# EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

## MINUTES OF THE OCTOBER 15, 2014 PENSION BOARD MEETING

1. Call to Order

   The Chairman called the meeting to order at 8:30 a.m., in the Green Room 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) | Gregory Smith |
| Dr. Brian Daugherty (Chairman) | |
| Aimee Funck | |
| Norb Gedemer | |
| D.A. Leonard | |
| Patricia Van Kampen | |
| Vera Westphal | |

   Others Present
   Mark Grady, Deputy Corporation Counsel
   Vivian Aikin, CRC, ERS Sr. Pension Analyst
   Peggy Kubricky, Assistant ERS Manager
   Dale Yerkes, Fiscal Consultant
   Floyd Dukes, Artisan Partners
   Lisa Sturm, Artisan Partners
   Amy Croen, Geneva Capital Management Ltd.
   Michelle Picard, Geneva Capital Management Ltd.
   Brett Christenson, Marquette Associates, Inc.
   Ray Caprio, Marquette Associates, Inc.
   Steven Huff, Reinhart Boerner Van Deuren s.c.
   Gary DeBerry, Milwaukee County Employee
   Roy Felber, Milwaukee County Employee
   Donald Raasch, Milwaukee County Employee

3. Chairman's Report

The Chairman welcomed back Mr. D.A. Leonard who was reelected to serve as retiree member on the Board.

4. Minutes—September Pension Board Meeting

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

**The Pension Board voted 6-0-1, with Mr. Leonard abstaining, to approve the minutes of the September 17, 2014 Pension Board meeting. Motion by Ms. Van Kampen, seconded by Mr. Gedemer.**

5. Investments

(a) Artisan Partners

Floyd Dukes and Lisa Sturm of Artisan Partners distributed a booklet containing information on the investment management services provided by Artisan Partners for ERS.

Mr. Dukes first provided an overview of the firm. Founded in 1994 and headquartered in Milwaukee, Wisconsin, Artisan has principal offices located in San Francisco, Atlanta, New York, Kansas City and London, England. Artisan's investment philosophy focuses on providing high value-added investment results for institutional investors and has remained unchanged since its inception with ERS in June 2000. Artisan has six autonomous investment teams managing 14 investment strategies. The six investment teams are growth, global equity, U.S. value, global value, emerging markets and credit. Launched in December of 2013, the credit team is Artisan's newest team and is the firm's first offering in fixed income.

As of June 30, 2104, Artisan had $112 billion in assets under management ("AUM") among its six investment strategies. ERS is invested in Artisan's U.S. mid-cap growth strategy, which currently has approximately $16 billion in AUM. To maintain the integrity of its investment style, Artisan monitors capacity very carefully and, consequently, its mid-cap growth strategy has been closed to investors since 2003. Artisan currently manages clients in 13 countries, with approximately 12% to 13% of client assets now based outside of the United States.

Artisan's mid-cap growth strategy is managed using a team-based approach that leverages a high degree of experience and knowledge within a disciplined investment process. Artisan's mid-cap strategy team is based in the Milwaukee office and is managed by Lead Portfolio Manager Matthew Kamm, who is supported by a dedicated and senior group of analysts.

Mr. Dukes next discussed Artisan's investment process. Artisan seeks to deliver consistently favorable results through a repeatedly successful investment process that begins with the investment teams' global economic knowledge. Security selection is another key element in the process, and Artisan seeks to invest in franchise companies with attractive valuations and opportunities for accelerating profit cycles. Artisan's three-tier garden-crop-harvest investment process is designed to deliver upside participation and downside protection over full market cycles.

Mr. Dukes then discussed positioning. As an active manager, the positioning of Artisan's mid-cap growth portfolio does look different when compared to the Russell Mid-Cap Growth Index. The variances from the index have been additive over the course of time, and Artisan has distinguished itself from the benchmark in its market cap distributions, sector exposure and concentrations of top 10-20 largest holdings. During the past five years, the majority of ERS's capital has been invested in the information technology, health care, consumer discretionary and industrials sectors, with health care being the best performing sector.

Mr. Dukes continued with a discussion of performance. The 2014 year marks the sixth year of a rising bull market since the 2008 financial crisis. Throughout this six-year period, and especially during 2014, Artisan has underperformed the benchmark. Over the one-year period, the portfolio was up 6.75%, net of fees, versus the benchmark at 14.43%. As of September 30, 2014, the portfolio was down at 0.48%, net of fees, versus the benchmark at 5.73%. Because Artisan has held firmly to its valuation discipline and continued to sell stocks once their target valuations are reached, it has been increasingly difficult to keep up in the extended bull market. Consequently, the portfolio's underperformance has been more a result of upside participation than downside protection.

The ebb and flow of cyclical growth was another critical factor contributing to the underperformance during 2014. In the spring of 2014, Artisan was on the wrong side of a transition in health care and information technology stocks as investors flocked to value stocks in consumer staples, energy and financials. Despite the underperformance, Artisan believes that the mid-cap growth team's execution throughout this period has been virtually flawless.

A number of stocks on Artisan's research qualified list at the end of 2013 became more attractively valued, and more new positions were executed and implemented in the portfolio this year than any other period during the last five years, without sacrificing quality. While the one-year return figures have been frustrating, Artisan believes that given the current market cycle, there is no reason for concern. It is not uncommon at this point in the economic cycle to see valuation concerns manifest into antigrowth sentiment. However, Artisan is not abandoning its high quality investment discipline.

Mr. Dukes concluded with a discussion of portfolio statistics. Because Artisan believes better businesses demand higher market caps, the weighted average market capitalization and median market capitalization in the portfolio tend to skew slightly higher than the benchmark. There are 74 holdings in the portfolio, and those franchises are some of the best in their particular economic environments. The portfolio's average long-term price-to-earnings growth rate is 20%, versus 17% for the index. As already noted, Artisan has not abandoned its search for quality businesses, and the average debt-to-capital ratio in the portfolio is 28%, whereas the index is closer to 40%. Although 2014 has been a very frustrating year, Artisan has taken advantage of opportunities and reseeded its portfolio with the highest quality stocks available. As long-term investors, Artisan has adhered to its investment philosophy and not sacrificed great management teams, favorable balance sheets and all other factors that create positive, long-term investments. Artisan believes that the mid-cap growth portfolio is currently well positioned to deliver favorable performance over the next three-to five-year period.

In response to a question from Ms. Van Kampen regarding Artisan's valuation discipline, Mr. Dukes stated that in protracted down markets, Artisan will reduce exposure to very high growth stocks that become overinflated, therefore avoiding riskier areas of the market. This valuation discipline has helped Artisan outperform in prior protracted down market periods during 1997-1999, 2001-2003 and 2007-2009. Artisan has no reason to believe that the current market period should be any different.

In response to a question from Ms. Braun regarding a specific timeframe ERS should grant Artisan to turn around its performance, Mr. Dukes stated that Artisan has been in this position before and has rebounded nicely once the market swings back to an environment that is more conducive to its investment philosophy. Because not all market periods are the same, a specific timeframe cannot currently be predicted. However, Artisan firmly believes that based on its proven investment philosophy, the portfolio's performance will begin to rebound once the current protracted period ends and a flight to quality returns to the market.

In response to a question from Ms. Van Kampen regarding the portfolio's recent turnover rate in correlation to other similar market periods, Mr. Dukes stated that when compared to 2003, the current turnover rate in the portfolio may actually be slightly lower. During 2003, the turnover rate was approximately 60% to 70% and it is now averaging down around 45%. It is possible that turnover may increase to closer to 60% within the next year or two.

In response to a question from Mr. Grady regarding attribution analysis and the effect of stock selection, Mr. Dukes stated that during 2014, the reversion from growth to value hurt stocks the most. This reversion negatively impacted historically well-performing stocks under consumer discretionary, industrials and technology. Great growth companies such as Chipotle and Michael Kors were suddenly down 10% to 20%, simply because the market became skittish about what the future might hold. In many instances, however, Artisan used this opportunity to increase its position in these quality companies. Chart Industries was one area of miscalculation under the industrials sector and, consequently, that stock is no longer in the portfolio. Chart Industries is one of the leading providers of infrastructure equipment and services to the natural gas industry. However, big losses resulted recently when some of their larger infrastructure projects were either placed on hold or folded, particularly in China.

Mr. Dukes added that it is also important to realize that attribution analysis is generally a function of what Artisan owns, as well as what it does not own. As the cyclical economy broadened in 2014, towards the end of the second quarter and beginning of the third quarter, airlines, service companies and certain areas of the manufacturing economy all performed very well. Artisan does not typically maintain overweights in these cyclical businesses and, therefore, the portfolio's limited exposure in these areas also contributed to the underperformance. Although stock selection may currently appear to be weak, Artisan owns high-quality growth companies and performance should rebound nicely once a return to quality takes hold in the market.

(b) Geneva Capital

Michelle Picard and Amy Croen of Geneva Capital Management distributed a booklet containing information on the investments managed by Geneva for ERS. Ms. Picard introduced herself as Managing Principal and Portfolio Manager of mid-cap growth, and Ms. Croen as Portfolio Manager and Co-Founder of the firm.

Ms. Picard first discussed Geneva's October 1, 2014 acquisition by the London-based firm Henderson Global Investors. Ms. Picard stated that, most importantly, the recent acquisition should have no impact from their client's perspective and the current investment team will remain intact. Every employee at Geneva has signed an employment letter with Henderson, and Geneva's managing principals and portfolio managers have signed five-year contracts. Geneva's managing principals have also placed a significant portion of the after-tax proceeds from the firm's sale into mutual funds they currently act as sub-adviser to for Nationwide.

After experiencing a period of accelerated growth, Geneva determined late last year that they would have to begin making substantial investments to their business platform to adequately support the firm's rapid growth. Areas in the firm such as information technology, human resources, in-house legal counsel, as well separating the duties of the firm's Chief Operating Officer from Chief Executive Officer, would require additional resources over the next three to five years. After carefully studying the matter with their advisor, Geneva felt that their time would be better spent focusing on client relationships and portfolio management, as opposed to business management. Geneva's advisor was aware that Henderson had been seeking an opportunity in the United States that would be a good cultural fit with their institution. Henderson is a strong international partner that has been in business for over 80 years. Both business cultures are client-focused, with a team-based investment approach and a collaborative management style. With $120 billion in assets under management, Henderson offers global equity and global fixed income products. Because Henderson has no U.S. equity products, there is no overlap with Geneva in terms of assets under management. Another crucial factor for Geneva was the ability to maintain its current staff. Henderson has also begun adding staff to Geneva's Milwaukee office. Geneva will retain 100% autonomy, and their investment philosophy and processes will remain unchanged.

Ms. Croen then added that as Co-Founder of Geneva, ensuring the firm's indefinite future, while being able to remain client-focused, was of key importance to her. While the relationship is still in its early stages, the transition has been going very well and Ms. Croen is pleased. The Henderson acquisition has served to empower Geneva, while allowing the firm to maintain its autonomy.

Ms. Picard continued, stating that the Chief Executive Officer of Henderson, James Formica, understands that investment teams need autonomy in order to operate successfully. Henderson's investment teams adhere to their unique disciplines, and Henderson does not maintain a "house style" of management that would dictate any specific investment philosophy or team composition. Geneva has a very strong and talented group of analysts that will continue to work together as a team and grow over time.

In response to a question from Ms. Van Kampen regarding the firm's future plans for building assets, Ms. Picard stated that Geneva is currently the sole sub-advisor for the Nationwide Geneva Mid Cap Growth Fund and the Nationwide Geneva Small Cap Growth Fund, and that relationship will remain unchanged. Henderson is looking to Geneva for its experience in working with institutional investors. Geneva has managed one portfolio geared towards high-net worth individuals for over 20 years. That portfolio combines small and mid-cap stocks, with some larger cap stocks, and Henderson may be looking towards launching a mutual fund based on that product. However, because Geneva has already been managing that product, there would be no change to the investment team with the addition of any related new product.

In response to a question from Ms. Braun regarding Geneva's significant underperformance since its inception with ERS, Ms. Picard stated that while this has been a very difficult market period for growth managers in general, Geneva does take the underperformance very seriously. Historically, Geneva has experienced six distinct time periods of underperformance. What is unique to this period is the extended duration of the underperformance; the portfolio has underperformed for eight consecutive quarters. However, between the five-month period of May 2013 through October of 2013, Geneva gained 500 basis points compared to the benchmark. This illustrates that markets can shift rapidly and dramatically. It is therefore crucial for Geneva to adhere to its discipline of investing in high-quality companies with above average growth rates and top-notch management teams that can deliver positive results over time.

Ms. Picard continued by noting that a review of the last earnings season shows only 5 of the 60 companies in the portfolio missed their earnings expectations. While the companies in the portfolio are performing very well, they have not been able to keep pace with the extremely high growth in the market. As a high-quality growth manager, Geneva was negatively impacted as the market flipped towards value stocks. However, Geneva knows from past experience that once the market shifts back towards quality, that shift can be very quick and very dramatic. The big question that remains is when exactly that shift will happen. A review of the S&P quality indices dating back to 1999 illustrates that during Geneva's last six periods of underperformance, low-quality stocks significantly outperformed high-quality stocks. With five of the last six years led by low-quality stocks, this current period of underperformance is unprecedented and is most likely predicated by the economic stimulus. As noted, Geneva did outperform during the period of May 2013 to October 2013, when there was talk of the Federal Reserve implementing some tapering. As we begin to near the end of quantitative easing, investors are beginning to look ahead and, as of June 2013, Geneva believes that a shift back towards quality is beginning to take hold in the market. The month of July was a high-quality month and Geneva did gain some ground, but August was marked by a return to low-quality. The month of September was once again led by a return to quality with Geneva gaining 67 basis points that month alone. October continues to look favorable and Geneva continues to regain some ground versus the benchmark. Although the Federal Reserve continues to remain dovish about raising interest rates, it will likely begin making incremental moves that will continue to benefit Geneva's investment style.

Ms. Croen then noted that in the current low-quality market, many of the companies being rewarded are companies that are engaging in some type of financial engineering. The fundamentals were not great with these companies but in the sudden world of "easy money," they were able to engage in activities like stock buybacks and are currently performing better than many well managed companies.

Ms. Picard continued by stating one of the quality characteristics that Geneva looks for in a company is a debt-to-capital ratio below 50%. However, companies with a debt-to-capital ratio above 56% have significantly outperformed in the market since 2012, and both the one-year and year-to-date periods have been led by companies with the highest debt-to-capital ratios. Because Geneva maintains a quality bias in its portfolio, it is significantly underweighted in long-term debt-to-capital, versus the benchmark. Although it has had a negative impact for Geneva, the fact that high-debt companies are currently outperforming in the market will certainly not last. Geneva is sticking to its quality discipline and is buying high-quality companies with high growth rates and high returns on investment capital.

In response to a question from Ms. Van Kampen regarding any underperformance issues related specifically to stock selection, Ms. Picard stated that as with any investment team, Geneva has made a few mistakes but new names added to the portfolio since 2012 have been consistent with Geneva's high-quality discipline. Since 2012, there have been roughly three new purchases in the portfolio that have not worked and that number is fairly consistent with prior periods of underperformance. During 2013, Beacon Roofing Supply, Inc., DSW Inc. and CommVault Systems, Inc. have all performed poorly and Geneva is continuing to carefully evaluate all three of these companies. Ms. Picard recently met with the Chief Financial Officer of DSW Inc. and was very impressed with the CFO's deep knowledge of industry growth drivers, noting where the company needs to make adjustments to get on track. Geneva believes that Beacon Roofing was negatively impacted by bad weather in the spring of 2013, as well as very high valuations that hurt their stock prices. Geneva maintains that Beacon is fundamentally sound and will hold off on making any decisions until valuations pull back a bit. Geneva has aggressively trimmed its position in CommVault and will hold meetings with CommVault management to make a final determination on that company in the fourth quarter. While Geneva has not made more mistakes than usual in its recent stock selection, the magnitude of the declines was greater in 2013 because of the volatility in the marketplace.

(c) Marquette Associates Report

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

Mr. Christenson first discussed market values. The Pension Fund is just over $1.8 billion as of the end of September 2014. At 20.6%, fixed income is currently under allocated by approximately 1-1/2%. Both U.S. and international equities are also slightly under allocated compared to the policy targets. Over allocations in alternative investments that are currently performing very well in the portfolio include real estate, infrastructure and hedged equity. However, Marquette does feel that the hedged equity composite, at 10.8% versus the policy target of 10%, is getting somewhat heavy. Therefore, Marquette would like to rebalance and request redemptions today of $9 million from ABS and $5 million from K2. Marquette will request the redemptions for ABS and K2 next week and, because there is a 90-to 120-day lead time, those funds should be available by mid-January 2015. Marquette would also like to rebalance the real estate composite but since that asset class is currently the strongest performing area in the portfolio, Marquette would like to hold off a little while longer.

**The Pension Board unanimously approved the liquidation of assets to rebalance the hedged equity portfolio in the amounts of $9 million from ABS hedged equity and $5 million from K2 hedged equity. The amounts withdrawn are to be reallocated as determined by Marquette Associates. Motion by Ms. Van Kampen, seconded by Mr. Leonard.**

In response to questions from Mses. Funck and Braun regarding placement of the hedged equity redemptions, Mr. Christenson stated that the redemption proceeds will be received in January 2015, at which time Marquette will review the target allocations for appropriate placement.

Mr. Christenson continued the discussion of market values. Although the private equity composite is underweight by approximately $47 million, the Board has made some significant moves in the last two years to work towards reaching the 6% private equity policy target. Mr. Christenson noted that the contract for Adams Street's new private equity co-investment fund was signed in the spring of 2014 and Adams Street is predicting a capital call of 5% on that fund sometime this month. Data from Adams Street has historically shown that they typically put assets to work more quickly under their co-investment fund and, therefore, it is hoped that more consistent private equity capital calls will continue. The Board also recently decided to switch the flagship diversified private equity allocation from Adams Street to Mesirow. The Mesirow documents have been reviewed and are ready for execution today. Siguler Guff was another private equity fund that ERS was invested with for 2014. The Siguler Guff private equity fund made very aggressive capital calls and returned the strongest performance under private equity during 2014. Siguler Guff will be back in the market for 2015 with their small-to mid-buyout fund and Marquette has maintained some space in the portfolio to make an allocation to that fund as well. These actions combined should begin to increase the Fund's private equity allocation, moving it more rapidly towards the 6% policy target.

In response to a question from the Chairman regarding the timing of the proposed 2015 Siguler Guff allocation, Mr. Christenson stated that Marquette will have to go through the process of approving the commitment and would hope to execute that contract by mid-2015. Siguler Guff has historically committed capital fairly aggressively and if ERS were to commit around $20 to $30 million to that fund, it is expected that approximately 15% of that capital should be called beginning in 2015.

In response to a question from Ms. Van Kampen regarding any timing restrictions for reducing exposure under the real estate composite, Mr. Christenson stated that real estate pays out quarterly, and reducing the

Fund's exposure under real estate could be a topic for discussion at the next Investment Committee meeting. There are currently three managers under real estate and that may be more than is necessary going forward.

Mr. Caprio then noted that while Marquette is not currently pulling money out of the real estate composite, all three of those funds are actively paying out quarterly income.

Mr. Christenson next discussed performance. When compared to the last few years where the Fund has realized double-digit returns, the Fund's 2014 performance has been muted. Currently, both the U.S. and international equity markets are undergoing a slight correction and the markets are down 5% to 6% as of the end of September 2014. This will likely put some pressure on the portfolio. Although the U.S. core bond market is up approximately 1% to 1-1/2% in October, it will not be enough to fully counterbalance that loss. Because the real estate, infrastructure and private equity markets do not experience the large swings that the public markets undergo, they will likely help the portfolio, however, these sectors are only priced quarterly. There is dramatic underperformance under the U.S. equity composite, which is currently at 3% net of fees, versus the Wilshire 5000 benchmark at 7.1%. Contributing to the underperformance is the fact that the portfolio is slightly overweight in small and mid-cap stocks, and those stocks have struggled with performance more than large cap stocks this year. Another contributing factor is that almost all of the U.S. equity managers are exhibiting underperformance year-to-date. Two very consistent managers for the Fund, Boston Partners and Artisan, are struggling year-to-date. Boston Partners is at 5.8% year-to-date, versus the index at 8.1%. Artisan Partners is down 0.5% year-to date, versus the benchmark at 5.7% and Geneva Capital is also down year-to-date at -1.7%, versus the benchmark at 5.7%. Fiduciary Management is one U.S. equity manager in the portfolio that is preserving capital well in the down market, at -1.3% year-to-date, versus the benchmark at -4.7%.

The overall poor performance affecting virtually all of ERS's U.S. equity managers can be largely attributed to the protracted phenomenon of low-quality stocks outperforming high-quality stocks. The data in the market is clear that the flight to low-quality stocks has largely driven the underperformance with these managers. Geneva Capital may be in a somewhat unique position because they did just sell their firm, and that is the reason they were recently placed on alert. However, Marquette does believe that Geneva effectuated the firm's sale in a very thoughtful manner and there should not be too much cause for concern. Marquette does believe there are beginning signs of a flight to quality in the markets and performance should start to turn around relatively soon. Once the flight to quality does begin to take hold and if the performance from Geneva does not rebound relatively quickly, then it may be an indication to consider making a move here.

Mr. Christenson continued, stating the performance under the international equity markets has also been disappointing and those returns have been relatively flat year-to-date. Under hedged equity, ABS is holding up fairly well, while K2 has been relatively flat. With two very high-quality managers, hedged equity should hold up well during the fourth quarter in the down market. The real estate composite is the highlight of the portfolio, up 8.2% year-to-date. Infrastructure is slightly positive, at 3.3% year-to-date and private equity is relatively strong, but the full data is not yet in for the third quarter.

In response to a question from Ms. Van Kampen regarding the hedge against the high-quality bias in the portfolio, Mr. Christenson stated that Marquette would recommend considering more of a default towards the index.

Mses. Van Kampen and Braun then suggested raising the matter of quality buyers in the portfolio as a topic at the next Investment Committee meeting.

In response to a question from Ms. Braun regarding any concerns Marquette may have over Geneva's recent acquisition, Mr. Christenson stated that while it is hard to determine if there has been any lack of focus on the portfolio's management due to the sale of the firm, it appears to be a sensible and conservative acquisition and should not be too much cause for concern at this point.

The Chairman then suggested reviewing the three-month and year-to-date manager performance figures at the next Investment Committee meeting in order to better determine if any other managers should be placed on alert.

Mr. Christenson agreed with the Chairman's suggestion and stated that Marquette will have an update prepared through the end of October 2014, as well as a full quarterly report for the November 2014 Investment Committee meeting. Marquette will also prepare some talking points regarding possible changes to real estate.

In response to a question from Mr. Grady regarding a hedged equity index, Mr. Christenson stated that there is currently a product offered by Clifton that was launched a few years ago that attempts to replicate hedged equity using S&P futures. The Clifton product has performed much like hedged equity would perform, outside of having a low-quality environment. The hedged equity index is an option that some of Marquette's other clients have started to investigate and, as an alternative to the fund-of-funds structure, has better liquidity and lower fees. This could be an option that the Board may wish to investigate further.

6. Investment Committee Report

There was no Investment Committee Report because the October 6, 2014 Investment Committee meeting was cancelled.

7. Audit Committee Report

Ms. Westphal reported on the October 1, 2014 Audit Committee meeting. The Audit Committee first discussed disability reexaminations. Ms. Aikin reviewed a 2008 directive from the Audit Committee which required that disability retirees undergo medical reexaminations on the third anniversary of their retirement. While this timeframe has worked well in most circumstances, it has not worked in cases where a member's disability application was approved with a retroactive retirement date after a lengthy appeal process. Members of the Audit Committee discussed possible alternatives and determined that ERS should schedule disability reexaminations to take place three years following the date of a retirees' first pension payment.

The Audit Committee next discussed non-disability appeal procedures. Mr. Huff presented to the Audit Committee a summary of newly proposed non-disability appeals procedures. After discussing the newly proposed procedures, the Audit Committee agreed to obtain further input from the Pension Board and revisit the matter at its November 2014 meeting, with a planned effective date for the new procedures of January 1, 2015.

Mr. Grady then stated to the Pension Board that drafts of the newly proposed non-disability appeal procedures were distributed with today's meeting materials. Mr. Grady suggested to the Pension Board that they review the proposed procedures and contact himself or Mr. Huff with any further questions, or attend the November Audit Committee meeting to further discuss the matter. The procedures will then be discussed further at the November 19, 2014 Pension Board meeting.

The Chairman noted his agreement with Mr. Grady's proposed action.

In response to a question from the Chairman, Mr. Huff stated that the proposed non-disability appeal procedures have received a great deal of input from the Audit Committee, as well as the Chairman, Mr. Grady and Ms. Ninneman. Mr. Huff noted that he will continue to gather any additional input, with the next step possibly involving the elimination of some Rules that may conflict with the newly proposed procedures.

Ms. Westphal continued, stating the Audit Committee next discussed ERS's 2015 preliminary budget. Ms. Ninneman presented ERS's preliminary 2015 budget to the Audit Committee and answered questions from the Audit Committee members. ERS's final 2015 budget will be presented to the Pension Board for approval at its December 17, 2014 meeting.

The Audit Committee concluded with a discussion of contribution withdrawal denial letters. Mr. Huff explained to the Audit Committee the need to correctly determine how membership accounts should be treated for nonvested members who may leave County employment without withdrawing their contributions, and are subsequently reemployed by the County, but then terminate a second time within the five-year period. The question that needs further resolution is whether a member in this scenario would be able to withdraw all, or only a portion of the contributions in their membership accounts. The Audit Committee determined that is was best to maintain all contributions intact under such circumstances and will present their recommendation to the Pension Board.

Ms. Westphal then stated to the Pension Board that a proposed Rule 1054 regarding the member contribution withdrawals was distributed with today's meeting materials but some further questions regarding the matter have recently been raised.

Mr. Huff then summarized the current questions surrounding membership contribution withdrawals and the proposed Rule 1054 to the Pension Board. A question arose resulting from an appeal last month as to whether a member who terminates and subsequently returns to County employment is entitled to the funds that were in their membership account at the time they first terminated employment. While a member is entitled to all of their prior service credit, the Ordinances are unclear as to whether or not the money in the membership account is preserved. The goal of the proposed Rule 1054, as recently recommended by the Audit Committee, was to provide that the funds in the membership account would remain intact along with a member's service credit. Consequently, if a member receives service credit, they may also receive those funds in the membership account, if they would terminate a second time. However, while preparing the proposed Rule 1054, counsel realized that there are additional funds maintained in the membership account that go beyond the scope of the recent directive from the Audit Committee. These additional funds will also need to be addressed before the proposed Rule 1054 can be finalized.

Ms. Westphal then recommended to the Board that the matter go back to the Audit Committee for further review.

In response to a question from Ms. Braun, Mr. Huff clarified that there are additional monies in the membership account that the Audit Committee needs to address further, including buy-in/buy-back money and optional employment money.

Ms. Braun then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to item 8 for considering the financial, medical, social, or personal histories of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories, and that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 10 and 11 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 8, 10 and 11. Motion by Ms. Braun, seconded by Ms. Funck.**

8. <u>Disability Matters</u>

(a) <u>Gary DeBerry</u>

The Board discussed the matter in closed session.

After returning to open session, the Chairman stated that Mr. Deberry's ordinary disability application was received by the Medical Board and recommended for approval. The Chairman stated that he reviewed the application and did not have any further questions. In response to a question from the Chairman, no other member had any further questions.

**In open session, the Pension Board unanimously approved granting the ordinary disability pension application based on the Medical Board's determination. Motion by Leonard, seconded by Mr. Gedemer.**

(b) Roy Felber

The Board discussed the matter in closed session.

After returning to open session, the Chairman stated that Mr. Felber's accidental disability application was received by the Medical Board and recommended for approval. The Chairman stated that he reviewed the application and did not have any further questions. In response to a question from the Chairman, no other member had any further questions.

**In open session, the Pension Board unanimously approved granting the accidental disability pension application based on the Medical Board's determination. Motion by Leonard, seconded by Mr. Gedemer.**

(c) Donald Raasch

The Board discussed the matter in closed session.

After returning to open session, the Chairman stated that Mr. Raasch's ordinary disability application was received by the Medical Board and recommended for approval. The Chairman stated that he reviewed the application and did not have any further questions. In response to a question from the Chairman, no other member had any further questions.

**In open session, the Pension Board unanimously approved granting the ordinary disability pension application based on the Medical Board's determination. Motion by Leonard, seconded by Mr. Gedemer.**

(d) Mary Sievert

The Board discussed the matter in closed session.

After returning to open session, the Chairman stated that Ms. Sievert's accidental disability application was received by the Medical Board and recommended for approval. The Chairman stated that he reviewed the application and did not have any further questions. In response to a question from the Chairman, no other member had any further questions.

**In open session, the Pension Board unanimously approved granting the accidental disability pension application based on the Medical Board's determination. Motion by Leonard, seconded by Mr. Gedemer.**

9. Appeals

(a) Joan Mitchell

In open session, the Chairman stated that the Pension Board agreed to grant approval of a request by Ms. Mitchell to defer the matter of her appeal to a future Board meeting.

10. 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 discussed the matter in closed session.

**After returning to open session, the Pension Board unanimously approved granting counsel the authority to file a cross appeal with respect to the recent court ruling on Tietjen v. ERS. Motion by Ms. Braun, seconded by Ms. Westphal.**

(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.

11. Report on Compliance Review

The Pension Board took no action on this item.

12. Reports of ERS Manager and Fiscal Consultant

(a) Retirements Granted September 2014

In open session, Ms. Kubricky noted for the record that she is presenting today on behalf of Ms. Ninneman, who is currently away on business. Ms. Kubricky then presented the Retirements Granted Report for September 2014. Ten retirements from ERS were approved, with a total monthly payment amount of $12,357.02. Of those 10 ERS retirements, 5 were normal and 5 were deferred. Four members retired under the Rule of 75. Five retirees chose the maximum option and 3 retirees chose Option 3. Seven of the retirees were District Council 48 members. Three retirees elected backDROPs in amounts totaling $546,079.83.

(b) ERS Monthly Activities Report, September 2014

Ms. Kubricky then presented the Monthly Activities Report for September 2014. ERS and OBRA combined had 8048 retirees, with a monthly payout of $13,114,189. ERS processed a total of only ten retirements during September, but that figure is projected to increase during the month of October and throughout the remainder of 2014. Thirty of the 42 members that terminated County employment in September requested a refund of their required member contributions, which is higher than average. Another area where ERS noted an increase for September was in the number of reciprocity forms. There were 15 reciprocity forms to review, when typically that figure averages closer to ten per month. There was one disability case and eight legal issues. ERS customer service metrics for September reflected 1,245 telephone calls, 385 e-mail inquiries and 52 walk-ins.

In response to a question from Mr. Grady, Ms. Kubricky stated that budgets and layoffs are key factors that will be driving retirement numbers higher through year-end.

In response to a question from Ms. Braun regarding the current status of ERS staffing, Ms. Kubricky stated that ERS hired a replacement last week for the open Information Systems position. In addition, ERS interviewed two candidates last week for the open Fiscal Officer position.

Ms. Kubricky concluded by noting that one of ERS's pension counselors recently resigned and Ms. Ninneman has requested a posting for that position.

(c) Buck Contract Extension

The Chairman discussed ERS's contract extension with Buck Consultants. The Chairman stated that he discussed the Buck contract renewal matter with Ms. Ninneman last week. Ms. Ninneman stated to him that the Buck contract is renewable yearly and runs through December 31, 2014. Because Buck is heavily involved with the buy-in/buy-back calculations, which will likely not be completed by the end of 2014, ERS is proposing a one-year contract extension with Buck Consultants. Ms. Ninneman will provide further detail at the November 19, 2014 Pension Board meeting.

Mr. Grady then added that there was concern over renewing the Buck contract due to a recent change in the contract indemnification clause language. Mr. Grady stated that he agrees with the recommendation of renewal, because a one-year contract extension would allow Buck to remain involved with the clean-up of the ongoing Voluntary Compliance Program issues that will likely extend into 2015. Mr. Grady stated that the Buck contract may be terminated by the Pension Board at any time upon 60 days' advance written notice to the actuary.

In response to a question from Ms. Van Kampen, Mr. Grady affirmed that if ERS renews the Buck contract for 2015, it would continue at a reduced indemnification level by Buck.

The Chairman stated the Buck contract renewal would be a possible action item for the November 2014 or December 2014 Board meeting.

(d) Fiscal Consultant

Mr. Yerkes, acting as Fiscal Consultant, first discussed the September 2014 portfolio activity report. Benefit and expense payments for the month of September were funded with a withdrawal of $15 million from Robeco (f/k/a Boston Partners).

In response to a question from the Chairman, Mr. Yerkes confirmed that there are sufficient cash flows for the remainder of the fourth quarter and no further funding requests should be needed at this time.

Mr. Yerkes added that he is somewhat concerned as to where Marquette will make future cash withdrawals, because some of ERS's investment managers require 90-days advance notice for withdrawal. However, there should be sufficient funds to pay benefits through year-end and Marquette will have to best determine where to make future withdrawals.

Mr. Yerkes next discussed the cash flow report for September 2014. ERS placed an additional $1 million into private equity, otherwise, it was a relatively quiet month.

Mr. Yerkes concluded with a discussion of ERS's authorized signer list. Historically, the Chair and Vice Chair have been authorized to sign important contracts, such as contracts with service providers and investment managers. The ERS Manager and the Fiscal Officer have typically signed contracts directly related to the regular office operations of ERS.
Mr. Yerkes noted that he is requesting Board approval of the authorized signer list because he is periodically asked by outside parties to demonstrate an individual's specific authority to execute contracts.

The Chairman noted that a current authorized signer list was distributed to the Board in today's meeting materials and currently lists the Chair, Vice Chair, ERS Manager and Fiscal Officer Assistant as authorized signers for ERS.

In response to a suggestion from Ms. Funck, Mr. Grady agreed that it would be prudent to consider formalizing the signature authority for ERS in a Rule, which could be further reviewed at the next Audit Committee meeting. The Rule would state something to the effect that the Chair and Vice Chair are the only authorized signers for contracts with service providers and investment managers, while the ERS Manager and Fiscal Officer are authorized to sign documents related to the daily operations of ERS.

In response to a follow-up question from Ms. Funck, Mr. Yerkes confirmed that there is nothing pending that would require formal approval of the authorized signer list at today's Board meeting.

Ms. Funck then expressed that she would prefer a formal Rule regarding ERS's authorized signers be drafted prior to passing any motion on the matter at today's Board meeting.

After a lengthy discussion, the Board determined that the topic of preparing a draft Rule for ERS's authorized signers should be discussed at the next Audit Committee meeting before passing a formal motion on the matter.

The Chairman then asked Ms. Westphal to add the preparation of a draft Rule regarding the ERS authorized signer list to the agenda for the November Audit Committee meeting. The matter should then be brought before the full Board for formal approval at its November 19, 2014 meeting.

13. 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 Mses. Kubricky or Ninneman at a later date if they wish to have any agenda items added or changed.

In response to a question from Ms. Van Kampen regarding a proposed date for Baker Tilly's educational presentation to the Board on Governmental Accounting Standards Board Rules No. 67 and 68, Ms. Aikin stated that it is scheduled to take place at the November 2014 Audit Committee meeting.

Mr. Grady then recommended rescheduling the Baker Tilly presentation as a separate meeting, perhaps during an open Investment Committee meeting slot, because there are already too many agenda items scheduled for the next Audit Committee meeting and the Baker Tilly presentation will be quite lengthy.

After further discussion, the Board concurred with Mr. Grady and the Chairman stated that the Baker Tilly presentation should be removed from the November 2014 Audit Committee meeting agenda.

In response to a question from Mr. Gedemer regarding the future topic of multiplier of military credit listed under the Audit Committee, Mr. Grady stated that that topic has been resolved and can be deleted from the future topics list. The matter was regarding clarification as to what multiplier applies to military service.

In response to a follow-up question from Ms. Braun regarding the final resolution of the military credit matter, Mr. Grady and Ms. Aikin stated that it was determined that the multiplier for military service should be proportionate to all other service credit.

In response to a follow-up question from Mr. Gedemer regarding possible expansion of the military credit, Mr. Grady stated that expansion of the military credit would require approval from the County Board and will likely never happen.

Ms. Braun then requested that the opinion of outside counsel regarding the interrelationship of the roles of the County Board, County Executive, Pension Board and ERS Manger/Retirement Office be added as a future topic of the Audit Committee.

In response to a question from Ms. Braun regarding the version of the ERS roles outline included with today's meeting materials, Messrs. Huff and Grady answered that the outline distributed today is a final version.

In response to a question from Mr. Gedemer regarding retired employees returning to part-time County employment, Ms. Kubricky and Mr. Grady stated that whether or not a member would have that part-time service incorporated into their pension calculation would depend on the type of part-time position under which they would resume employment. If an individual would return to an hourly position, they would not get additional service credit towards ERS time. If an individual would return to County employment in a true part-time classified position, with 20 hours or more guaranteed per week, then such individual would automatically be back in ERS, their pension would cease and service credits would automatically begin. There have been cases in the past where individuals have returned to full-time County employment and their pensions ceased, until they re-retired.

In response to a question from Mr. Grady, Ms. Braun stated that her seat will be expiring for the next employee election to be held in February 2015.

In response to a follow-up question from Ms. Braun regarding the February 2015 employee election timeframe, Ms. Kubricky indicated that she will review the applicable Rule and follow-up via e-mail with Ms. Braun on the timeline.

14. <u>Adjournment</u>

The meeting adjourned at 11:15 a.m.

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