EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE NOVEMBER 18, 2015 PENSION BOARD MEETING

1. Call to Order

   The Chairman called the meeting to order at 8:30 a.m. at the Marcus Center for the Performing Arts, 929 North Water Street, Milwaukee, WI 53202.

2. Roll Call

Members Present	Members Excused
Linda Bedford	Aimee Funck
Laurie Braun (Vice Chair)	Michael Harper
Dr. Brian Daugherty (Chairman)	
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
James Carroll, Assistant Corporation Counsel
Vivian Aikin, CRC, ERS Sr. Pension Analyst
Tina Lausier, ERS Fiscal Officer
Annamarie Kirsanoff, Assistant Fiscal Officer
John W. Gray, Adams Street Partners
Tom Hynes, Mesirow Financial Private Equity
Marc Sacks, Mesirow Financial Private Equity
Bob DeBolt, Mesirow Financial Private Equity
Brett Christenson, Marquette Associates, Inc.
Christopher Caparelli, Marquette Associates, Inc.
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Investments

(a) Adams Street Partners

John Gray of Adams Street Partners distributed a booklet containing information on the private equity investment management services provided by Adams Street for ERS. Mr. Gray introduced himself as a partner in the firm and stated that he has 23 years of service with Adams Street and its predecessor organizations.

Mr. Gray first provided an overview of the firm. Brinson Partners, which was later purchased by UBS, was Adams Street's predecessor organization. In 2001, Adams Street Partners was spun off from UBS. Adams Street is an independent and 100% employee-owned firm with approximately $27 billion in private equity assets under management. Adams Street has offices worldwide in Chicago, Menlo Park, London, Beijing, Singapore and Tokyo. Adams Street's current CEO, Bon Trench, has announced that his retirement will be effective at the end of 2017. Adams Street has named its managing partner, Jeff Diehl, as its successor CEO. Mr. Diehl has been with Adams Street for 15 years and the firm expects a smooth transition. Following his retirement, Mr. Trench will remain active with the organization and will become chairman of Adams Street's external board. With an average tenure of 16 years, the turnover rate of the firm's investment professionals is low. Approximately six months ago, Adams Street added Saguna Malhotra to its team of investment professionals in its California office.

Mr. Gray next discussed Adams Street's five-year net internal rate of return ("IRR") performance across all strategies as of June 30, 2015. ERS recently invested in Adams Street's new co-investment fund. Adams Street's co-investment funds have performed extremely well over the last five years with a 21.4% five-year net IRR. Direct venture growth funds, which are companies with a late-stage venture focus, also have strong five-year net IRRs at 21.6%. Five-year net IRRs are at 17.6% for secondaries, 18.8% for venture and 13.7% for buyout. Overall, five-year net IRRs have performed very well relative to the public markets.

Mr. Gray then discussed Adams Street's investment capabilities. Adams Street offers a variety of private equity portfolios. Adams Street's annual global program raises funds each year and commits those funds over multiple years. ERS is a participant in Adams Street's 2005, 2009 and 2012 annual global programs. Adams Street's annual global fund-of-funds program includes venture, growth, buyout, secondaries and co-investments. ERS has also invested in more specialized programs with Adams Street over the last few years, including its U.S. small market buyout and European small market buyout funds. Adams Street also offers venture-only growth and capital portfolios. With its more recent investments in buy-out, ERS now has a diverse enough portfolio to enter into venture-only investments. Venture-only investments have performed very well recently and over the last five years, Adams Street has participated in 75% of IPOs greater than $750 million. Adams Street can invest in venture because it has developed strong relationships over the last 40 years with access to many of the top-tier funds. Adams Street is invested in all of the premier venture funds, except for one that does not invest with fund-of-funds.

Mr. Gray continued with a summary of ERS's private equity portfolio performance as of June 30, 2015. In 1985, ERS was relatively unsuccessful in building a fund-of-funds portfolio ("Staff Separate Account") and Adams Street (f/k/a Brinson Partners) was brought in to monitor the Staff Separate Account. From 1985 to 1990, a 5.29% net IRR return was realized on the Staff Separate Account and the account has now been completely liquidated. From 1991 to 1994, ERS had a separate account with Adams Street which realized a 25.05% net IRR return. Beginning in the late 1990's through 2012, ERS continued reinvesting funds with Adams Street. Mr. Gray explained that Adams Street began investing ERS's co-investment III A Fund in the first quarter of 2015 and the -19.86% net IRR since inception is simply due to the J-curve effect. Since inception, ERS's total portfolio with Adams Street is currently at 14.08% net IRR. The MSCI World Public Market Equivalent benchmark is currently at 11.92% net, reflecting a 200 basis point advantage in private equity investments. In a lower return market environment, returns on private equity investment could outpace public market returns by 400 to 600 basis points over the next five years.

Since inception, annualized general net return on venture capital in the portfolio is at 35.7% as of June 30, 2015. However, much of that includes the tech bubble of the late 1990's and the five-year 17% net return is a more realistic expectation for venture capital. The five-year net returns on non-venture capital, which are primarily buy-out groups with less volatility, are at 13.9%. ERS has participated in Facebook and Uber, with Uber as one of the largest holdings currently in the portfolio. Uber is currently valued in excess of $40 billion and has not yet initiated a public offering. Uber is a pioneer ride-sharing company whose logistics model will eventually be transferred to many old world style investments.

In response to questions from the Chairman and Ms. Braun regarding recent media stories reporting potentially large fines Uber may face from the City of Pittsburgh, Mr. Gray answered that he has not heard such reports.

However, Uber has experienced and resolved regulatory issues in the past with the City of Chicago and other major markets.

Mr. Gray next explained that because Adams Street utilizes a cheap line of credit, they have been able to limit capital calls to once or twice a year as an administrative ease. More funds have been committed than are shown as drawn because of the utilization of credit. The portfolio is currently 25% committed and is expected to be fully committed over the next two years in an orderly fashion.

In response to a question from Mr. Christenson regarding the current amount of capital Adams Street has invested, Mr. Gray stated that commitments by year-end will be around $7 to $8 million, or approximately 25% of the total commitment. Adams Street will call that capital as the deals close, which may not be until early 2016.

In response to a follow-up question from Mr. Christenson regarding what percentage of capital Adams Street expects to call by mid-2016, Mr. Gray answered that it will likely fall within the range of 30% to 50%.

Mr. Gray explained that prices are very high in the current market environment and Adams Street is being very selective by putting funds to work on a cost effective basis. Adams Street does not want to rush into the market by purchasing highly-leveraged deals because those types of deals are much riskier.

Ms. Braun then commented that one reason ERS invested in Adams Street's co-investment fund was to put its assets to work more quickly. Although Adams Street has sound explanations for its investment methodology, the current pace of capital calls is slower than expected.

Mr. Gray explained that a co-investment is a shorter duration asset and Adams Street anticipates liquidating current deals in four to five years and the money will come in at a more rapid pace. Adams Street expects to call close to 100% of capital in the third year.

Mr. Gray then discussed portfolio diversification. Diversification is important to reduce risk and the portfolio is well-diversified. The largest sector allocation is 35% in information technology, followed by 15% in health care, 14% in consumer staples/discretionary and 13% in materials/industrials. Lesser allocations are in the energy, financials, telecommunication and utilities sectors. The portfolio has a 90% exposure to the private sector. Adams Street does not purchase public stocks and the 10% public exposure is in private stocks that have gone public. The public stocks have lockout periods and Adams Street sells them in an orderly fashion.

Mr. Gray then discussed the current state of the private equity market. There has been more selling than purchasing over the last four years. Exit markets are robust and are driving strong private equity performance and liquidity. Adams Street is making fairly rapid distributions to ERS and the early portion of ERS's portfolio has entered a cash-positive phase. Although the credit markets remain robust, the regulatory environment is changing, and banks in Europe are backing off on their lending leading to lower prices in Europe. The fundraising momentum is strong but somewhat bifurcated. The top tier managers are all oversubscribed and second tier managers are struggling. Fueled by a proliferation of buyers' capital and leverage, secondary pricing remains somewhat high, resulting in reduced returns. Adams Street does not engage in levered deals and is careful to ensure that any secondaries in the portfolio are unlevered. Many of Adam Street's competitors have entered into levered deals and that investment philosophy has paid off over the last three years for the competitors. However, if the market turns quickly, levered deals will negatively affect a portfolio.

Mr. Gray concluded with a discussion of Adams Street's strong share of outsized IPOs. Mr. Gray explained that deep relationships are key to venture capital success. In 1995, Adams Street invested in Fund I with venture capital firm Benchmark. Benchmark brought E-Bay to market and made billions on what was the largest IPO of a technology company at the time. Adams Street is now an investor in Bechmark's Fund 12 and holds the largest position because they have maintained a strong relationship with Benchmark. Adams Street has developed many relationships over the last 40 years and currently has 16 general partners in venture capital. Those 16 general partners have been involved in 75% of all IPOs since 2012.

In response to a question from Mr. Christenson, Mr. Gray confirmed that the 16 general partners are key venture relationships to Adams Street because those funds are extremely difficult to get into. Private equity investing is a relationship-driven business and one reason Adams Street opened its Menlo Park office was to allow its investors to develop additional relationships and gain early access to deals.

Mr. Christenson then asked Mr. Gray to comment on the slower than expected pace of Adams Street's capital calls relative to its peers.
Mr. Christenson also noted that current performance has not been as strong as some of Adams Street's earlier funds and Adams Street is looking to raise only $800 million for its annual global program, versus the $1 billion raised in prior years.

Mr. Gray explained that Adams Street learned some lessons following the 2008 financial crisis. Adams Street raised too much money in 2009 because they identified many good managers who chose not to come to market following the financial crisis. Therefore, it took almost two more years than originally planned for Adams Street to invest those funds. Adams Street decided that it would not make that same mistake again and is now raising smaller annual funds in the area of $800 million, with a target to invest those funds within 2.5 years.

In response to a question from Ms. Van Kampen regarding the private equity market environment, Mr. Gray stated that following the 2008 financial crisis, many groups needed liquidity and sold very mature private equity investments to Adams Street at large discounts. In 2009 and 2010, banks were not lending money and Adams Street was purchasing companies at very cheap multiples. While a financial crisis and market correction will create new opportunities, a far better environment to create opportunity would be for banks to reduce their lending, which would decrease the price of companies.

After no further questions, Mr. Gray thanked the Board and ERS for its continued relationship with Adams Street and left the meeting.

(b) <u>Mesirow Financial Private Equity</u>

Tom Hynes, Marc Sacks and Bob DeBolt of Mesirow Financial Private Equity distributed a booklet containing information on the investment management services provided by Mesirow for ERS. Mr. Hynes introduced himself as the Director of Institutional Sales and Plan Management for Mesirow Financial's investment management division. Mr. Hynes then introduced Mr. Sacks as the Chief Executive Officer of Mesirow's private equity division and introduced Mr. DeBolt as the Chief Investment Officer of Mesirow's private equity division.

Mr. Hynes first provided an overview of the firm. Mesirow is an independent employee-owned investment firm and is headquartered in Chicago. Mesirow has approximately $32 billion in alternative assets under management in private equity, hedge funds and real estate investments. Since inception, Mesirow has managed $4.6 billion in private equity commitments from a largely institutional client base. Mesirow is able to deliver results through commingled funds and customized separate accounts, with expertise in partnership commitments, secondaries and co-investments. Led by Messers Sacks and DeBolt, Mesirow's experienced and integrated private equity investment team has been through many industry cycles. With the exception of one analyst who returned to business school, the investment team has remained intact since the early 2000's. Mesirow's private equity division benefits from the shared resources of Mesirow Financial in areas such as legal compliance, accounting and information technology, allowing its investment professionals the freedom to focus on building and managing portfolios.

Mr. Sacks next discussed Mesirow's private equity partnership fund investment strategy. ERS is invested in Mesirow's most recent Private Equity Partnership Fund VI ("Fund VI"). Mr. Sacks noted the important role that Mesirow's strong and cohesive investment team plays in delivering consistently strong investment performance to its clients. Turnover indicates that there is something wrong with a company's culture and Mesirow's private equity investment team has experienced almost zero turnover in the last 12 years. Mesirow believes that it has created a culture of excellence where its investment professionals can generate superior investment performance while simultaneously delivering outstanding client service. Another key to Mesirow's consistently strong performance is constraining growth by intentionally limiting the assets under management. Limiting the assets under management has relieved the pressure for Mesirow to invest in any fund or direct investment that the investment team believes will not deliver superior performance. Mesirow reviews approximately 350 private equity investment fund opportunities annually. Mesirow then selects 8 to 10 of what they believe are the premier private equity funds, diversified by subclass, strategy, sector and industry. By maintaining its discipline of selecting only 8 to 10 funds annually, Mesirow can create a premier diversified portfolio of 30 to 35 private equity and venture capital funds over a normal three- to four-year cycle. A concentrated portfolio of appropriately diversified funds will generate true outperformance. Mr. Hynes also noted that he and the other partners in Mesirow's private equity group have committed $2.1 million of their own after-tax dollars to Fund VI and, therefore, the partners' interests are very much aligned with ERS.

Mr. Sacks continued with a discussion of portfolio construction. The portfolio's construction is primarily U.S. and Canadian-focused. The portfolio has a 20% exposure to western developed Europe and a 10% exposure to investments with U.S. and European managers whose companies are headquartered in emerging markets. The vast majority of superior private equity performance in the last 25 years has primarily come from U.S. exposure.

Mr. Sacks then discussed fund performance. Fund VI was modeled after Mesirow's most recently matured Private Equity Partnership Fund V ("Fund V"). Fund V is an $840 million 2009 vintage year fund. Fund V is fully committed to 43 primary funds and 12 secondaries. Mesirow began investing in Fund V in the midst of the financial crisis when few great funds were coming to market. With 62% of the capital drawn, Fund V has generated a 16.7% net IRR as of June 30, 2015. Mesirow expects that Fund V will be approximately 80% drawn by the end of 2016. Except for its initial 1999 Fund I offering, Mesirow's private equity partnership funds have consistently outperformed both the Preqin Median and Cambridge Median fund-of-fund benchmarks in terms of net IRR and Total Value to Paid-In ("TVPI") capital. Mesirow's 2001 Fund II had a TVPI multiple of 1.9x and its 2005 Fund II was just below 1.7x. Mesirow expects the TVPI multiples of Fund V and Fund VI to approach 2x as those funds mature.

In response to a question from Ms. Van Kampen regarding a change in Mesirow's strategy following Fund I, Mr. Sacks stated that Mesirow invested in Fund I too quickly and learned a lesson from that mistake. Like most fund-of-funds during that period, Mesirow has an outsized exposure to early-stage venture capital in Fund I of approximately 30% to 40%. Much of that early-stage venture capital exposure was to technology fields that were strong in the late 1990's during the dotcom speculative bubble that eventually burst. Mesirow changed its methodology beginning with Fund II and has reduced its exposure to venture capital to within a range of 10% to 15%. Mesirow also now invests in a four-year period versus a two-year period and diversifies its capital over the full four-year cycle to capture the premier managers.

Mr. Sacks concluded with a discussion of Mesirow's direct co-investment track record. Although Mesirow's co-investment funds have generated very favorable performance and are on pace with industry norms, partnership investing takes a very long time to achieve returns on capital. Softening the J-curve by shortening the entire investment horizon with allocations to direct investments is one method to accelerate capital deployment. Mesirow has been pursuing direct co-investments since 2000 which is well ahead of the broader market adoption. Mesirow invests in a portfolio of superior middle market growth buy-outs which are located almost exclusively in the United States. As of June 30, 2015 Mesirow has invested $400 million in 38 mid-market growth buy-outs over the last 15 years, generating a 29% gross IRR and 2.0x multiple of invested capital. Besides deploying funds more quickly and delivering improved performance, direct investments avoid underlying manager fees. Minus fees, direct investments result in approximately 400 basis points of additional net return. Mesirow's newest fund is a blend of partnerships and direct investments.

Mr. DeBolt next provided an update of Fund VI as of November 2015. Mesirow launched Fund VI in 2013. The total amount of capital committed to Fund VI is $658 million and as of June 30, 2015, ERS has committed $30 million to Fund VI. As of November 2015, approximately 61% of the total capital in Fund VI is in closed commitments. Mesirow is also performing due diligence related to several new commitments which should bring Fund VI close to 90% committed over the next three months. Mesirow anticipates committing the balance of capital to Fund VI in 2016. Mesirow expects Fund VI will ultimately have 25 managers managing commitments to 31 primary funds. In addition, Mesirow has purchased two secondary funds in Fund VI. Fund VI is 17.5% drawn as of November 2015 and as of quarter-end, ERS is now at $5.4 million drawn. Once fully committed, Mesirow expects to draw down Fund VI at an annual pace of 20% to 25%. Mesirow anticipates Fund VI will be 40% drawn by the end of 2016, but Mesirow's general partners are exercising caution in what is an expensive deal environment. To date, Mesirow is very pleased with the general progress of Fund VI.

Mr. DeBolt then discussed early contributors to Fund VI performance. As previously mentioned, Mesirow has made two small secondaries investments in Fund VI, Madison Dearborn Capital Partners V ("MDP") and Thoma Bravo Special Opportunities Fund I. MDP is a $10 billion fund raised in 2006. Mesirow purchased a stake in MDP in 2013 once the portfolio had been fully invested and identified. Mesirow purchased MDP at an attractive discount of 15% and entered at an opportune time prior to some major liquidity. The early liquidity in MDP resulted from an IPO and Mesirow has already received 50% of its investment capital back in distributions. As of June 30, 2015, MDP has a 26% net IRR and 1.4x TVPI. As one of the top performing credit equity franchises in the last decade, Thoma Bravo has also been an early contributor to Fund VI. Focusing on software buyouts, Thoma Bravo has deployed capital relatively quickly and is currently 64% invested. As of June 30, 2015 Thoma Bravo has a 28% net IRR and 1.3x TVPI.

Mr. DeBolt concluded with a discussion of Mesirow's partnership investment due diligence process. As Mr. Sacks mentioned, Mesirow reviews approximately 300 to 350 funds annually. Mesirow is conservative in its investment approach and seeks to invest in well-established blue-chip managers. Mesirow seeks organizations with proven track records, low loss rates and low turnover rates. Mesirow then focuses on 30 to 40 funds that meet its criteria through onsite visits to those organizations. Mesirow's analysts perform a deep quantitative analysis of the portfolios, revaluing unrealized assets, verifying references, and interviewing partners and staff.

After completing its due diligence, Mesirow reduces its annual investment recommendations to 8 to 12 funds. Mesirow expects to commit approximately $200 million to six additional top-tier managers in Fund VI by March 2016.

In response to a question from Mr. Christenson regarding Mesirow's future fund offerings, Mr. Sacks explained that Mesirow's Private Equity Fund VII-A ("Fund VII-A") will be a partnership fund with a target size of $500 million. Fund VII-A will be very similar to Fund VI. Mesirow's Private Equity Fund VII-B ("Fund VII-B") will be a direct co-investment fund with a target size of $250 million. Most of Mesirow's clients have invested with Mesirow as a partnership fund-of-fund advisor while some clients have invested with Mesirow only as a direct fund. Mesirow is now offering the two separate funds because most of its clients only wish to make one commitment, complete one set of documents and have Mesirow allocate the capital. If ERS commits capital to Mesirow's Fund VII offering, Mesirow will allocate 70% to Fund VII-A and 30% to Fund VII-B. If ERS would prefer any different allocation than 70/30, two sets of documents must be submitted.

In response to follow-up questions from Mr. Christenson regarding the amount of funds Mesirow plans to raise over the next two years, Mr. Sacks stated that Mesirow will never raise more than $1 billion in its partnership funds. For its last four partnership funds, Mesirow raised between $600 and $900 million per fund. Mesirow currently anticipates that Fund VII-A will likely fall within the $500 to $700 million range. Mesirow's most recent direct fund offering was $240 million and the target size for the direct Fund VII-B is $250 million. Fund VII-A will allocate 60% to primary partnership commitments and 10% to secondary investments. Fund VII-B will hold the remaining 30% in direct co-investments. Mesirow intends on investing all capital committed to its direct co-investment fund in three to four years. Mesirow expects favorable performance from both funds but anticipates better overall portfolio performance from its direct co-investment fund. In addition, as the capital is deployed much more quickly in Mesirow's direct fund, distributions should also flow more quickly from the direct fund.

Mr. Sacks concluded with a discussion of pricing. The fee schedule for Fund VII-A will be 100 basis points per year on committed capital up to $15 million and 75 basis points per year on amounts over $15 million. For investors committing $40 million or more in capital, the fee for Fund VII-A will be reduced to 70 basis points per year. Mr. Sacks noted that Mesirow is providing the discount on its partnership Fund VII-A regardless of whether funds are allocated to its direct Fund VII-B.

Mr. Sacks ended by thanking the Board for ERS's continued relationship with Mesirow and welcomed the Board's consideration of Mesirow's new Fund VII offering.

(c) Marquette Associates Report

Brett Christenson and Christopher Caparelli of Marquette Associates distributed and discussed the October 2015 monthly report.

Mr. Christenson first remarked on the significance of hearing from the Fund's private equity managers today, noting that any funds the Board commits to private equity will likely be locked up for approximately 15 years.

Mr. Caparelli began with a discussion of the market environment. Market performance rebounded in October, exhibiting a strong and almost complete recovery from September's underperformance. The underlying theme behind the improved performance is a fairly strong and steadily improving U.S. economy. Gross domestic product growth in the U.S. is currently around 2.5% and the unemployment rate declined to 5% in the month of October. Other metrics such as auto sales, home sales and consumer confidence all suggest continued growth for the U.S. economy. However, the looming question of the Federal Reserve's stance on raising interest rates still remains unanswered. The futures market currently suggests a 68% probability that the Federal Reserve will raise interest rates in December 2015. The Federal Reserve can largely influence the yield curve on the two-year bond and yields have recently ticked up in that portion of the curve. This may suggest that the market is beginning to buy into the fact that the Federal Reserve will finally make a move on raising interest rates in December. Returns on fixed income remained flat in October. However, fixed income has served its purpose as an anchor in times of market volatility and the year-to-date BarCap Aggregate index return is at 1.1% as of October 2015.

In response to a question from the Chairman regarding the amount of the Fed's rate increase, Mr. Caparelli confirmed that the rate increase will likely be around .25%, and the anticipation of that amount has probably already been priced into the market.

Mr. Caparelli concluded with a discussion of equity market returns. Returns for both U.S. and non-U.S. equity rebounded in the month of October. Under U.S. equity, the S&P 500 large cap market index exhibited a very strong 8.4% return in the month of October. The year-to-date return for the S&P 500 is now in positive territory, up at 2.7%. Non-U.S. equity also had strong returns as emerging markets rebounded slightly in October. The MSCI ACWI ex U.S. index, which includes developed and emerging markets at an 80/20 split, was up at 7.4% for the month of October. However, the year-to-date return for the MSCI ACWI ex U.S. index is still behind the U.S. pace at -1.8%. The returns under the MSCI EAFE indices, as measured in both U.S. dollars and local dollars, are still exhibiting the effect of a strong U.S. dollar with some currency drag. Year-to-date, the MSCI EAFE (local) index return is at 7.3%, while the MCSI EAFE (U.S. dollar) index return is at 2.1%.

Mr. Christenson then discussed market values. Some of the asset classes are out of balance with the Fund's current investment policy. The fixed income composite is currently underweight by $71 million, at 17.8% versus the policy target of 22%. Marquette is continuing to hold its asset allocation study discussions with the Investment Committee and Pension Board to determine whether the fixed income policy target should be reduced to 18%. With a possible change to 18% in the next month or two, the Fund's current fixed income allocation would then be within an acceptable range. Real estate is overweight by approximately $50 million and infrastructure is overweight by $8 million. However, the favorable returns in real estate and infrastructure are currently helping to offset the effect of flat returns in fixed income. The U.S. equity composite is underweight by $16.9 million and international equity is underweight by $19.4 million. The underweight in equities is also somewhat counterbalanced by the current $11.7 million overweight in the Fund's hedged equity composite. As of October 31, 2015, $50 million in cash is invested in a split of stocks and bonds with the Fund's cash overlay manager. Within the next few weeks, Marquette will likely recommend investing $15 million of that cash in U.S. equity with Boston Partners, and $10 million in international equity with the Northern Trust Index Fund. In addition to reaching a final decision on changes to the Fund's asset allocation by year-end, Marquette would like to finalize its discussions with the Investment Committee and Board to rebalance the Fund's real estate assets.

In response to a question from the Chairman, Ms. Van Kampen confirmed that the Investment Committee would like to hold additional discussions before the Board makes a final decision regarding changes to the Fund's current asset allocations. The Investment Committee will meet in early December and should have its final recommendations ready for presentation at the December 2015 Pension Board meeting.

Mr. Christenson explained that Siguler Guff is offering a reduced fee for first commitments to its new private equity offering closing in January 2016 and Marquette will also have a private equity commitment recommendation prepared for the December 2015 Pension Board meeting.

Mr. Christenson next discussed net-of-fees annualized performance. As of October 31, 2015, the total Fund composite one-month return is up at 3.5%. The conservatively-positioned Fund preserved capital well throughout the difficult market shifts in the third quarter of 2015 and Marquette believes that ERS is currently outperforming its peer group by approximately 2%. The Fund's fixed income composite is up 1.7% year-to-date versus the benchmark at 1.1%. At 1.9% year-to-date, the Fund's U.S. equity composite is slightly below the Wilshire 5000 benchmark of 2.2%. However, the underperformance in U.S. equity can be largely attributed to a slight overweight in small and mid-cap strategies. International equity is up 0.8% year-to-date versus the benchmark at -1.8%. Despite a significant portion of international investments, hedged equity is close to the U.S. markets and is up 1.7% year-to-date. With Morgan Stanley currently the best-performing open-end real estate fund in the market, the Fund's real estate composite is up 10.9% year-to-date. The infrastructure composite is currently up at 3.7% year-to-date. However, J.P. Morgan has not yet reported for the third quarter and Marquette expects the year-to-date infrastructure returns to improve once all managers have reported. Private equity continues to perform well and is currently at 4.6% year-to-date versus the benchmark of 1.7%.

Mr. Christenson continued with a discussion of net-of-fees manager performance. All managers in the Fund's U.S. equity portfolio are outperforming on a year-to-date basis. The outperformance of both Fiduciary and Silvercrest, up year-to-date 2.9% and 1.4% respectively, versus the -5% benchmark, has helped to boost returns in a difficult small cap market. Artisan Partners is up 3.1% year-to-date and Geneva Capital is up 7.9% year-to-date, versus their shared benchmark of 1.9%. The timing of ERS's initial investment with Geneva was unfortunate because it was at the beginning of its longest and strongest underperformance cycle. Marquette believes that longer-term returns for Geneva would be stronger had ERS invested with Geneva earlier. Mr. Christenson noted that every top-quartile manager will experience five-year rolling underperforming returns. Marquette anticipates that Geneva's performance will begin to rebound relatively quickly and their two- and three-year returns will reach benchmark levels. Under international equity, Vontobel is up 5% year-to-date versus the benchmark of 2.1%. While OFI is underperforming year-to-date at -10%, their performance is close to the benchmark of -9.4%. GMO continues to struggle with performance. However, GMO is a contrarian long-term manager and is still outperforming in the five-year period. Marquette will continue to closely monitor GMO's performance and if GMO continues to significantly underperform at year-end, may hold additional discussions to consider placing them on alert status. Under hedged equity, ABS is up year-to-date at 3.5%, beating the Russell 3000 benchmark at 2%, and the MSCI ACWI benchmark at 0.3%. At 10% of the total portfolio, hedged equity is very important to protect capital in down markets and reduce volatility in the overall portfolio. Under infrastructure, IFM is up 3.2% in the third quarter, bringing its year-to-date return to 5.4%, versus the benchmark at 4.9%. Marquette believes that returns in infrastructure would be better if it were not for currency headwinds related to the international exposure in this asset class.

In response to a question from the Chairman, Mr. Christenson confirmed that Marquette recommends maintaining the current alert statuses for Artisan, Geneva and ABS.

Ms. Braun then asked Mr. Christenson to explain the difference between the internal rate of return (IRR), as discussed by Adams Street and Mesirow in their presentations, versus the manager's annualized returns as presented in Marquette's monthly report. Ms. Braun observed the annualized returns of Adams Street and Mesirow do not appear to be as favorable as the IRR returns presented by each manager.

Mr. Christenson explained that unlike annualized returns, IRR accounts for cash flow. Cash flow is very important to private equity investments because money is invested in stages. The annualized returns reflect, for example, what ERS would have earned over the last ten years if all its committed funds were invested on day one. The private equity managers can also illustrate a public market equivalent in their reports which is difficult for Marquette to do. Adams Street's reports illustrated that ERS's investments have outperformed the public markets over the long-term by approximately 300 basis points. Adams Street is a premier private equity manager. Adams Street has recognized issues with raising too much money in the past and is now downsizing its newer funds. Conversely, Mesirow is becoming a very successful manager and is now beginning to raise more funds. Marquette believes that both Adams Street and Mesirow should be considered by the Board as long-term flagship managers in the Fund, as well as considering a commitment to Siguler Guff's unique small buyout product.

4. <u>Minutes—October 21, 2015 Pension Board Meetings</u>

The Pension Board reviewed the minutes of the October 21, 2015 Pension Board meeting.

The Pension Board voted 6-0-2, with Mr. Smith and Ms. Westphal abstaining, to approve the minutes of the October 21, 2015 Pension Board meeting. Motion by Ms. Van Kampen, seconded by Ms. Braun.

5. Investment Committee Report

There was no Investment Committee report because the October 5, 2015 meeting was cancelled.

6. Audit Committee Report

There was no Audit Committee report because the October 1, 2015 meeting was cancelled.

Ms. Braun then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g) with regard to items 7, 8 and 9 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board unanimously agreed by roll call vote 8-0 to enter into closed session to discuss agenda items 7 through 9. Motion by Ms. Braun, seconded by Ms. Bedford.

Mr. Gedemer recused himself from and left the room during the closed session discussion of agenda item 8.

7. Pending Litigation

(a) *Tietjen v. ERS*

The Pension Board took no action on this item.

(b) *Angeles v. ERS*

The Pension Board took no action on this item.

(c) *Trapp, et al v. ERS*

The Pension Board took no action on this item.

(d) *Mecouch v. ERS*

The Pension Board took no action on this item.

(e) *Walker v. ERS*

The Pension Board took no action on this item.

(f) *Baldwin v. ERS*

The Pension Board took no action on this item.

8. MDSA Rule of 75

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board voted 5-1-2, with Mr. Leonard opposed, and Messers Gedemer and Smith abstaining, to interpret the Collective Bargaining Agreement between Milwaukee County and the Milwaukee County Deputy Sheriffs' Association to determine eligibility for the Rule of 75 benefit based on the retiring Deputy's date of membership in ERS. Motion by Ms. Van Kampen, seconded by Ms. Braun.

9. Report on Compliance Review

The Pension Board took no action on this item.

10. Reports of ERS Manager & Fiscal Officer

(a) Retirements Granted, October 2015

Ms. Ninneman presented the Retirements Granted Report for October 2015. Nine retirements from ERS were approved, with a total monthly payment amount of $11,113.35. Of those 9 ERS retirements, 6 were normal retirements and 3 were deferred. Four members retired under the Rule of 75. Five retirees chose the maximum option and three retirees chose Option 3. Seven of the retirees were District Council 48 members. Six retirees elected backDROPs in amounts totaling $560,166.77.

Ms. Ninneman noted that October was another light month for retirements. After adding some additional afternoon times for retirement sessions, ERS is fully booked with December appointments and January 2016 is also filling up quickly. The Retirement Office also anticipates that many members will ask to schedule appointments at the November 19 preretirement session.

(b) Retirement Services Update

Ms. Ninneman introduced ERS's new Assistant Fiscal Officer, Annamarie Kirsanoff. Ms. Ninneman noted that Ms. Kirsanoff was promoted internally and has been working with the Fiscal Officer for approximately two months. However, Ms. Kirsanoff has only been working full time as Assistant Fiscal Officer since the end of October, as she was transitioning out of her old position in the family care department. Ms. Ninneman also reported that the new ERS Manager began her position two weeks ago. The new ERS Manager previously worked for a consulting company and is experienced in working with a variety of defined benefit plans. Ms. Ninneman described the new ERS Manager as very analytical, and noted that she has already provided sound operational suggestions and will be a valuable addition to ERS. With these two positions now fully staffed, ERS is no longer incurring temporary staffing expenses.

Ms. Ninneman next reported that two long-term ERS employees recently resigned from their positions as retirement specialists. The Retirement Office is currently recruiting for two replacements and has already identified four promising candidates. Two relatively newly-hired retirement specialists remain, but both have been fully trained and are scheduled to begin retirement session meetings in early December 2015.

Ms. Ninneman then announced that the preretirement session originally scheduled for November 5, 2015 was rescheduled for November 19, 2015. The November 5 session was cancelled due to presenter scheduling issues. ERS telephoned or e-mailed the approximately 200 members registered for the November 5 session to announce the cancellation. Ms. Ninneman and another ERS staff member also went to the Zoofari Conference Center on November 5 and held a mini preretirement session for the approximately 30 individuals who came because they did not learn of the cancellation. Ms. Ninneman also notified the supervisors of the 30 members who attended the November 5 session to ask if those members could attend the rescheduled session under the County-paid attendance policy. Approximately 200 members are expected to attend the November 19 rescheduled session.

Ms. Ninneman next announced there will be an upcoming election for Ms. Funck's employee-elected seat on the Board which expires in February 2016. The standard ERS Rule will be followed regarding the election timeline, and the employee election notifications will be issued during the first week of December 2015 to initiate the election process.

Ms. Ninneman concluded by providing an update on ERS's new disability claims manager, Managed Medical Review Organization, Inc. ("MMRO"). ERS will hold its final implementation teleconference with MMRO later this week and MMRO has already reviewed some high priority pending cases. ERS has also performed a complete review of all its disability applications to determine the stage of each application. ERS will be ready to move forward with several priority re-exams once the final implementation teleconference with MMRO is completed this week.

(c) Fiscal Officer

Ms. Lausier discussed the October 2015 portfolio activity report. Ms. Lausier first noted an error on the October portfolio activity report under the total percent balance column. The total portfolio percent balance is incorrectly listed at 95%, instead of 100%, because it does not include the 5% balance in Parametric. Benefits and expenses for October were funded with disbursements of $8 million from U.S. equity and $8 million from international equity. ERS received an $88 million transfer in October from terminated hedge fund manager K2. A second and smaller transfer is anticipated from K2 by the end of the year to complete the closing process. Following receipt of transferred funds from K2, $85 million was placed with ERS's new hedge fund manager, Parametric.

Ms. Lausier next discussed the October 2015 cash flow report. ERS will receive a required County contribution in the amount of $19,455,000 in November 2015. The County is also expected to contribute all of its 2015 required contribution amounts in November and December of 2015 totaling approximately $59 million. Comptroller Scott Manske met with ERS staff and explained that due to some of the changes related to GASB rule 68, the County has decided to make its required contributions to the Fund in the same year that the liability is incurred, rather than waiting until the following year.

In response to a question from the Chairman regarding the County's revised contribution timeline, Ms. Lausier confirmed that in addition to complying with the new GASB 68 regulations, the revised payment schedule will avoid interest payments on the County's required contributions.

Ms. Lausier concluded with a discussion of the 2016 first quarter funding. Ms. Lausier indicated there are sufficient funds available to cover cash flow needs for the remainder of the 2015 fourth quarter. It is expected that cash flow needs for the first quarter of 2016 will be $52 million.

The Pension Board unanimously approved the liquidation of assets to fund total cash flow of $52 million for January, February and March of 2016. The amounts should be withdrawn from investments designated by Marquette. Motion by Mr. Leonard, seconded by Mr. Smith.

11. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee and Investment Committee future topic lists, and no changes were requested.

The Pension Board concluded with a discussion of upcoming conference attendance. Ms. Lausier noted that the Public Funds Summit held on January 13-15, 2016 appears to have a great deal of information related to allocations and the Board will likely have already made its decision regarding changes to the Fund's current asset allocation by January. However, Ms. Lausier also noted that it appears the Public Funds Summit registration fee is waived for Board members and there would only be costs related to lodging and travel.

In response to questions from Ms. Ninneman and Mr. Grady, Ms. Lausier stated that Opal Financial Group is sponsoring the January 2016 Public Funds Summit.

In response to a question from Ms. Ninneman regarding expense reporting for the Public Funds Summit, Mr. Grady stated that whenever a Board member attends a conference and the registration fee is waived, members should be careful to report the value of the waived registration fee as a gift on their economic interest statement to the ethics board. It is better to exercise caution and over-report because Opal Financial is providing something of value to the Board with the hope of receiving business.

In response to a question from Mr. Leonard regarding the need to report his reduced early registration fee to the upcoming February 2016 conference sponsored by the International Foundation of Employee Benefit Plans ("IFEBP"), Mr. Grady stated that in this instance, the reduced fee would not require reporting because the reduction is due to ERS's membership in the IFEBP.

12. Adjournment

The meeting adjourned at 11:25 a.m.

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