EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE NOVEMBER 19, 2014 PENSION BOARD MEETING

1. Call to Order

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

2. Roll Call

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

Others Present
Marian Ninneman, CEBS, CRC, ERS Manager
Mark Grady, Deputy Corporation Counsel
Vivian Aikin, CRC, ERS Sr. Pension Analyst
Lillian C. Knight, K2 Advisors
John T. Moore, K2 Advisors
Laurence K. Russian, ABS Investment Management
Mark Murphy, ABS Equity Long-Short Strategies
Brett Christenson, Marquette Associates, Inc.
Ray Caprio, Marquette Associates, Inc.
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Minutes—October Pension Board Meeting

The Pension Board reviewed the minutes of the October 15, 2014 Pension Board meeting.

The Pension Board voted 7-0-1, with Mr. Smith abstaining, to approve the minutes of the October 15, 2014 Pension Board meeting. Motion by Mr. Leonard, seconded by Ms. Braun.

4. Investments

(a) K2 Advisors

John Moore and Lillian Knight of K2 Advisors distributed a booklet containing information on the custody services provided by K2 for ERS. Mr. Moore introduced himself as Managing Director of K2 and introduced Lillian Knight as Managing Director of Long-Short Research.

Mr. Moore first provided an organizational update of the firm. In October 2012, Franklin Templeton Investments closed on purchasing a majority interest in K2 Advisors. The new relationship with Franklin Templeton has provided K2 with unparalleled access to market insights, research and business tools. K2 now has the best of both worlds and can operate more efficiently as a boutique firm with the benefit of the expanded resources within the larger organization of Franklin Templeton.

In response to a question from Mr. Smith, Mr. Moore stated there are three years remaining on the five-year lockups for two key executives, Doug Douglass and David Saunders. Although no contracts were executed with the senior managers and portfolio managers, all of those employees have remained in place and the last two years have been stable within the firm.

Mr. Moore stated that K2 recently celebrated its 20-year anniversary in hedge fund investing and that long-tenure has provided the team with valuable experience in both favorable and unfavorable market environments. The organizational leadership remains unchanged with David Saunders and Doug Douglass continuing to head the firm. The only substantial organizational change occurred when K2's head of research left the firm. Rob Christian was subsequently promoted to K2's Head of Research and now has a dual role in the firm, also acting as the head of global macro strategy.

In response to a question from the Chairman regarding K2's former head of research, Mr. Moore stated that Brian Walsh left that position in July 2014.

Mr. Moore next discussed K2's long-short fund performance. ERS's first date of subscription with the fund was April 1, 2010. The portfolio is up 2.72% year-to-date, with a current value of $95,446,739 as of September 2014. The total fund return since inception is at 28.8%, beating both the HFRI Equity Hedge Index at 23.28% and the HFRX Equity Hedge Index at 3.59%.

In response to a question from Ms. Van Kampen regarding the differences between the HFRI and HFRX indices, Ms. Knight stated that the HFRX is representative of all hedge fund strategies. The HFRX measures the comprehensive overall returns of all hedge funds and is more of a true index, similar to the S&P 500. The HRFI encompasses a much broader universe and is more representative of the diversified pool of equity hedge managers in the industry. K2 views the HFRI as their true industry benchmark and is the one they aim to outperform.

Mr. Moore continued by stating that the objective of the fund is to achieve equity-like returns with lower volatility over a market cycle of five to ten years. Returns on the fund have been fairly disappointing in a very strong S&P market, mainly resulting from quantitative easing. However, this trend will not last forever. Over its 20-year history, K2 has outperformed relative to both the hedge and equity indices. Maximum drawdown on the fund since inception was -10.68%, versus the HFRI index at -13.17% and the HFRX at -19.12%. Since inception, there were 61% positive performance months, versus 39% negative performance months. The performance summary for the fund in 2013 was 17.58%, beating both the HFRI index at 14.28% and the HFRX index at 11.14%. Year-to-date returns are at 2.72%, versus the HFRI index at 2.00% and the HFRX index at 1.23%.

In response to a question from Mr. Grady regarding K2's ranking versus its peer group, Ms. Knight stated that because returns are confidential between organizations and there is no broad peer ranking, K2 must rely on consultants such as Marquette to provide that information. However, K2 has heard from other consultants and groups they work with that their peer group ranking is fairly strong.

In response to a follow-up question from Mr. Grady regarding K2's inflows and outflows, Ms. Knight stated that inflows during 2014 have been fairly steady and the majority of K2's investors have been reinvesting. There is good stability within the organization with both employees and assets in what is proving to be a very challenging market environment for equity long-short.

Mr. Moore added that K2 just surpassed their 91-day year-end redemption period and there have been record low redemptions for 2014. K2 has heard from many boards and consulting firms that clients are repositioning their portfolios to prepare for a period when fixed income will not provide a return and may even provide some volatility. K2 expects that changes occurring in the market resulting from the end of quantitative easing will eventually create a more favorable environment for long-term hedge investing, rather than only investing as a complement to an overall portfolio.

Ms. Knight then discussed the equity long-short environment. The environment for equity long-short and active management has been very challenging over the last several years. The S&P 500 has been outperforming equity hedge funds on a five-year rolling period. This period has been the longest and greatest sustained period of underperformance for hedge funds. The underperformance is essentially the result of quantitative easing and the resulting flood of money into the markets to reflate asset values. Quantitative easing has pushed investors to seek high-risk assets to achieve desirable returns. There has also been dispersion between earnings and the quality of companies. Poor quality companies have been able to refinance and sustain their businesses in what would normally have been low or negative growth rate periods for their businesses. This has created a challenging environment for long-short equity managers, and active managers. In the current environment, K2's short portfolios have been challenged and it has been difficult to generate alpha on the long side. With the announcement that quantitative easing is coming to an end, K2 does not expect the current environment to persist. Equity long-short managers and active managers should begin to outperform, as a return to quality takes hold in the market. Market returns in 2012 and 2013 have been driven primarily by a broad-based market momentum of price-to-earnings ratio expansion with few returns derived from earnings.

In response to a question from Mr. Smith regarding buybacks, Ms. Knight stated that buybacks are a component of price-to-earnings growth. K2 believes there is cyclicality to buybacks, and expects there will be a significant flow of buybacks in the equity markets in the final months of 2014.

Ms. Knight continued by stating that during 2014, the distribution of price-to-earnings was very centered with a lack of differentiation. Companies with high-growth profiles were getting the same price-to-earnings as low quality companies with no growth prospects. Shorts, or low quality companies with deteriorating earnings profiles that should be declining, have actually outperformed, making it an extremely difficult environment. In addition, 2013 and 2014 have been characterized by relatively low volatility levels, also created by quantitative easing. When volatility levels are low, equity hedge funds underperform the S&P 500. Equity hedge funds have a better chance for sustained higher returns in an environment with sustained higher volatility. K2 also expects volatility to return with the end of quantitative easing.

In response to a question from Ms. Van Kampen, Ms. Knight stated that K2 has made some modest shifts in their portfolios to adjust for quantitative easing. In 2012, K2 increased the directionality of their portfolios to focus on activist managers and sector specialists because they felt there would be more disclosure. If signs continue to point towards a better alpha environment, K2 will likely make some additional shifts to add equity- market-neutral, as well as adding some non-U.S. exposure, as quantitative easing begins in Japan.

In response to a question from the Chairman regarding turnover within K2's investment team since the merger, Mr. Moore stated that when compared to senior management, there has been more stability at the team level of the firm.

Ms. Knight added that there has also been very little turnover within K2's research staff and the average tenure for research staff is five to ten years. Franklin Templeton has been a positive resource, while simultaneously allowing K2 to maintain its research process.

(b) ABS Investment Management

Mark Murphy and Laurence Russian of ABS Investment Management distributed a booklet containing information on the custody services provided by ABS for ERS. Mr. Murphy introduced himself as a portfolio specialist who has been with the firm since inception, and Mr. Russian as a portfolio manager and Co-founder of the firm.

Mr. Murphy first provided an overview of the firm. ABS has an investment team with a 20-year history and low turnover. There are currently 27 employees in the firm and 15 partners. All of the partners are real equity holders in the firm. Compared to its peers, ABS has always been a global-oriented firm, and approximately 50% of ABS's investments are outside of the U.S. ABS is headquartered in Greenwich, Connecticut and has satellite offices in the U.S., Europe, Asia and Latin America. ABS has $4.5 billion in assets under management ("AUM") and is currently at its peak AUM.

ABS has had approximately $400 million in positive net inflows year-to-date. Ninety-percent of ABS's funds are from institutions and almost 50% are defined benefit pension plans. ABS's goal in the equity long-short space is to produce equity-like returns with significantly less volatility over the full market cycle. ABS's has lagged its peers in both the three and five year returns, but the long-term seven and ten-year returns have outperformed the equity markets. ABS benchmarks itself against the MSCI All Country World Index (MSCI ACWI).

Mr. Murphy next discussed the current market environment. Since the beginning of the Federal Reserve's quantitative easing program in 2008, the performance of the S&P 500 has more than doubled. Over the last three years, the S&P 500 has far outperformed the rest of the world in terms of equity market performance. Over the last three years, the S&P 500 was up 68%, while the MSCI ACWI was up only 33%, and the MSCI emerging market index was down 3%. Consequently, portfolios with a great deal of U.S. exposure have outperformed portfolios with directional exposure to non-U.S. markets. With quantitative easing now coming to an end in the U.S. and some non-U.S. central banks adding stimulus, it is expected that the non-U.S. markets will soon outperform the U.S. markets, benefiting ABS's global portfolio.

Mr. Russian then discussed ABS's global portfolio. ABS's global portfolio is geographically diversified with investments in 15 countries. The portfolio is also diversified by three types of management styles utilized by a mix of global, U.S. and regional non-U.S. managers. The first management style is directional. The directional style is typically comprised of long-biased strategies and can comprise anywhere from 40% to 70% of the portfolio. The directional managers provide a consistent level of beta or market risk. The second management style is flexible and can range from 20% to 50% of the portfolio. Flexible managers will increase or decrease risk depending on their future view of the markets. The third management style is low exposure and can range from 0% to 20% of the portfolio. The low-exposure managers are intended to be pure alpha generators and will provide ballast to the portfolio during difficult market periods. Not every fund fits perfectly into one of the three management styles, but ABS attempts to create the diversification with the objective of delivering global equity market returns with a stable risk profile over a full market cycle. The rolling 12-month volatility in the portfolio has remained stable at 5% to 10%, even throughout the extremely volatile market period during the 2008 financial crisis. Designed to remain stable in various market environments, the portfolio is well-diversified geographically, and by sector and style.

Mr. Russian continued with a discussion of performance. When compared to its peer group, ABS's higher exposure to the non-U.S. markets has been a headwind over the last five years. In this difficult market environment, the global portfolio's five-year net return is at 6.4% net of fees, versus the benchmark at 10.9%. ABS attributes the underperformance to its strategically elevated non-U.S. exposure, and the different mix of investment styles which behave differently in various market environments. During the previous five-year period, from October 2004 through September 2009, the portfolio's five-year return was at 7.8% net of fees, versus the benchmark at 3.3%. The previous five-year period was a very different market environment than today, with greater stock dispersion, as well as encompassing the 2008 financial crisis. The two five-year periods combined produce a ten-year return of 7.1%, which is almost in line with the benchmark at 7.0%. ABS's strategy has been proven to work over time. However, there will always be unpredictable market periods that will benefit certain strategies over others, which is why ABS maintains a well-diversified portfolio.

Mr. Russian next discussed the market outlook. It is highly unlikely that the market environment over the next five years will look like the environment of the last five years. With the U.S. nearing the end of its quantitative easing period, many non-U.S. central banks are beginning various forms of stimulus. The rally led by quantitative easing in the market over the last five years has created beneficial opportunities for underlying managers to increase both their long and short gross exposure levels. This increase in gross will result in taking more stock in active risk, because the stocks have risen to a certain level where they are creating additional opportunities going forward.

Mr. Russian concluded by noting that ABS offers an alternative product called the ABS directional global portfolio. ABS's directional global portfolio is at the top of its peer group and is designed to be more of an "all-weather" predictable portfolio with a higher correlation towards the broad equity markets.

In response to a question from Ms. Van Kampen regarding the anticipated performance of the two different products, Mr. Russian stated that he believes both ABS's global portfolio and its directional global portfolio should perform equally as well over the next five-year market cycle and provide generally the same returns over a full market cycle.

In response to a question from Mr. Leonard, Mr. Russian stated that ABS's global portfolio does have some exposure to the European Union, with one stock picker in the mid to large cap space and another in the small cap space.

(c) Marquette Associates Report

Brett Christenson and Ray Caprio of Marquette Associates, Inc. distributed and discussed the October 2014 monthly report.

Mr. Christenson first addressed today's manager presentations from K2 and ABS. The story heard today from ABS and K2 is very similar to the one previously told by Geneva and the active equity managers, where low-quality stocks have been outperforming high-quality stocks throughout the period of quantitative easing. While there is a great deal of proof to support the fact that high-quality stocks have not been able to differentiate from low-quality stocks throughout the period of quantitative easing, it is also very important to study the returns of ABS and K2 in relation to their peers. Both ABS and K2 have performed basically the same over the last five years. While ABS appeared to be very humble in their comments today about their peer group ranking, K2 appears to be less aware of their status. The hedged equity managers were also a topic of discussion at the November Investment Committee meeting. At that meeting, Marquette prepared and reviewed a chart listing a group of select hedged equity managers, with the manager names removed, and their respective returns. The listing comprised many of the strongest hedge funds, as well as some managers that have not performed as well, and both ABS and K2 lagged that group. ABS's underperformance versus their peer group is somewhat more understandable because ABS has a greater exposure to the international markets versus their peers. However, K2 does not have that exposure. K2 was previously placed on alert for a number of quarters due to a merger and now some turnover is taking place in the firm. Marquette was disappointed to discover recently that K2's head of research resigned over the summer. Marquette has received some information that other employees have become dissatisfied and have left K2.

With all of these factors combined, Marquette recommends performing an open procurement search to review ABS and K2 in relation to their peers, and leaving open the availability for submission of single manager hedged equity products. Opening up the search to single manager index-like products may complicate the process if there is a large response, but it will allow ERS to consider some of the other hedged equity products currently available in the market. There will also need to be future discussions surrounding the ultimate purpose of the 10% hedged equity allocation and whether the goal is to provide protection in down markets, or to achieve similar equity market returns in both up and down markets. Marquette is not necessarily recommending changing either manager at this time, but Marquette believes it is important to study other available options and make future changes if deemed necessary.

In response to a question from Ms. Braun, Mr. Christenson confirmed that both ABS and K2 have significantly underperformed since their inception with ERS versus their peers. Marquette does hold ABS in higher esteem, whereas some red flags are appearing with K2.

In response to a follow-up question from Ms. Braun regarding K2's forthrightness towards their performance relative to their peer group, Mr. Caprio stated that it is difficult to say whether K2 was being disingenuous with their comments. However, Marquette was very disappointed that K2 did not notify them when they lost their head of research.

Mr. Grady commented that when questioned today about any turnover in the firm, K2 indicated there were no problems and everything was stable with their "boots on the ground."

Mr. Smith then stated that mergers can be difficult for employees and it is hard to pinpoint why the former K2 employees in contact with Marquette were unhappy. However, it makes sense to begin a search now, while still allowing time for any internal matters to play themselves out.

In response to a question from Ms. Van Kampen regarding the timing of the search results, Mr. Christenson stated that the results will likely be large but could be ready for review at the January 2015 Pension Board meeting.

In response to a question from Mr. Smith regarding placing any constraints on the search to help limit the responses, Mr. Christenson stated that while Marquette must list the names of all respondents, they can narrow down the single manager responses before presenting the final results to the Pension Board. Marquette will conduct a search for both long/short equity fund-of-funds and hedge equity product(s) from large and stable organizations.

The Pension Board unanimously approved placing ABS on alert for performance issues, and approved placing K2 on alert for both performance and employee turnover issues. Motion by Mr. Smith, seconded by Ms. Braun.

The Pension Board unanimously approved authorizing Marquette Associates to conduct an open procurement search for potential replacements for ABS and K2, and to review alternative managers for ERS's hedged equity exposure. Motion by Ms. Van Kampen, seconded by Mr. Smith.

In response to a question from Ms. Ninneman, Mr. Caprio stated that Marquette will send a draft of the request for proposal ("RFP") for distribution and comment by the end of this week.

Mr. Christenson next discussed the October 2014 flash report. The total Fund composite was at $1.819 billion as of October 31, 2014. The portfolio allocations are fairly close to policy targets and with normal rebalancing occurring due to cash withdrawals to fund benefits, Marquette sees no further need to rebalance at this time. There is an overweight in the real estate composite of approximately $23 million which was discussed in greater detail at the November Investment Committee meeting. At the Investment Committee meeting, Marquette noted that the Fund continues to have three real estate managers and of those managers, UBS currently has a very low allocation of 1%. Although real estate has continued to perform well, Marquette would like to review the three real estate managers in the near future to determine if all three should be maintained. The Investment Committee concluded that American Realty, Morgan Stanley and UBS should all present at the February 2015 Investment Committee meeting.

Mr. Caprio then noted that under private equity, the Adams Street direct fund made their first capital call in October for $1.5 million. Adams Street anticipates that additional capital will be called over the next six months.

Mr. Christenson concluded with a discussion of Fund performance. The one-month total Fund composite has a positive return of 1.3%. The year-to-date total Fund return is at 4.8%. Marquette's research team reports that the U.S. equity market is gaining some ground and is up approximately 1.2% in November. Low annual returns under international equity and bonds are evidence of the beginnings of a cool down in the markets. All of ERS's active equity managers, with the exception of Fiduciary Management outperformed during the month of October. This is a good sign that the high-quality reversal is taking hold in the market. Geneva Capital is still on alert for performance issues and Marquette will continue to monitor them closely. Boston Partners was up 2.4% in October, versus the benchmark at 2.2%. Artisan Partners was up 4.6%, versus the benchmark at 2.8%, and Geneva was up 3.9%, versus the 2.8% benchmark. Fiduciary Management underperformed for the month of October at 6.7%, versus the benchmark of 7%. However, Fiduciary's year-to-date returns are still stronger than some of the other active equity managers. Silvercrest was up 8.3% versus the benchmark at 7%. There was outperformance under the international equity composite and Vontobel in particular has had an excellent year. Vontobel had a positive 1.6% return for October, versus the benchmark at -1.5%, and a one-year return through October 2014 of 4.5%, versus the benchmark at -0.6%. GMO small cap was essentially in line with the benchmark and OFI under emerging markets slightly outperformed in October.

Under the hedged equity composite, both ABS and K2 have essentially been equal in their returns since inception with ERS. Four-year returns are at 6.4% for ABS and at 6.3% for K2. However, as already discussed, the returns for ABS are a little more reasonable because approximately 50% of their exposure is non-U.S., which is why ERS hired them. ERS originally hired K2 because they were a stable firm, with a great deal of public fund assets and a transparent platform. K2 is a very different type of firm today whereas ABS has essentially remained unchanged.

All three real estate managers have delivered very favorable returns since they were put in place shortly after 2009. For one-year returns, American Realty is at 11.4%, Morgan Stanley is at 13.2% and UBS is at 9.9%. Morgan Stanley has been at the top of its peer group and is where ERS has placed the majority of its real estate assets. The four-year infrastructure manager returns are lower than they should be for that timeframe, and is likely due to the recent run in the U.S. dollar because approximately 50% of the infrastructure assets are non-U.S. assets. Heavy currency exposure in the two infrastructure funds has muted the returns.

In response to a question from Mr. Smith regarding the positioning of each of the three real estate funds for a slowly rising rate environment, Mr. Christenson stated that all three managers are very similar in debt structure and one is not necessarily better-positioned than the other. American Realty and UBS have the lowest debt exposure, with UBS being the most conservative. Morgan Stanley would be the manager with the highest exposure to debt under real estate.

In response to a question from the Chairman regarding any purchasing opportunities in energy, Mr. Christenson stated that ERS's portfolio has a reasonable exposure to energy due to some bond exposure in energy companies under fixed income, as well as some additional exposure under active equity managers and infrastructure. However, true exposure to energy would be in the form of a commodity project. Marquette is constantly reviewing these commodity products, but they are glad their clients are not invested in them because they have been very volatile over the last several years. Marquette does not have much of stance on energy at this time but will continue to review the matter and will advise accordingly.

5. Investment Committee Report

Ms. Van Kampen reported on the November 3, 2014 Investment Committee meeting. The Investment Committee first discussed the third quarter 2014 executive summary review. Mr. Christenson reviewed the third quarter results and the Investment Committee focused their discussion on all underperforming managers. The Investment Committee discussed whether more managers should be placed on alert for performance issues, particularly among the equity managers. While Artisan Partners has performed well through the end of 2013, their 2014 returns have been poor enough to drag down their two-year and three-year returns. The Investment Committee concluded that Artisan, as a high-quality manager, has been a victim of the anti-high quality focus in the market. Artisan has already started to show signs of improvement during the month of October, as the market appears to be in the early stages of a shift back towards quality. The overall conclusion of the Investment Committee was to continue to monitor all equity managers and not place any on alert for performance at this time. However, there would be real reason for concern if the market would make a stronger return to quality and these managers continued to lag in performance.

The Investment Committee next discussed real estate allocation. Mr. Christenson reviewed the Fund's three real estate managers and stated that the Fund is currently overweight in real estate by approximately $23 million. Even though real estate is performing well, it is important to maintain the Fund's asset allocations per the investment guidelines. Therefore, the Investment Committee would like to rebalance the real estate sector by the end of the first quarter of 2015. The Investment Committee requested that all three real estate managers present at the February 2015 Investment Committee meeting. After the manager presentations, the Investment Committee will then determine how to best rebalance the real estate composite. Because the real estate managers require 30 days' notice, the funds could be available by the end of March 2015.

The Investment Committee then discussed the hedged equity allocation. The Investment Committee reviewed the hedged equity manager returns and concluded that although each manager has beaten their benchmark, many flaws are associated with the benchmarks. Particularity troubling is the fact that the hedged equity benchmark includes some managers that have imploded and are consequently dragging down the return of the benchmark. Marquette Associates prepared a table that compared how

ERS's hedged equity managers have performed compared to other managers in that space. The Investment Committee concluded there are some other alternatives in the hedged equity space that should be further explored. The Investment Committee requested that Marquette arrange for both K2 and ABS to present at the November Pension Board meeting. After the manager presentations, a decision will be made regarding further changes and a potential search.

The Investment Committee concluded with a discussion of private equity allocation. The performance of the private equity managers was discussed relative to how quickly the Fund is progressing towards attaining its 6% private equity target allocation. The private equity allocation is currently at 3.5% and it is hoped that the Fund is moving more quickly towards reaching its 6% policy allocation as additional capital continues to be called.

6. Audit Committee Report

Ms. Westphal reported on the November 3, 2014 Audit Committee meeting. The Audit Committee first discussed the Medical Review Board. The County Risk Manager, Amy Pechacek, provided an overview of her department and discussed the benefits of the County's recent change to a third-party administrator for worker's compensation and risk management. Ms. Pechacek also advised the Audit Committee that during a recent meeting with Aurora Health Care, its representatives expressed renewed interest in providing medical review services for ERS. A partnership between Risk Management and ERS in cases of potential fraud was also discussed and viewed as a positive benefit towards aiding ERS in its investigation of disability cases. The Audit Committee concluded that ERS should begin the process for the selection of a new Medical Board.

In response to a question from Ms. Westphal regarding the necessity for a vote on the selection of a new Medical Board, Ms. Ninneman stated that she has authority to initiate the RFP.

The Board discussed the timeline for issuing an RFP and whether any action should be taken immediately regarding Gateway's current contract.

Ms. Ninneman stated that ERS does have an existing RFP that was used in the past and it could be updated and posted relatively quickly. Part of the challenge with the current Medical Board is attempting to get resolution on some of the more difficult cases. Another question to consider now is whether the pending cases should also be transferred from Gateway, which might open up a whole new set of issues.

In response to questions from Ms. Van Kampen and Mr. Leonard, Mr. Grady stated that Gateway does not have a retainer and they are only paid according to the cases that they actually review. Having a run-out period with Gateway beyond the 30-day termination would not be sensible, and it is conceivable that a case that has already gone over to Gateway may be reviewed by both Gateway and Aurora.

Mr. Grady then suggested issuing the RFP as soon as administratively feasible, setting a response time, and holding off on sending any new cases to Gateway until the Pension Board can determine the outcome of the RFP in January 2015. This process may cause a slight delay for some of the applicants but it will be in their best interest to have a higher quality case review.

In response to a question from the Chairman regarding the appeals that have already come before the Pension Board and are pending additional information, Ms. Ninneman stated that she believes the current Medical Board has received all additional information on those cases and ERS is just waiting for a revised report. She hoped those pending cases would be completed by the end of this month.

Mr. Grady suggested that the current Medical Board complete cases only for the applicants on whom they have already conducted a physical examination. If Gateway's doctors have not yet examined an applicant, those cases should be held over or pulled back until a new Medical Board is in place.

In response to a question from the Chairman regarding the possibility of a run-out period with Gateway, Ms. Ninneman stated that she would have to review the contract language.

Mr. Grady added that it may not be possible to resolve the question of transitioning cases, and either Gateway will finish up the cases in process or ERS will be forced to send them over to the new Medical Board once it is in place.

In response to a suggestion from Mr. Smith, Mr. Grady agreed that the matter of transitioning pending cases could be discussed further at an Audit Committee meeting.

The Pension Board unanimously approved authorizing ERS to initiate the RFP for a new Medical Review Board as soon as administratively feasible. Motion by Mr. Smith, seconded by Ms. Westphal.

Ms. Westphal continued her report on the November 3, 2014 Audit Committee meeting. The Audit Committee next discussed roles and responsibilities. Mr. Huff presented an outline of the roles of the County Board, County Executive, Pension Board and ERS Manager/Retirement Office. The Audit Committee discussed some of the overlapping roles and responsibilities of each entity and reviewed how the Pension Board could aid ERS in its mission of serving ERS's members.

The Audit Committee then discussed disability processing. Ms. Ninneman provided the Audit Committee with an update on the outstanding disability cases.

The Audit Committee continued with a discussion of the appeal process. Mr. Huff distributed a revised version of ERS's non-disability appeal procedures to the Audit Committee. The Audit Committee concluded that the revised non-disability procedures should be codified as ERS Rule 1055 and presented to the Pension Board for approval at its November 2014 meeting.

Mr. Huff then noted to the Pension Board that he worked closely with Mr. Grady and Ms. Ninneman in preparing the non-disability appeal procedures and received helpful comments from the Audit Committee members. The main goal was to separate ERS's decision from the Board's decision on appeal. A new subsection 11 was added which is intended to state that the appeal process is not invalidated if the procedures are not followed to the letter.

Mr. Grady added that the proposed Rule 1055 does not significantly change the non-disability appeal process that ERS and the Board have been following for the past several months. Rule 1055 is merely intended to publically codify the procedures which have already been in practice and to create a public structure for appeals.

In response to a question from Ms. Van Kampen, Mr. Huff stated that it is the intent that all appellants will receive a copy of the non-disability appeal procedures as outlined in Rule 1055 upon submission of their appeal.

The Pension Board unanimously approved adopting ERS Rule 1055, attached to these minutes as Exhibit A, effective November 19, 2014. Motion by Mr. Leonard, seconded by Ms. Van Kampen.

Ms. Westphal continued her report. The Audit Committee next discussed membership account forfeiture. Mr. Huff distributed a revised draft of proposed Rule 1054 to the Audit Committee and summarized responses to questions previously raised by Ms. Westphal. During the discussion, new questions were raised regarding how proposed Rule 1054 would impact the Option 1 pension benefit. The Audit Committee decided to continue its discussion of Rule 1054 at a future Audit Committee meeting.

The Audit Committee then discussed the authorized signer list. Mr. Yerkes raised the need for an authorized signer list at the October 15, 2014 Pension Board meeting. Because Mr. Grady noted that existing Rule 1044 provides the Chair and Vice Chair with the authority to execute contracts approved by the Pension Board, proposed amendments to that Rule were discussed. The proposed amendments to Rule 1044 provide the Chair and Vice Chair the authority to execute any contract or agreement, any document necessary to effectuate any contract or agreement, and any other document necessary to carry out the provisions of a resolution adopted by the Pension Board, if the contract, agreement or resolution was approved at a Board meeting. The proposed amendments also grant certain ERS officials the authority to execute documents necessary for the normal course of business.

Mr. Grady then stated to the Pension Board that Rule 1044 will provide the Fiscal Officer with documentation for managers who question the authority of officers to sign for the liquidation of funds needed for cash flow.

The Chairman then noted that a copy of the proposed amendments to Rule 1044 were distributed to the Pension Board with today's meeting materials.

The Pension Board unanimously approved adopting amendments to ERS Rule 1044, attached to these minutes as Exhibit B, effective November 19, 2014. Motion by Mr. Smith, seconded by Mr. Leonard.

Ms. Westphal concluded her comments by noting that the Audit Committee concluded with a discussion of the 2015 Pension Board budget. The Audit Committee deferred the discussion of the 2015 budget to a future Audit Committee meeting.

In response to a question from the Chairman, Ms. Westphal confirmed that Baker Tilly is scheduled to give its presentation on Governmental Accounting Standards Board ("GASB") rules 67 and 68 at the December 2015 Audit Committee meeting.

Ms. Braun then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statues section 19.85(1)(e) with regard to item 7 for considering the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session, and that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 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 7-0 to enter into closed session to discuss agenda items 7 through 9. Motion by Ms. Braun, seconded by Ms. Funck.

Ms. Westphal recused herself from the discussion of compliance review by leaving the closed session meeting during that discussion.

7. BNYM Custody Agreement Negotiation

The Pension Board took no action on this item.

8. Pending Litigation

(a) Stoker v. ERS

The Pension Board took no action on this item.

(b) AFSCME v. ERS

The Pension Board took no action on this item.

(c) Tietjen v. ERS

The Pension Board took no action on this item.

(d) Brillowski & Trades v. ERS

The Pension Board took no action on this item.

(e) AFSCME v. ERS

The Pension Board took no action on this item.

(f) Weber v. ERS

The Pension Board took no action on this item.

(g) Angeles v. ERS

The Pension Board took no action on this item.

9. Report on Compliance Review

The Pension Board discussed the matter in closed session.

10. Reports of ERS Manager and Fiscal Consultant

(a) Retirements Granted October 2014

In open session, Ms. Ninneman presented the Retirements Granted Report for October 2014. Twenty nine retirements from ERS were approved, with a total monthly payment amount of $30,985.12. Of those 29 ERS retirements, 11 were normal, 17 were deferred and one was an early retirement. Five members retired under the Rule of 75. Fifteen retirees chose the maximum option and 8 retirees chose Option 3. Twelve of the retirees were District Council 48 members. Six retirees elected backDROPs in amounts totaling $361,964.00.

Ms. Ninneman concluded by noting that the addition of a double asterisk on the Retirements Granted Report under the service credit column was added to notate that service credit may include any credit received from Milwaukee County, the City of Milwaukee and the State of Wisconsin Retirement Systems, where reciprocity may have been used in the final calculation.

(b) ERS Monthly Activities Report, October 2014

Ms. Ninneman presented the Monthly Activities Report for October 2014. ERS and OBRA combined had 8,069 retirees, with a monthly payout of $12,962,850. Retirements during 2014 decreased slightly from 2013 and counts are down significantly from 2012. The Retirement Office continues to field a high volume of telephone calls. All other activity has been fairly steady and ERS does not anticipate processing a large number of retirements at year-end.

Ms. Ninneman then discussed staffing. The Assistant Fiscal Officer recently and suddenly resigned. Two temporary accountants from Accountemps were hired and are currently undergoing training. The temps already have experience in the preparation of 1099s, technical writing, Peachtree

Accounting and banking, and will require minimal training. One of the temps will also review ERS's processes and procedures, make suggestions for enhancements and streamline the written procedures.

In response to a question from Ms. Braun regarding whether background checks were performed on the two temps because of a prior instance of identity theft involving a temp, Ms. Ninneman stated that while background checks were not performed, the temps signed all the confidentiality and security clearances that Human Resources requires all new ERS employees to complete.

Ms. Ninneman continued by stating that one of ERS's Retirement Specialists also resigned earlier this week. Because ERS was already recruiting for another Retirement Specialist position, they currently have a list of ten certified candidates, six of whom look promising. ERS hopes to complete interviews over the next week and hire replacements shortly after that.

In response to a question from the Chairman, Ms. Ninneman stated that there are currently three Retirement Specialists remaining until the two replacements can be hired.

Ms. Ninneman then stated that three consultants from Buck arrived the day before the meeting and are training to begin the process of the pension recalculations related to the buy-in and buy-back corrections. Once their training is complete, the consultants will return to their home office to complete the calculations. The consultants will also review the accuracy of the previously calculated monthly payments. It is not known at this time how long it will take to complete the entire process.

Ms. Ninneman concluded with a discussion of ERS's year-end projects. Due to pending changes related to the new GASB rules 67 and 68, Baker Tilly has requested a draft Annual Report be completed by January 2015. ERS has begun its data cleansing project in advance of preparing its report for Buck Consultants to begin their actuarial valuation. ERS is also preparing to produce the 1099s and pension statements.

Ms. Westphal rejoined the meeting.

In open session, the Chairman requested a motion to approve the Ordinance amendments discussed in closed session.

Mr. Grady clarified that the motion is to request that the County Board pass the proposed Ordinance amendments discussed today in closed session, which are updates of the proposed Ordinance amendments that the Pension

Board requested in May 2014 and September 2014. The proposed Ordinance amendments are now being combined into one package and requested by the Pension Board for approval by the County Board, to correct the errors occurring in connection with the purchases of prior service credit.

In open session, the Pension Board voted 6-0-1, with Ms. Westphal abstaining, to request that the County Board adopt the attached proposed amendments to sections 201.24(8.17), (11.1), (11.11) and (12.4) of the Milwaukee County Code of General Ordinances, which amend the Employees' Retirement System of the County of Milwaukee ("ERS") to eliminate the re-deposit of contributions made prior to 1971, to eliminate the Pension Board's authority to provide for optional membership in ERS through a purchase of service and to correct errors occurring in connection with purchases of prior service credit. Motion by Ms. Van Kampen, seconded by Mr. Smith.

(c) ERS Employee Election

Ms. Ninneman discussed the upcoming ERS employee member election. The upcoming employee election is for Ms. Braun's seat that will be expiring in February 2015. The standard ERS Rule will be followed regarding the election timeline. One exception to the timeline will be that if a final election is necessary, it will be shortened to a five-day voting period, because the election must be completed by the end of February to ensure a March 2015 start date.

(d) 2015 Pension Board Meeting Schedule

Ms. Ninneman discussed ERS's 2015 meeting schedule. Ms. Ninneman asked the Board to review and approve the proposed schedule so it can be posted on the website.

(e) Fiscal Office

Ms. Ninneman stated that Mr. Yerkes could not attend today's Board meeting. Ms. Ninneman noted that both the Portfolio Activity and Cash Flow Reports for October 2014 were included in today's meeting materials. Ms. Ninneman asked the Board members to submit any questions they may have regarding the Fiscal Office reports to her and she will follow up with any answers when she has the information.

In response to a question from the Chairman regarding any need for additional cash withdrawals through year-end, Mr. Smith confirmed that the

October 15, 2014 meeting minutes state that Mr. Yerkes confirmed there were sufficient cash flows through the end of the fourth quarter.

11. Administrative Matters

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

12. Adjournment

The meeting adjourned at 11:30 a.m.

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

EXHIBIT A

AMENDMENT TO THE
RULES OF THE PENSION BOARD OF
THE EMPLOYEES' RETIREMENT SYSTEM OF THE
COUNTY OF MILWAUKEE

RECITALS

1. Section 201.24(8.1) of the General Ordinances of Milwaukee County (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").

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

3. The Pension Board has historically established and followed a number of procedures governing non-disability benefit determinations and appeals requested under Rules 1016 and 1050. Disability benefit determinations and appeals are subject to a different set of procedures.

4. In light of the recent developments related to the Pension Board's appeal procedures, the Pension Board desires to adopt a rule codifying and clarifying the procedures governing appeals for non-disability claims.

RESOLUTIONS

Effective November 19, 2014, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby adopts Rule 1055 to read as follows:

1055. Non-disability benefit determination and appeal procedures.

The following procedures generally govern appeals requested under Rules 1016 and 1050. Appeals related to disability pensions described in Ordinance sections 201.24(4.3) and (4.4) are not governed by these procedures.

(1) *Initial benefit determination*. Upon receipt of a claim for benefits, the Retirement Office shall make an initial benefit determination.

(a) The Retirement Office, when reviewing a claim for benefits, may determine that additional information from the County or another agency, not within the records of ERS, is necessary to review the claim.

(i) The Retirement Office may request that the appropriate County department or other agency provide the necessary information in writing to ERS.

(ii) Any such information provided by the County or other agency may be sent to the Pension Board as provided in section (4) below.

(b) If, upon review, the Retirement Office has denied a claim for benefits, in whole or in part, the Retirement Office shall prepare a letter to the claimant explaining the Retirement Office's decision.

(i) The letter may reference the applicable Ordinances and Rules and explain the Retirement Office's reasons for the denial.

(ii) The letter may be sent on ERS letterhead and will include general information regarding the claimant's right to appeal the Retirement Office's decision to the Pension Board.

(c) If information regarding a claim determination made by the Retirement Office is received by an individual on the Pension Board prior to the date the claimant appears before the Pension Board, the individual on the Pension Board should provide that information to the Retirement Office.

(2) *Notice of appeal*.

(a) Upon the Retirement Office's receipt of a request for appeal under Rule 1016 or Rule 1050, the Retirement Office should determine the next Pension Board meeting at which it is possible to schedule the appeal, taking into account the date the appeal is sent to the Retirement Office and the information submission deadline in subsection (e) below.

(b) The Retirement Office shall send a letter to the appellant on Pension Board letterhead that is authorized and signed by the chairperson or vice chairperson of the Pension Board specifically or pursuant to standing instructions. The letter may be signed electronically or by any other process, including by mail. The letter will generally:

(i) Inform the appellant of the date of the Pension Board meeting at which the appeal is scheduled to be heard;

(ii) Provide the date by which the appellant must submit all information and documents that the appellant desires the Pension Board to consider; and

(iii) Advise that the Pension Board, in its discretion, may postpone the appeal until a later meeting if additional information or documents are received after the stated deadline.

(c) The Retirement Office should add the appeal to the appropriate Pension Board agenda.

(d) The Retirement Office may contact appropriate counsel to request review of the appeal and should provide counsel with the information submitted by the appellant and in the possession of the Retirement Office in connection with the claim denial and appeal.

(e) Based on the Pension Board meeting date at which the review is scheduled, the Retirement Office may set a date by which the appellant must submit all information and documents that the appellant desires to be considered by the Pension Board in connection with the appeal. Information and documents are generally required to be submitted to the Retirement Office by 4:30 p.m. on that date.

(3) *Written verification of facts from County*. When reviewing an appeal, counsel may determine that additional information from the County or another agency, not within the records of ERS, is necessary to the review of an issue related to the appeal. The Retirement Office or Corporation Counsel may request that the appropriate County department or other agency provide the necessary information in writing to the Retirement Office or Corporation Counsel's office.

(4) *Materials sent to Pension Board*.

(a) *Non-confidential/non-privileged materials*. Prior to the Pension Board meeting in which an appeal is scheduled to be reviewed, the Retirement Office may send to the Pension Board any non-confidential or non-privileged materials related to the appeal, including a summary of the facts, relevant Ordinances and Rules, and any exhibits.

(b) *Confidential/privileged materials*. Prior to the Pension Board meeting in which an appeal is scheduled to be reviewed, appropriate counsel may send any confidential or privileged materials related to the appeal to the Pension Board, including a summary analysis of the appeal and any enclosures that include confidential information. These confidential or privileged materials are separate and distinct from non-confidential and non-privileged materials sent to the Pension Board by the Retirement Office.

(c) The Pension Board should generally have available all materials submitted by the appellant and in the possession of the Retirement Office in connection with the claim denial and appeal.

(5) *De novo standard of review*. In reviewing an appeal, the Pension Board will review all information available to it and shall render a decision independent of the Retirement Office's initial determination.

(6) *Review of the appeal by the Pension Board*. Where applicable, the Pension Board meeting agenda should note that the appeal will be discussed in closed session. The Pension Board will generally adhere to the following procedures for hearing and reviewing an appeal at the Pension Board meeting:

(a) The Pension Board will first conduct its hearing with the appellant in open session on the record, and the appellant, or the appellant's authorized representative, may present the appeal to the Pension Board.

(i) The Pension Board may advise appellants of the open and closed session procedures described below and invite them to remain in the building if they desire to attend any subsequent open sessions that may arise regarding their appeals.

(ii) If an appellant's medical information or other personal information would compel a hearing in closed session, that portion of the meeting may be held in closed session to the extent permitted under Wisconsin law.

(b) Where appropriate and permitted under Wisconsin law, the Pension Board may enter into closed session to review and discuss the appeal with counsel.

(i) When the Pension Board enters into closed session, the closed session shall include the Pension Board members and counsel.

(ii) Retirement Office staff shall generally be excused from closed session any time that the appellant or appellant's representative is also excused from closed session.

(iii) If, during closed session, the Pension Board has a question that requires the assistance of an outside individual, the Pension Board may return to open session to discuss its question with the appropriate individual and thereafter return to closed session to complete any further discussion regarding the appeal.

(c) If the Pension Board determines it needs additional information to make a decision, the provisions of section (9) below shall be followed.

(d) If the Pension Board determines that the issues on appeal require further discussion, the provisions of section (10) below shall be followed.

(e) After completing its review and consideration of the appeal, and assuming the Pension Board does not require additional information and the appeal does not warrant further discussion, the Pension Board may proceed to make a decision on the appeal as provided in section (7) below.

(7) *Pension Board's decision*.

(a) After it reviews the appeal, the Pension Board may return to open session and vote on the appeal. The Pension Board shall adopt the rationale for its decision based on all available evidence, the Ordinances and Rules and applicable law.

(b) Unless the Pension Board directs that the full Board should review and approve the written document summarizing the Pension Board's decision, the chairperson and vice chairperson of the Pension Board may finalize, with input from counsel, the written decision of the Pension Board. The Pension Board may adopt a separate resolution delegating the review and approval.

(c) The written decision as approved by the chairperson and/or vice chairperson of the Pension Board will generally be included as part the meeting minutes to be approved at the next Pension Board meeting and will be sent to the appellant as described below in section (8).

(8) *Notification of decision on appeal*.

(a) *Letter to appellant*. Upon approval of the written decision on appeal, the appellant will receive a letter informing the appellant of the Pension Board's decision. The letter may be prepared on Pension Board letterhead that may be authorized and signed by the chairperson or vice chairperson of the Pension Board specifically or pursuant to standing instructions. The letter may be signed electronically or by any other process, including by mail.

(i) The letter shall include a copy of the written decision issued by the Pension Board.

(ii) The letter may advise the appellant that the decision represents the final decision of the Pension Board and note that the appellant may request that a court review the Pension Board's decision.

(b) *Copies to Retirement Office*. When necessary, appropriate counsel shall send to the Retirement Office a copy of the Pension Board's decision on appeal and a copy of the letter sent to the appellant.

(9) *Additional information required*. If the Pension Board determines it needs additional information to make a decision on the appeal, the Pension Board shall:

(a) Request that the Retirement Office place the continuation of the appeal on the Pension Board's agenda for a subsequent meeting; and

(b) Request that the Retirement Office provide the appellant with a letter advising that additional information is required to make a decision.

(i) The letter may include the same information as the letter described in section (2) above, but this letter may also include a list of the additional information needed by the Pension Board to make a decision if the appellant has access to such information. This notice may be provided even if the appellant appeared at a prior meeting.

(ii) The letter may be prepared on Pension Board letterhead and authorized and signed by the chairperson or vice chairperson of the Pension Board specifically or pursuant to current or future standing instructions. The letter may be signed electronically or by any other process, including by mail.

(10) *Additional discussion necessary before approval of decision*.

(a) If the Pension Board determines that further discussion is necessary before approval of the written decision, the Pension Board may decline to vote on the appeal at that meeting, and the appeal may be reconsidered at a future meeting.

(b) Because the Pension Board will be discussing the appeal at a subsequent meeting, the Retirement Office will notify the appellant of the meeting and follow the procedures provided in section (2) above. The letter may also advise whether the Pension Board will allow the appellant an additional opportunity to speak or otherwise present additional information to the Pension Board.

(c) At the subsequent meeting at which the Pension Board continues its discussion of the appeal, the Pension Board may follow the applicable procedures provided in sections (6) and (7) above.

(11) *Deviations from Procedures*. The Pension Board and the Retirement Office intend to follow the procedures described in this Rule. However, due to facts and circumstances unique to each claim and/or appeal, the Pension Board and Retirement Office in their respective sole discretion may deviate from the described procedures. Deviation from the procedures provided in this Rule shall not invalidate a proceeding or decision or be a basis for a legal claim except where such deviation has clearly resulted in significant prejudice or deprivation of due process.

EXHIBIT B

AMENDMENT TO THE
RULES OF THE PENSION BOARD OF
THE EMPLOYEES' RETIREMENT SYSTEM OF THE
COUNTY OF MILWAUKEE

RECITALS

1. Section 201.24(8.1) of the General Ordinances of Milwaukee County (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").

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

3. Rule 1044 authorizes the Chairperson and Vice Chairperson to execute documents that are approved by the Pension Board.

4. The Pension Board desires to amend Rule 1044 to clarify that the Chairperson and Vice Chairperson are the authorized signers for contracts or agreements with service providers and to clarify that they may execute any documents necessary to carry out a resolution adopted by the Pension Board. The Pension Board also desires to expressly authorize certain ERS employees to execute documents in order to carry out the resolutions of the Pension Board and to facilitate the daily operations of ERS.

RESOLUTIONS

Effective November 19, 2014, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby amends Rule 1044 to read as follows:

1044. Signature authority of Chairperson, Vice Chairperson, and ERS staff.

The Chairperson and Vice Chairperson of the Pension Board are authorized to execute on behalf of the Pension Board and ERS any contract or agreement, any document necessary to effectuate any contract or agreement and any other document necessary to carry out the provisions of a resolution adopted by the Pension Board if the contract, agreement or resolution was approved at a duly called meeting at which a quorum was present.

Similarly, the ERS Manager, the ERS Fiscal Officer, their designees and any other named ERS officer shall have the authority to sign, execute and acknowledge documents or instruments necessary or proper to be executed in the course of their regular employment, or which are authorized by resolutions of the Pension Board or by Ordinance or Rule.