account for all major risks associated with each individual asset. Asset risks and performance are now tied directly to investment principal performance measures.

In response to a question from Ms. Braun regarding the fund's 2014 underperformance and how quickly it may turn around, Mr. Pease stated that if the individual companies perform according to their business plans, performance should begin to turn around now and continue into the following year.

In response to a follow-up question from Mr. Christenson, Mr. Pease stated that the influence of currency in the portfolio over the last year was approximately -1.5%.

In response to a question from Ms. Van Kampen regarding the impact of the firm's change in senior management on its investment strategy, Mr. Pease stated that most importantly, accountability in the firm has now been created at a very senior level. J.P. Morgan takes controlling investments in all of its portfolio's companies and is the largest or co-largest owner in every one of its assets. As an active investor, J.P. Morgan's CEO and CIO split between them, significant board positions on the companies in the portfolio. This allows J.P. Morgan to have operational control in each of the portfolio's assets. Another significant change involves a more integrated approach to investments, where the principals responsible for underwriting a deal continue to be involved in the post-acquisition operation of the asset.

Mr. Pease then discussed recent acquisitions in the fund. J.P. Morgan focuses on investment opportunities where they believe they have a truly unique and competitive advantage. J.P. Morgan seeks to invest in companies where they can add specific value to an asset's management team, making them a preferred bidder outside of simply offering the highest price. Sonnedix, a global solar developer with a focus on OECD countries, is a prime example of such an investment. J.P. Morgan made an initial equity investment of €140 million in Sonnedix, entering into a 50% joint venture agreement to deploy an additional €160 million in equity over the next 2 to 3 years in existing long-term contracts. Given the specialized expertise of certain investment team members, J.P. Morgan views the JV agreement as a mutually beneficial partnership because they can help Sonnedix develop their business and position it for long-term performance. J.P. Morgan can also act as a permanent source of capital for Sonnedix,

allowing Sonnedix to monetize projects and reinvest capital into future developments. J.P. Morgan also closed on a deal with Corridor Energy at the end of 2014. J.P. Morgan invested $110 million in long-term energy contracts in two of Corridor's wind farms, one in the state of Washington and the other in Texas. J.P. Morgan believes that its investment with Corridor Energy will create a platform for the acquisition of additional wind projects in the U.S. The final acquisition J.P. Morgan completed in 2014 was with Summit Utilities, a distributor of natural gas in Colorado, Missouri and Maine. Summit Utilities was J.P. Morgan's first investment in the portfolio in May 2007. The recent acquisition with Summit involves an expansion opportunity where natural gas can replace oil or propane for home heating. J.P. Morgan invested approximately $250 million over the last year for Summit to expand their businesses in Missouri and Maine. J.P. Morgan is also in the closing phases of a pending transaction with a North American transportation asset, but is bound by strict confidentiality until the deal closes sometime in the next several weeks.

Mr. Pease concluded with a summary of J.P. Morgan's investment philosophy. J.P. Morgan focuses on diversification, inflation protection and cash yield to deliver on its investments. J.P. Morgan prefers investments in middle market deals, particularly in the U.S., where they believe they have the expertise and competitive advantage as a U.S.-based firm. J.P. Morgan also maintains an extremely short queue from a commitment standpoint and is able to call investor capital within three months.

In response to a question from Mr. Smith regarding any stress-tests performed on the portfolio's underlying investments related to the radically changing price of oil, Mr. Pease stated that while J.P. Morgan has not performed a technical stress test with respect to oil at $48/barrel, they have performed a great deal of sensitivity analysis on the portfolio. J.P. Morgan believes that net-net, lower oil is beneficial to the existing portfolio because oil or oil derivatives are an input cost to the operating expenses of some of the portfolio's underlying business. It may be a downside risk to some businesses, such as natural gas distribution, but J.P. Morgan does not believe their business model is threatened. However, if oil prices stay persistently low over the long-term, it could have a large impact on renewable energy sources and change incentives surrounding additional investments in renewables. J.P. Morgan believes that the portfolio is relatively well-insulated because of the long-term contracts currently in place to sell renewable energy at set prices.

(b) IFM Investors

Jojo Granoff of IFM Investors distributed a booklet containing information on the investment management services provided by IFM for ERS. Ms. Granoff introduced herself as Director of Global Investor Relations at IFM.

Ms. Granoff first provided an overview of the firm. IFM is owned by 30 of the largest pension funds in Australia and, as a result, IFM views itself as an extension of the plan investors for whom they work. The primary interest of IFM's owners is maximizing the volume of investments for their underlying members and retirees. IFM has two infrastructure funds, the Australian infrastructure fund and the global infrastructure fund. ERS's funds are invested in the global fund. As of December 31, 2014, the fund had $11.6 billion in total assets under management. In December 2014, IFM closed on a commitment from 24 investors bringing the total number of investors to 150. As of December 31, 2014, there were 63 U.S. investors, 32 Canadian investors, 28 European investors, 24 Australian investors and two Asian investors in the fund. IFM closed on three investments in December 2014, increasing the total number of assets in its global portfolio to eleven.

Ms. Granoff next reviewed ERS's investment in the fund. ERS's initial investment was for $60 million in May 2010. Total redemptions as of October 2012 were at $14 million, bringing ERS's net investment commitment to $46 million as of September 2014. As of September 30, 2014, the net asset value of that $46 million was approximately $72 million. Since inception, ERS has received a total of $2.8 million in distributions from the fund, with an additional distribution of $1.3 million made in December 2014.

For the 12-month period ending September 30, 2014, the partnership recorded a net return of 2.40%. During that 12-month period, the master fund received distributions totaling $242 million from six assets. Seven out of eight assets returned positive total yields. Some of the fund's European assets were negatively impacted by currency exchange translations.

Ms. Granoff continued with a discussion of recent acquisitions to the fund. The fund purchased three new assets in the fourth quarter of 2014. In December 2014, IFM closed on a transaction with Freeport LNG ("FLNG"), located in Freeport, Texas. The FLNG project is one of the first natural gas export facilities constructed in the United States and involves the construction of three gas liquefaction plants called "Trains." FLNG will construct a total of three Trains in Texas and IFM is investing in Train 2.

The total cost of Train 2 is approximately $5.3 billion and IFM is investing a total of $1.3 billion in the project. Construction of the FLNG project is scheduled to occur over the next 4.5 years, with the plant's operation scheduled for early 2019. Revenue for the FLNG project is supported by a 20-year use-or-pay tolling agreement with BP Energy, commencing at the conclusion of construction. Because BP energy is solely responsible for supplying gas to the Train, IFM does not bear any commodity risk. The FLNG investment also has no development risk because receipt of relevant permits and approvals are conditional to the fund's investment. Returns on the FLNG project are anticipated to be in the high 12% range.

IFM also committed to investments in 10-year notes issued by Freeport Investments, which holds an ownership space in FLNG. The investment notes are fixed coupon paying instruments with capitalized interest during the FNLG project's construction phase. IFM's initial investment in the 10-year notes was for $616 million in December 2014, with a secondary investment of over $500 million scheduled for June 2015.

IFM's third investment involved the successful acquisition in December 2014 of a 29.9% share in Vienna Airport. In addition to Manchester Airport Group, Vienna Airport will be the second airport investment in IFM's infrastructure fund. Between its Australian fund and its global fund, IFM manages a total of 13 airports and maintains a great deal of experience and expertise in airport investments.

In early January 2015, IFM also executed a binding agreement to acquire 25% of Organizacion de Proyectos de Infraestructura ("OPI") in Mexico. OPI is the listed holding company of Conmex. Conmex runs the eleventh largest toll road in a densely populated area of northeastern Mexico City. Concession for the toll road is given by the Mexican government and the remaining life on the concession is 37 years. IFM has agreed to pay 8.8 billion in Mexican pesos for the deal, which translates to $600 million U.S. dollars. Returns for the OPI project are anticipated to be around 11.7%, with cash yield for the first ten years expected at around 3.2%.

Ms. Granoff concluded with a discussion of 2014 fourth quarter performance. Despite receiving positive yield from investments and distributions in the fourth quarter, the fund registered a fourth quarter return of -2.18%. IFM received distributions in the fourth quarter from Manchester Airport and Duquesne Light totaling $29 million. Distributions were offset by negative yields from Vienna Airport, Dalkia Polska and Arqiva. Six out of eleven assets in the fund returned a positive yield in terms of local currency. The most significant driver of fourth quarter

performance was currency exchange translations, and the strengthening of the U.S. dollar against local currencies was a drag on returns.

In response to a question from Ms. Braun regarding the impact of currency on the fund's performance, Ms. Granoff stated that the effect of foreign exchange was most notable in the fourth quarter, at -2.84%.

In response to a question from Mr. Christenson regarding the performance of Essential Power, Ms. Granoff confirmed that over the 12-month period, Essential Power registered a negative return, which largely contributed to the fund's negative annual performance. The negative performance of Essential Power is the result of bad hedges against the asset IFM entered into during 2011. In October 2013, IFM instructed Essential Power to close down the hedges but that cost IFM $170 million. IFM then performed a review of their risk management policies and hired an outside consultant to review all hedges in its underlying investments. IFM also performed a review of Essential Power's board of directors and senior management. As a result of their review, IFM replaced three members on Essential Powers' board of directors and replaced its CEO in March 2014.

In response to a question from Ms. Van Kampen regarding the possibility for a reversal of the negative currency impact, Ms. Granoff stated that currency is very difficult to predict. However, because IFM recently added investments in the U.S., the effect of currency on the total portfolio should lessen.

(c) Marquette Associates Report

Brett Christenson of Marquette Associates distributed and discussed the December 2014 monthly report.

In response to an opening question from Ms. Braun regarding currencies, Mr. Christenson stated that because currency exchange rates are extremely difficult to predict, Marquette would not recommend that ERS hedge currency with an index fund.

Mr. Christenson first discussed the December 2014 flash report. Three managers remain on alert, Geneva Capital, ABS and K2. The preliminary total market value of the Fund as of December 31, 2014 was just under $1.8 billion. Once the final figures for private equity, real estate and infrastructure are reported, the Fund's total market value will likely increase slightly. All of the Fund's asset classes are fairly close to policy targets, with the exception of a 3% underweight in fixed income and a 1.5% overweight in real estate. Because real estate has been performing

extremely well, Marquette will maintain the current overweight while continuing to closely monitor the returns in that sector. The private equity composite is currently at 4% and continues to build towards the 6% policy target. The Siguler Guff U.S. private equity fund-of-funds has called capital very quickly and has been an excellent performer under private equity. Siguler Guff's next private equity fund-of-funds offering will come to market sometime later in 2015 and Marquette has reserved funds to commit additional capital. Once additional capital is committed, Marquette believes that Fund's private equity portfolio will build into the 6% policy range within the next two years.

Mr. Christenson next discussed performance. The preliminary total Fund composite year-to-date return as of December 31, 2014 was 5.5%, net-of-fees. The Fund's 2014 total return was fairly muted when compared to the last few years, but the five-year annualized total return is at a favorable 8.8% net of fees. Fixed income underperformed slightly year-to-date at 5.6% versus the benchmark of 6.0%. With many active managers struggling in 2014, the U.S. equity portfolio was the most significant underperformer, at 9.5% year-to-date versus the benchmark of 12.7%. The International equity portfolio also had a very disappointing return at -2.2% year-to-date, with much of that due to currency issues. The real estate composite returned a very favorable 12.7% year-to-date, outperforming the benchmark of 8.2%. The one-month and three-month returns under real estate are at 3.2%, versus the benchmark of 0.0%, suggesting that real estate will continue to outperform for the last quarter of 2014 and first quarter of 2015. While both managers in the infrastructure composite are structurally sound, the infrastructure year-to-date performance has been disappointing at 1.1%, versus the benchmark of 5.4%. Most of the underlying companies in IFM were performing well for the year. However, poor performance by a few of IFM's larger companies, such as Essential Power and Arqiva, was enough to drag down their total return for 2014.

In response to a question from Ms. Van Kampen regarding the year-to-date performance of IFM and J.P. Morgan compared to their peers, Mr. Christenson stated that IFM and J.P. Morgan are currently the only two open-end infrastructure funds in the market. All of the other infrastructure funds in the market are closed-end private equity funds or energy funds.

In response to a follow-up question from Ms. Van Kampen regarding IFM and J.P. Morgan's performance, Mr. Christenson confirmed that both managers equally underperformed in 2014. However, IFM and J.P. Morgan are two very different managers with good diversification and no

overlap in terms of the assets they are bidding on. Despite their underperformance during 2014, long-term performance for both IFM and J.P. Morgan is sound and Marquette remains confident retaining these two managers in the Fund.

Mr. Christenson then discussed individual manager performance. Throughout 2014, there was a great deal of weakness in quality stocks and active management. Boston Partners has historically been a long-term and consistent outperformer in ERS's U.S. equities mid-cap growth space. However, Boston Partners underperformed year-to-date at 11.6%, versus the benchmark of 13.5%. Both Artisan Partners and Geneva Capital underperformed significantly during 2014 under U.S. equities mid-cap growth. Geneva Capital is currently on severe alert for performance, with a year-to-date return of 5.4%, versus the benchmark at 11.9%. Geneva did rebound slightly in the fourth quarter at 7.3%, versus the benchmark of 5.8%. Marquette and the Investment Committee will continue to closely monitor Geneva's performance. Artisan Partners also had a very difficult year at 6.1% year-to-date, versus the benchmark of 11.9%. Continuing under U.S. equity, both Fiduciary Management and Silvercrest outperformed year-to-date at 5.7% and 5.1% respectively, versus the benchmark of 4.2%. Vontobel, with a significant portion of the assets, helped bolster international equity performance with a year-to-date return of 3%, outperforming the benchmark of -4.9%. Under the hedged equity composite, both ABS and K2 outperformed year-to-date at 4.9% and 5.5% respectively, versus the HFRX Equity Hedge Index of 1.4%. Despite the relatively positive performance, it was intended that the hedged equity managers would perform more favorably. As a result of the disappointing returns and relatively high fees, Marquette has performed a fairly extensive search for replacement alternatives in ERS's hedged equity composite and will review those results later in the meeting during closed session.

Mr. Christenson then distributed a Power Point presentation and discussed the highlights from a January 2015 webinar by Marquette Associates' Investment Committee. A review of the median trailing price-to-earnings ("P/E") ratio would suggest that the U.S. equity market is no longer overvalued, but it is not necessarily undervalued either. Marquette's research team reviewed two prior bear markets periods, March 2000 and October 2007, and compared them with the characteristics of the December 2014 market. The December 2014 trailing P/E ratio was 18.0%, very similar to the October 2007 period trailing P/E ratio of 18.6%. However, some unique conditions are taking place in the current market environment. Free cash flow yield on stocks is fairly high, U.S. corporation debt is very low and the interest rate market is very low. Returns under U.S. equity

have started to catch up with earnings, valuations are getting rich and Marquette does not currently have a very strong outlook for U.S. equity.

A review of non-U.S. P/E ratios would indicate that the international stocks have been undervalued for at least one year. However, strong growth is occurring outside of the U.S. in many low debt emerging market countries such as China, India, Indonesia and South Korea. An analysis of the composition of the MSCI Europe Index by Marquette's international equity analyst shows that only 50% of revenue is derived from Europe, while 23% is derived from growing emerging markets. Although there is justified concern over recent events in the European markets, it is important to recognize the positive changes simultaneously occurring in the emerging markets. A recent positive sign for the European economy is that the European Central Bank is considering increasing the stimulus program in Europe. Another positive sign for equities involves a significant structural change to the investments held in the Japanese government's $1.1 trillion dollar pension fund. The Japanese are reducing the fund's domestic bonds from 60% to 35% and moving $200 billion into U.S. and international equities.

Marquette's research team also performed a review of long-term performance in the S&P 500 index versus the MCSI EAFE index. The researchers found that international and U.S. stocks have "flip-flopped" through long-term runs of outperformance. For example, the MSCI EAFE significantly outperformed the S&P 500 for a period of almost seven years from October 1982 to February 1989 at 35.5%, versus 15.7%. After that period, the S&P 500 had an eleven year run of significant outperformance from February 1989 to August 2000 at 18.4%, versus 6.4%. International was up once again from August 2000 through November 2007 at 7.7%, versus 1.4%. From November 2007 through December 2014, U.S. stocks have outperformed international at 7.1%, versus -0.3%. It is important to keep these trends in valuations in perspective and realize that historical data suggests the market is possibly due for a change.

Mr. Christenson concluded with a discussion of oil commodities. Oil lost 50% of its value in the last half of 2014 and has continued to lose value in January 2015. Crude oil prices are currently around $47 per barrel, down from $110 per barrel in June 2014. In order to just break even, the highest-cost U.S. shale oil requires a price of $115 per barrel. Other countries feeling the pressure from reduced oil prices include Venezuela, Iran and Russia. The airline industry is benefiting significantly from reduced oil prices because of the correlating decrease in gasoline prices.

In response to a question from Mr. Grady regarding any recent personnel changes at Marquette Associates, Mr. Christenson stated that Marquette did go through some restructuring at its senior management level. Approximately five years ago Mr. Christenson was asked by the firm's senior management to step into the role of Chief Operating Officer ("COO"). Although Mr. Christenson did not want to accept the role of COO permanently, he did step into that role and subsequently reduced his client load from 15 to 11. Approximately 1-1/2 years ago, Mr. Christenson recruited Marquette's chief administrative officer to train and take over full time as permanent COO. Marquette's permanent COO was appointed in October 2014. Mr. Christenson stated that he will now return to devoting 100% of his time to his clients. There have been some additions to staff and very little turnover, with the exception of a few client analysts and administrative staff. There has been no turnover at the consultant level. Although Mr. Caprio is not present today, he continues to maintain a book of 18 clients while simultaneously attending school.

Ms. Braun then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes Section 19.85(1)(e) with regard to item 9 for the purpose of deliberating or negotiating the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session. 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 item 9. Motion by Ms. Braun, seconded by Ms. Westphal.

9. RFP for Long-Short Equity Managers

The Pension Board discussed the matter in closed session.

10. Investment Committee Report

After returning to open session, the Chairman stated that there was no Investment Committee report because the January 5, 2015 meeting was cancelled.

11. Audit Committee Report

In open session, Ms. Westphal reported on the January 8, 2015 Audit Committee meeting. The Audit Committee first discussed the 2015 Pension budget. Ms. Ninneman distributed and discussed a revised preliminary 2015

budget. Ms. Ninneman stated that the reduction in investment manager fees reflects a more accurate accounting of the net-of-fees arrangement ERS has with some managers. Ms. Ninneman also noted that the increase in the budget for external consultants is due to anticipated work related to the V3 system upgrade. Ms. Westphal then stated that the Pension Board will vote on the final 2015 budget later in today's meeting.

The Audit Committee next discussed the Fund's discount rate. Mr. Huff provided the group with 2012 investment return assumption data from other public pension plans which ranged from 7% to 8.5%. Because the 2012 assumption data is somewhat dated, Ms. Ninneman will ask Marquette Associates to prepare an updated listing of assumptions for review at a later meeting. Ms. Braun also suggested obtaining additional feedback from Buck Consultants regarding any changes to the Fund's discount rate. Mr. Huff cautioned the group that any changes to the Fund's current discount rate may complicate the ongoing Voluntary Compliance Program ("VCP") submission with the IRS. The Audit Committee will continue to monitor and discuss the topic at future meetings.

Mr. Grady also cautioned the Board that it is very important to get feedback from the actuary in order to ensure any proposed changes to the Fund's discount rate would not cause any unforeseen consequences. The Board will have to determine the ultimate end goal and devise a timeline, while taking into consideration other important factors such as the ongoing VCP issue and backDROPS. These issues surrounding any changes to the Fund's discount rate should be carefully examined at future Audit Committee meetings.

The Audit Committee continued with a discussion of Governmental Accounting Standards Board ("GASB") 67/68 pension accounting standards. In preparation of ERS's December 31, 2014 net pension liability and 2014 pension expense, the Board must decide whether to roll forward the data from January 1, 2014 actuarial valuation or use the data from the January 1, 2015 actuarial valuation. Ms. Ninneman presented an e-mail from Larry Langer at Buck Consultants analyzing the pros and cons of each method. Buck recommends using the January 1, 2014 roll forward method. After further discussion, the Audit Committee determined that the January 1, 2014 actuarial valuation roll forward data method should be recommended to the full Board because of the timeline of the County budget process.

The Pension Board voted unanimously to utilize the January 1, 2014 roll forward data method in preparation of ERS's December 31, 2014 net pension liability and 2014 pension expense. Motion by Ms. Westphal, seconded by Mr. Smith.

Ms. Westphal concluded her report by stating that the Audit Committee did not discuss the final agenda item of underpayment to survivor, but Mr. Huff distributed related documents for review in anticipation of a future closed session discussion of the matter.

12. Reports of ERS Manager and Fiscal Officer

Ms. Ninneman first introduced and welcomed ERS's new Fiscal Officer, Tina Lausier. Ms. Lausier began her position as ERS's Fiscal Officer last week. Prior to that time, Ms. Lausier was contracted with ERS to complete the DC 48 furlough adjustments. Ms. Lausier will continue to work on the DC 48 furlough adjustments in addition to her Fiscal Officer duties. Ms. Lausier will also begin working on a full reconciliation of ERS's 2014 finances, as well as issuing Form 1099s to retirees, which are due in the mail by January 30, 2015.

Ms. Ninneman added that ERS filled two additional staff vacancies last week, one for a retirement specialist and the other for a clerical specialist. Only the Fiscal Officer Assistant and a retirement specialist position remain open. Once those two vacancies are filled, ERS will once again be fully staffed.

(a) Retirements Granted, December 2014

Ms. Ninneman presented the Retirements Granted Report for December 2014. Twenty retirements from ERS were approved, with a total monthly payment amount of $31,386. Of those 20 ERS retirements, 13 were normal retirements, 3 were deferred, 3 were accidental disability retirements and one was an ordinary disability retirement. Ten members retired under the Rule of 75. Additionally, 10 retirees chose the maximum option, and 4 retirees chose Option 3. Thirteen of the retirees were District Council 48 members. Nine retirees elected backDROPs in amounts totaling $648,180.

(b) ERS Monthly Activities Report, December 2014

Ms. Ninneman presented the Monthly Activities Report for December 2014. ERS and OBRA combined had 8,063 retirees, with a monthly payout of $13,252,971. A total of 259 employees retired in 2014. A total of 519 employees terminated in 2014 and of those, 331 requested a refund of their

mandatory contributions, totaling approximately $750,000. There were 288 reported deaths in 2014. During 2014, ERS customer service responded to 11,826 telephone calls, 3,535 e-mail inquiries and 437 walk-ins.

In response to a question from Mr. Smith regarding the reason behind the 2014 telephone call volume being up approximately 4,000 calls from last year, Ms. Ninneman stated that the increase cannot be solely attributed to the buy-in/buy-back issues. Ms. Ninneman further stated that she answers most of the buy-in/buy-back inquires and her telephone calls are not included in the Activity Report. The increase in the 2014 call volume is likely related to a variety of issues throughout the year, in addition to the maturing employee population and members subsequently preparing for retirement.

(c) 2015 Budget Approval

Because the Pension Board provisionally approved the 2015 budget last month subject to further clarification of investment manager fees, Ms. Ninneman requested final Board approval of ERS's 2015 budget.

The Pension Board unanimously approved the 2015 ERS Budget. Motion by Mr. Leonard, seconded by Mr. Smith.

(d) Employee Election Update

Ms. Ninneman stated that only one candidate, Laurie Braun, completed and filed employee member election papers. Therefore, Ms. Braun will retain her employee member seat on the Board. Ms. Braun's new term on the Board will run through 2018.

Mr. Grady then noted that the County Board Chair has submitted an appointment for one of the two open appointed seats on the Board. However, it is unclear at this time whether the appointment will be reconsidered or withdrawn because the County Board Chair has learned that the appointee's wife is receiving a benefit from ERS, a disqualifying condition.

(e) Fiscal Officer

Ms. Ninneman stated that Ms. Lausier will begin presenting the Fiscal Officer reports at the February 2015 Pension Board meeting.
Ms. Ninneman then noted that the December 2014 Portfolio Activity, the December 2014 Cash Flow Report and the fourth quarter check register were included in today's meeting materials. Ms. Ninneman then asked the

Board members to review the reports and submit any questions they may have.

In response to a question from Mr. Smith regarding the need for any additional first quarter funding approval, Ms. Ninneman stated that Ms. Lausier is currently reviewing the matter and will prepare the first quarter funding request for presentation at the February 2015 Pension Board meeting.

In response to a question from Ms. Braun regarding the nature of several payments and reversals to Personnel Specialists dated December 2, 2014 on the check register, Ms. Ninneman stated that those entries represent payments for outstanding invoices. The reversals were likely due to the fact the payments were originally issued from an incorrect account.

In response to a follow-up question from Ms. Braun regarding the nature of the payment issued to Milwaukee County on December 18, 2014 for approximately $41,000, Ms. Ninneman stated that Ms. Lausier will research the details of that payment and provide additional information as soon as possible.

13. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee and Investment Committee topic lists. The Chairman then stated that anyone with future topic suggestions should voice them.

Ms. Ninneman concluded with a discussion of 2015 conference approvals. The International Foundation of Employee Benefit Plans ("IFEBP") offers a series of workshops and conferences throughout the year, including their annual conference. Ms. Ninneman added that the IFEBP conferences are extremely high quality conferences and have historically been very beneficial. The Board has historically approved IFEBP conference attendance as a block of conferences throughout the year.

In response to a question from the Chairman, Ms. Ninneman stated that she and two additional ERS staff members would like to attend the April 8-11, 2015 Vitech Users Conference in Naples, Florida.

In response to a question from the Chairman, Mr. Grady confirmed that he and Mr. Carroll would like to attend the June 23-26, 2015 National Association of Public Pension Attorneys ("NAPPA") Conference in Austin, Texas.

Mr. Huff noted that several members from his firm attend all NAPPA conferences and find they are very high quality conferences.

The Pension Board unanimously approved the costs for any interested Pension Board member or ERS staff member to attend any of the 2015 IFEBP Conferences, for Ms. Ninneman and two additional ERS staff members to attend the April 8-11, 2015 Vitech Users Conference, for Mr. Smith to attend the February 9, 2015 Pension & Investment Conference, and for Messrs. Grady and Carroll to attend the June 23-26, 2015 NAPPA Conference. Motion by Mr. Leonard, seconded by Ms. Van Kampen.

14. Adjournment

The meeting adjourned at 12:10 p.m.

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