EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE OCTOBER 21, 2015 PENSION BOARD MEETING

1. Call to Order

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

2. Roll Call

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

   Others Present

   Marian Ninneman, Director-Retirement Plan Services
   Mark Grady, Deputy Corporation Counsel
   Vivian Aikin, CRC, ERS Sr. Pension Analyst
   Tina Lausier, ERS Fiscal Officer
   Brett Christenson, Marquette Associates, Inc.
   Christopher Caparelli, Marquette Associates, Inc.
   Tom Rosalanko, GMO
   Lydia Cottrell, GMO
   J. Allen Gray, Silvercrest Asset Management Group
   Roger Vogel, Silvercrest Asset Management Group
   Carolyn Lee, Former Milwaukee County Employee
   Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Chairman's Report

The Chairman welcomed the two recently-appointed Pension Board members, Linda Bedford and Michael Harper.

Ms. Bedford introduced herself to the Board, noting this is her second time serving as a trustee for ERS. Ms. Bedford explained that she was first appointed to the Pension Board in 2003 by then County Executive Scott Walker and served until early 2012. Ms. Bedford stated that she is happy to be back serving as a trustee and hopes that her varied background in the banking and real estate industries can add value to the Pension Board.

Mr. Harper expressed gratitude for the opportunity to serve as an appointed member on the Pension Board. Mr. Harper stated that he spent the early portion of his career as a market maker on the exchanges in Chicago and New York. For the last ten plus years, Mr. Harper has been involved in a variety of business development capacities and entrepreneurial ventures. Mr. Harper currently operates an electrical contracting business and is very active in the renewable energy space. Mr. Harper explained that he has a great deal of experience related to capital markets and risk management which he hopes will be of benefit to the Pension Board.

4. Minutes—September 16, 2015 Pension Board Meetings

The Pension Board reviewed the minutes of the September 16, 2015 Pension Board meeting.

The Pension Board unanimously approved the minutes of the September 16, 2015 Pension Board meeting. Motion by Mr. Leonard, seconded by Ms. Van Kampen.

5. Investments

(a) GMO

Lydia Cottrell and Tom Rosalanko of GMO distributed a booklet containing information on the international small cap investment management services provided by GMO for ERS.

Ms. Cottrell introduced herself as a Relationship Manager at GMO. Ms. Cottrell stated that she is new to the ERS relationship but has been with the firm since 1987. Mr. Rosalanko introduced himself as a member of GMO's asset allocation team and noted that he has been with the firm for 11 years.

Ms. Cottrell first provided an update of the firm. GMO is a private partnership based in Boston and investment management is its sole business. GMO's investment approach is research-driven and based on valuation. GMO currently has 44 partners and typically adds anywhere from two to four partners annually. GMO has $117 billion in total assets under management, with $61 billion of that in equities. In August 2014, GMO announced that it would be spinning off a group within its global equity team to develop a global focused equity fund designed to invest in global public equity markets. There are no changes to management and David Cowan will continue to manage the global equity team. GMO maintains a diverse client base and is proud of its numerous long-term client relationships.

Ms. Cottrell then discussed net-of-fees performance. The portfolio is benchmarked against the MSCI EAFE Small Cap Index and the MSCI EAFE Index. GMO uses the MSCI EAFE Small Cap as its primary benchmark. Ms. Cottrell noted that although the portfolio is currently underperforming, longer-term performance is more favorable. Since inception in June 2009, the portfolio is at 9.5%, versus the benchmark at 10.16%. For the five-year period, the portfolio is at 7.46%, versus the benchmark at 7.3%.

Mr. Rosalanko then continued the discussion of performance. The portfolio's performance in 2015 and the third quarter in particular, has been very disappointing in terms of relative and absolute performance. The portfolio is down at -2.21% year-to-date, net-of-fee, versus the benchmark at 2.62%. For the one-year period, the portfolio is down at -5.52%, net-of-fees, versus the benchmark at 0.30%. GMO is a value-focused investor and for the last few years, growth stocks have been more lucrative investments, especially outside of the U.S. GMO has maintained its value positions in the portfolio and does expect that once the markets move towards more normal valuations, performance will improve.

Mr. Rosalanko next discussed the drivers of the underperformance. At just below 10%, GMO maintains a healthy weighting in emerging markets. GMO believes that emerging market stocks are among the most undervalued group of stocks in the market. Although all of the emerging market companies in the portfolio are not Chinese, the events in China over the last few months have been a drag on performance. GMO has also focused on attractively-valued investments in energy, oil and gas companies, particularly in Canada and the U.K. In addition, GMO holds investments in industrial trading and manufacturing companies in Europe and Japan. The perceived impact of the recent events in China combined with the global slowdown in growth has also been a drag on performance. However, GMO expects these effects to reverse over the longer-term and it has not changed the portfolio's positioning.

In response to a question from Ms. Van Kampen regarding value versus growth indices, Mr. Rosalanko stated that GMO ultimately strives to beat the broad market indices.

In response to a question from Mr. Leonard, Mr. Rosalanko stated that Europe and emerging markets are two separate positions in the portfolio. GMO does further separate Europe into developed markets, which includes countries such and France and Germany, and emerging markets of Europe, which includes countries such as Russia, Hungary and Poland.

In response to a question from Ms. Braun regarding currency attribution, Mr. Rosalanko stated that currencies have had a negative impact on performance. Ms. Rosalanko suggested that the currency attribution accounts for roughly 1% to 2% of the portfolio's underperformance. However, GMO believes that currency effects tend to wash out over time and does react with changes to the portfolio.

In response to a follow-up question from Ms. Braun regarding GMO's estimated performance rebound timeline, Mr. Rosalanko stated that rebounds are difficult to forecast and GMO never imposes a time limit. GMO produces a seven-year forecast because that is how long they believe it takes on average for a market to return to its fair value. The small cap market is cyclically-oriented, particularity outside of the U.S. market and there is no sure method to predict when these cycles will end. The level of uncertainty in the current market needs to diminish somewhat before the current cycle can start to reverse.

Ms. Cottrell and Mr. Rosalanko then discussed GMO's seven-year forecast. Ms. Cottrell explained that GMO's seven-year forecast estimates real return potential by asset class with a valuation of September 30, 2015. With annual real return over 7 years of -0.2%, the seven-year forecast for international small cap stocks is very unfavorable. Mr. Rosalanko continued by noting that the seven-year outlook for U.S. stocks is also negative. GMO's seven-year forecast for U.S. large cap stocks is -0.6%. Forecasts for all other categories of U.S. stocks are roughly in the same negative area or near zero. The seven-year forecast for U.S. high quality stocks is slightly more attractive at 1.1%. The seven-year forecast for international large cap stocks looks somewhat more attractive. Within both large and small cap international, value is more attractive than growth and is good news for GMO as a growth investor. GMO seeks undervalued opportunities, particularly in emerging markets, because they believe there is a better expectation for those companies in the marketplace. GMO forecasts seven-year emerging market real returns at 4.6% and emerging market value returns at 8.9%. Mr. Rosalanko noted that the main issue with the emerging markets is the variety of uncertain factors involved, including governments, as was illustrated with China. However, because the opportunities in emerging markets are so compelling, GMO believes that the risks warrant maintaining a broad and diversified position in emerging market stocks.

In response to a question from Mr. Harper regarding any compensation for additional volatility in its seven-year forecast, Mr. Rosalanko stated that GMO reviews data from many different models to produce its seven-year forecast. GMO further analyzes the results from the different models to measure its confidence in the data and will temper its forecast with any insights or feelings of uncertainty regarding the markets.

In response to a question from Mr. Grady regarding the constraints on its emerging market portfolio, Mr. Rosalanko stated that the portfolio is currently near its maximum constrained amount of 10%.

Mr. Rosalanko concluded with an overview of the portfolio's positioning. The largest regional weights in the portfolio are Europe ex U.K., Japan and the United Kingdom. Emerging markets also have a healthy regional weighting of 9.7% and those assets are broadly diversified to mitigate risk. The two largest sector positions in the portfolio are consumer discretionary and industrials.

In response to a question from Ms. Van Kampen regarding portfolio turnover, Mr. Rosalanko stated that turnover averages around 60% to 70%.

(b) Silvercrest

J. Allen Gray and Roger Vogel of Silvercrest Asset Management Group distributed a booklet containing information on the U.S. small cap value investment management services provided by Silvercrest for ERS.

Mr. Gray introduced himself as a partner at Silvercrest responsible for its institutional asset management business and client relations activities. Mr. Gray introduced Mr. Vogel as a partner at Silvercrest and lead portfolio manager for its value equity team. Mr. Vogel is also the architect of Silvercrest's value equity investment philosophy and process.

Mr. Gray first provided an update of the firm. Silvercrest has been a publicly-traded firm for several years and has been managing funds for ERS for approximately two years. There have been no changes to senior management at the firm and no turnover on Mr. Vogel's small cap value investment team. With the exception of one team member, the investment team has worked together for nine years. In addition to team stability, there have been no client losses in the strategy. Mr. Gray concluded his comments by noting that ERS does have a commission recapture program with Silvercrest and, year-to-date, Silvercrest has been able to recapture approximately 55% of the commission dollars for the portfolio.

Mr. Vogel next introduced himself to the Board, stated that he has been managing small cap value investments since 1986 and has been with Silvercrest since its inception in April 2002.

Mr. Vogel then provided a summary of the portfolio. As of September 30, 2015, the portfolio is valued at just over $49 billion. The investment team tries to maintain a fully-invested portfolio and there is currently only a 1% cash position in the portfolio. Capturing a weak third quarter, the portfolio experienced a depreciation of $4.6 million in value for the 2015 third quarter.

Mr. Vogel next discussed gross of fees portfolio performance. The portfolio's primary benchmark is the Russell 2000 Value ("R2V") Index. Mr. Vogel remarked that the portfolio has also performed well relative to the more poorly-oriented Russell 2000 ("R2") Index. The portfolio is down at -8.05% quarter-to-date, versus the R2V benchmark at -10.7%. Since its 2002 inception, Silvercrest has added a fair amount of value every year the R2V Index has been negative. Mr. Vogel stated that Silvercrest's positive relative performance can be attributed to the higher quality investments it maintains relative to the R2 benchmark. As investors became nervous during the 2015 third quarter, a rotation back to higher quality investments provided a significant tailwind for the portfolio. As of September 30, 2015, the portfolio is down at -4% year-to-date, versus the R2V benchmark at -10%, and the R2 benchmark at -8%. Silvercrest is generally pleased with the portfolio's positive relative performance year-to-date in the down market.

Mr. Vogel then discussed performance attribution. Silvercrest typically does not rotate the portfolio's sectors extensively and maintains continued exposure across all nine sectors in the R2V Index. Silvercrest also typically will not add or subtract much value from an allocation perspective, which is how over or underweighted each sector is relative to the benchmark. However, with a -1.65 allocation effect, primarily in financial services, the

2015 third quarter was atypical. Silvercrest does believe that each of the Russell benchmarks do have certain limitations. One of those limitations is a 44% weighting to financial services in the R2V Index. Silvercrest would never allocate 44% of the portfolio's assets to any one sector, especially financial services. Consequently, the portfolio maintains a sharp underweight to the benchmark in financial services. Because financial services did perform well on a relative basis in the 2015 third quarter, the portfolio did experience a negative allocation effect. Silvercrest did recently hear that Russell may change their index methodology and separate real estate investment trusts ("REITs") as a stand-alone sector from its financial services sector. If true, that would help add some transparency to the Russell benchmark. REITs currently comprise approximately 14% of the R2V Index. Mr. Vogel noted that Silvercrest tends to add value from its individual stock selection and was able to add 200 basis points from its stock selection relative to sectors.

Mr. Vogel continued with a discussion of the portfolio's ten best and worst performers. For the quarter ending September 30, 2015, the portfolio's top performer was Methode Electronics, Inc., which was up approximately 17% for the quarter. However, Silvercrest recently sold a fair amount of its holdings in Methode and it is now a relatively small holding in the portfolio. Bonanza Creek, an independent U.S. energy exploration and production company, was the bottom performer in the portfolio and was down at -49%. Forum Energy Technologies also significantly underperformed and was down at -40%. Silvercrest did eliminate its position in Bonanza Creek and the Bonanza stock declined another 30% to 40% post-sale. Bonanza Creek is a good company but is struggling to maintain its credit profile through the current period of low energy prices.

Mr. Vogel next discussed the portfolio's top holdings. The portfolio's top-ten holdings comprise approximately 25% of the total portfolio. At 3%, Horace Mann is currently the largest holding in the portfolio. Horace Mann is a small cap insurance company that Silvercrest believes could be a likely acquisition client in the future. The portfolio's top-five sector holdings are in producer durables, financial services, technology, health care and consumer discretionary. At 24%, producer durables is the largest sector weighting and includes a wide variety of companies. With a healthy weighting of 23%, the financial services sector is still significantly below the R2V Index. One of the portfolio's largest third quarter purchases includes QTS Realty Trust, a data center REIT. QTS has been an excellent performer since the initial purchase. Silvercrest recently eliminated PacWest Bancorp. Although PacWest remains an attractive investment, Silvercrest believes the company has grown too large to maintain in its small cap portfolios.

Mr. Vogel then discussed portfolio characteristics. Silvercrest maintains a fairly concentrated portfolio and there are 57 holdings in the portfolio as of September 30, 2015. Turnover in the portfolio is typically within the range of 25% to 35%. The advent of exchange traded funds ("ETFs") has injected more volatility in the market as investors aggressively use ETFs to adjust positions. While Silvercrest does anticipate that its volatility will elevate, it should remain lower than the benchmark and its peer group. The portfolio tends to fall between the R2V benchmark and the R2 benchmark in its price-to-earnings ratio and is currently at a multiple of 2.1x. Dividend yield also typically falls between the Russell benchmarks and is currently at 1.6%. The portfolio's debt-to-capital ratio typically runs below the benchmark exposure and is currently at 26.7%. The portfolio's median return on capital ex-financials is over 300 basis points higher than the R2V benchmark which reflects the higher-quality nature of the portfolio. The portfolio's weighted average market cap is running at approximately $1.8 billion and is in line with the Russell benchmarks.

Mr. Vogel next discussed sector designation. As mentioned earlier, the portfolio will always have exposure to all nine sectors of the R2V benchmark. If the Russell does decide to separate REITs from financials at some point, Silvercrest will add some exposure to REITs. In terms of its sector allocation, Silvercrest tries to take a reasonable blended average of the R2V and R2 benchmarks. This approach smooths out some oddities in the financial and health care sectors within the Russell benchmarks.

Mr. Vogel concluded with a market outlook. Despite the obviously weak third quarter in 2015, the portfolio has experienced a significant rebound during the month of October. As a value-oriented investment firm, Silvercrest has been waiting for a rotation from the current growth cycle back to a value cycle. Although it is premature to state the cycle is changing, Silvercrest has seen some evidence of that rotation during the latter half of 2015. However, an enhanced global gross domestic product is needed for a value growth cycle to truly take hold again in the market. Some company stocks have rallied, despite the fact that they are reporting relatively poor earnings, which suggests that investors are anticipating better economic conditions over the next year or two. Silvercrest is pleased that the portfolio has been able to add some relative value in the current market downturn. Silvercrest is hearing that the majority of U.S. companies feel relatively good about the state of their U.S. businesses and are very encouraged by the current state of affairs in Europe. With the exception of

Russia and the Ukraine, Europe appears to be coming out of its economic stagnation. Although China does appear to be growing, most companies are currently staying out of China because its data is highly circumspect. The situation in Brazil is disastrous and is currently a very challenging area of the globe. The political situation in Brazil is corrupt, energy and Ag are extremely weak and the Brazilian real is devalued almost daily. With all of these current factors baked-in to its valuation, Silvercrest is projecting a 15% undervaluation in four years. Silvercrest projects that the portfolio should be able to generate some positive returns over the next three to four years. Since its inception in 2002, Silvercrest has been able to generate low double-digit returns throughout a great recession, bull market and bear market. Mr. Vogel stated that he is confident Silvercrest's high-quality diversely-constructed portfolio can produce similar double-digit returns on a forward-basis.

In response to a question from Ms. Van Kampen regarding interest rates, Mr. Vogel stated that rising interest rates would not have much of an impact on the composition of the portfolio or Silvercrest's investment approach.

(c) Marquette Associates Report

Brett Christenson and Christopher Caparelli of Marquette Associates distributed the September 2015 monthly report. Mr. Christenson welcomed the new trustees to the Pension Board and introduced himself as a Partner and Senior Consultant at Marquette Associates. Mr. Christenson noted that he has been with Marquette for 15 years and consults primarily on public funds in addition to several union plans.

Mr. Caparelli introduced himself as the new co-manager for Marquette's relationship with ERS. Mr. Caparelli stated that he received his undergraduate degree from Marquette University and his Masters of Business Administration from Northwestern University. Mr. Caparelli reported that he manages a diverse group of clients, including two additional organizations located in the Milwaukee vicinity. Mr. Caparelli thanked the Board for ERS's continued relationship and remarked that he looks forward to working with ERS.

Mr. Christenson began the discussion with a review of manager status. Four managers are currently on alert status. One of those four, K2, the hedged equity fund-of-funds manager, was terminated on September 30, 2015 for organizational issues. Closing out K2 will take some additional time because, as a fund-of-funds manager, K2 must first calculate a fair net asset value of the portfolio's underlying assets. The funds should arrive from K2 within 15 to 20 days following the quarter of termination. However, K2 will continue to hold approximately 5% of the funds until its annual audit is completed sometime in February or March of 2016. The K2 portfolio is valued at approximately $90 million and $85 million of that amount will be reinvested into Parametric, another hedged equity-type product. At last month's meeting, the Pension Board approved overlaying $43.5 million of the K2 funds at 50% to the S&P 500 with Northern Trust. Mr. Christenson reported that due to the recent strong market, the cash overlay has earned $1.5 million this month. Artisan Partners, Geneva Capital and ABS all remain on alert for performance issues. Despite recent improvements in performance, Marquette recommends maintaining the alert status for all three managers at this time.

Mr. Christenson then discussed the total Fund composite. As of September 30, 2015, the total Fund composite is just over $1.65 billion in assets. For the benefit of the new trustees, Mr. Christenson then explained that Marquette is currently holding discussions with the Investment Committee and Pension Board to explore options for further reduction of the Fund's fixed income portfolio. The Fund's 18.3% fixed income allocation is underweight to the current policy target of 22%. Marquette has previously discussed increasing the Fund's private equity target asset allocation from 6% to 10% and will continue holding discussions with the Investment Committee and Pension Board over the next several meetings. The Fund made significant private equity commitments in 2014 and 2015 and, therefore, Marquette is not looking to make additional private equity commitments until sometime in 2016. Private equity is an illiquid asset class and commitments can be locked up for as much as 12 to 15 years. However, a significant portion of private equity funds will begin to return within 7 years of commitment. In addition, because the Fund has now established a long-term historical private equity portfolio, a nice balance of distributions will continue to flow out of the older private equity funds. The Fund's 11.8% real estate allocation is currently overweight to the target allocation of 8.5%. The Fund's infrastructure composite is also currently overweight at 9.2%, versus the policy target of 8.5%. While Marquette has been comfortable with the combined overweights in real assets and infrastructure, Mr. Christenson noted that at $54 million, the overweight in real estate is becoming fairly significant. Marquette has been holding discussions with the Investment Committee to review the options for rebalancing the assets between the Fund's current real estate managers. Morgan Stanley currently holds most the Fund's real estate assets at $135 million. American Realty currently holds just under $40 million in real estate assets and UBS is at $19.4 million. ERS simultaneously engaged in contracts with Morgan Stanley and UBS in 2010. Morgan Stanley had no queue to enter in 2010, but the queue for UBS was extremely long and accounts for the current overweight in Morgan Stanley. Marquette is currently considering recommending a $25 million reduction from Morgan Stanley. Morgan Stanley requires a 90-day quarterly notice to receive assets and the first date ERS could receive those assets would be March 31, 2016. A final decision for reallocating the Fund's real estate assets is needed by the end of 2015.

Ms. Braun then noted that the excess assets in real estate were intentionally left to grow over the past several months because returns in that asset class have been very favorable. The current underweight to fixed income was also intentional because of long-term underperformance in that asset class.

Ms. Bedford remarked that the Board was holding discussions to enter into real estate investments near the end of her last term on the Board and she was happy to see such favorable performance results.

Mr. Christenson congratulated the Board for entering the Fund's real estate allocations in 2010 during a very opportune time period, noting that the real estate investments have had a significantly positive impact on the overall portfolio.

Mr. Christenson continued by noting that the Fund currently maintains three index products, Mellon Capital under core fixed income, Mellon Capital under large cap core U.S. equity and Northern Trust under international equity. These three index managers account for 13.2% of the total portfolio which Marquette believes is a relatively low allocation. Marquette would like to continue to work with the Board to increase the Fund's index products over time.

Ms. Van Kampen remarked that the Fund has endured relatively long-term underperformance of its active managers and suggested that the Board work towards maintaining a more even split between index and active managers in the Fund.

Mr. Christenson expressed agreement with Ms. Van Kampen's suggestion.

Mr. Christenson next discussed annualized net-of-fees performance. As of September 30, 2015, the Fund's year-to-date performance is at -0.4%, versus the benchmark at -1.6%. Preliminary third quarter rankings were recently issued and the year-to-date performance of the 25th percentile U.S. public pension plan is estimated to be at -2.4%. The year-to-date performance of the 5th percentile U.S. public pension plan is estimated to be at -1%. The conservative nature of ERS's portfolio is outperforming its peer group year-to-date in a negative market environment. Mr. Christenson explained that the Fund has been able to maintain favorable performance through a significant market correction largely because the Fund's fixed income portfolio was up at 1.8% year-to-date, versus the benchmark at 1.1%. The composition of the Fund's fixed income portfolio is extremely high quality in relation to much of its peer group. Many public funds in ERS's peer group are searching for yield in other fixed income asset classes, such as high yield bank loans and global bonds. However, in a negative market, these other fixed income products have a high correlation to the U.S. stock market. The high-quality nature of ERS's fixed income portfolio was intentionally designed several years ago to allow the Fund to reduce its fixed income allocation and search for yield in other asset classes.

As of September 30, 2015, the Fund's U.S. equity composite is down -4.8% year-to-date, versus the benchmark at -7%. Mr. Christenson noted that Mr. Caparelli reported the S&P 500 is up 6% in the month of October and there was a correction in the third quarter. Marquette hopes that U.S. equity can begin to return positive performance during the fourth quarter of 2015. The Fund's U.S. equity managers have preserved capital fairly well in the market downturn. Geneva Capital is up year-to-date at 1.9%, versus the benchmark at -4.1%. Both Fiduciary Management and Silvercrest are down year-to-date, at -2.6% and -4.5% respectively, versus their benchmark at -10.1%. Marquette is pleased with the overall relative performance of the Fund's U.S. equity active managers. Both Geneva and Artisan now have positive one-year returns, up respectively at 9.3% and 3.4%, versus their benchmark at 1.4%. However, Geneva and Artisan remain slightly below their benchmark for the two-year and three-year periods and Marquette does recommend maintaining the alert status for each of these managers in the near term. At its recently held 2015 Investment Symposium, Marquette discussed the long underperformance cycles experienced by even the best of active managers. Marquette hopes that the long-term underperformance of the Fund's U.S. equity managers is coming to an end and that Geneva and Artisan can be removed from alert status by the end of the year. The Fund's international equity composite also preserved capital well on a relative basis and was down year-to-date at -6.1%, versus the benchmark at -8.6%. Vontobel Asset Management has performed very well versus their benchmark during the market downturn. While GMO has underperformed its benchmark for some time, Marquette is not too concerned about their shorter-term performance because GMO has historically exceeded its benchmark by as much as 10% to 20%. Marquette believes it is worth maintaining GMO in the portfolio at this time.

Mr. Christenson continued by reporting that the hedged equity composite has also helped contribute to the Fund's strong relative year-to-date performance. Although the Fund's hedged equity investments have been a concern of the Investment Committee and Pension Board for some time, hedged equity is beginning to perform as intended by preserving capital very well year-to-date in a down market. As of September 30, 2015, ABS is up year-to-date at 1.5% net-of-fees. For that same period, the HFRX Equity Hedge Index is down -5.4%, the Russell 3000 Index is down -5.4% and the MSCI ACWI Index is down -7%. Marquette recently added the MSCI ACWI as a third index to help gauge performance of the Fund's hedged equity portfolio. The MSCI ACWI is a long/short equity fund-of-funds with approximately 50% in non-U.S. assets. Similar to the Fund's traditional active managers, ABS invests in high-quality stocks and has struggled with its performance throughout the extended low-quality stock rally. Some differentiation between high and low quality stocks is beginning to appear in the U.S. and globally, which has recently enhanced ABS's performance. For the third quarter of 2015, the Fund's three real estate managers are all up over 3% net-of-fees. Under the Fund's infrastructure composite, IFM is up at 3% net-of-fees for the third quarter of 2015. J.P. Morgan infrastructure has not yet reported. Marquette anticipates strong annual performance from the Fund's real assets and expects double-digit returns by year-end. Currency has been a headwind for the Fund's infrastructure composite because approximately half of the infrastructure assets are in non-U.S. assets. However, Marquette does anticipate that the currency effect will begin to reverse. Although Marquette is disappointed with the Fund's flat year-to-date performance on a fiscal basis, they are very pleased with the relative performance of the overall portfolio versus its peers in a down market. Marquette would like to work towards increasing the Fund's private equity allocation to enhance the Fund's long-term performance, while maintaining minimal risk exposure relative to its peers. Marquette will continue to discuss its asset allocation recommendations at upcoming Investment Committee and Pension Board meetings.

Mr. Christenson concluded by reporting that that two of the Fund's private equity managers, Adams Street and Mesirow, will present at the November 2015 Pension Board meeting.

In response to a question from Ms. Braun regarding the recent performance of Adams Street and Mesirow, Mr. Christenson reported that the Mesirow fund is off to a favorable start, but is also very short in nature compared to the Fund's other private equity products. Adams Street, the fund-of-funds manager, has exhibited average performance over the last five to seven years relative to their long-term historical performance. Historically, Adams Street has been a first percentile fund-of-funds manager. Marquette is uncertain about the reason for Adams Street's decline, but theorizes that the size of Adams Street has inhibited their ability to capture smaller market opportunities. Marquette believes that the smaller end of the market can achieve stronger returns. Marquette will discuss performance with Adams Street in greater detail at next month's Board meeting and at the next Investment Committee meeting. Marquette will likely perform a full private equity manager search if the Board does decide to increase the Fund's target allocation.

Mr. Harper noted that Mr. Christenson reported earlier that performance of the Fund in a down market is generally flat. Mr. Harper then asked what haircut the Fund takes in terms of relative performance in an up market.

Mr. Christenson answered Mr. Harper by first noting that the Fund is currently positioned approximately 5% to 6% underweight in equities relative to its peer group. The Fund's underweight to equites will be a drag on performance in up markets. The Fund's underweight to equites is primarily allocated to hedged equity investments. Hedged equity is also a drag on returns because those investments do not fully capture the up cycles of the stock market. However, the Fund does maintain a slight underweight to fixed income relative to its peer group. Marquette believes that further reducing the Fund's fixed income allocation to 18% and increasing the Fund's private equity allocation could counterbalance the up market drag from equities.

In response to a follow-up question from Mr. Harper regarding the Fund's performance in terms of meeting its 8% actuarial assumed rate of return, Mr. Christenson stated Marquette has been discussing this topic with the Investment Committee and Pension Board over the last several months as part of its asset allocation analysis. Marquette's goal is to help the Board construct a portfolio that will achieve the highest possible returns with minimal risk. Mr. Christenson indicated that it is currently extremely difficult to achieve an annual return of 8%. According to Marquette's current model projections, it would be extremely difficult to achieve an annual return of 8% even if the portfolio were fully allocated to equities. Fixed income is a drag on the portfolio and Marquette is predicting ten-year fixed income returns of 2.5%. Marquette projects that real estate, infrastructure and private equity will have ten-year returns at or above 8%, with a reasonable long-term risk of volatility. Marquette believes the Fund should focus on increasing alternative investments, while maintaining a sufficient fixed income allocation to meet long-term liquidity needs. To maintain sufficient funds to pay benefits and expenses, the Fund cannot reduce its fixed income allocation to zero. Based on the result of its recent asset allocation analysis, Marquette believes the Fund could reduce its fixed income allocation to as low as 16.5%. However, Mr. Christenson noted that 18% would provide a more reasonable comfort level. Under the three portfolio options A, B and C from its recent analysis, Marquette projects annualized ten-year returns for the Fund of 7.56%, 7.61% and 7.69% respectively. Mr. Christenson believes that the returns projected under portfolio options B and C do not justify the added risk to the portfolio resulting from increased allocations to equities. Regardless of how the Fund's asset allocations may be shifted, the best case scenario would be annual returns in the range of 7.5% to 7.75%.

Mr. Harper then suggested that it would be advisable to forecast the anticipated annual rate of return shortfall for budgetary and funding purposes.

Ms. Van Kampen suggested that the problem surrounding the Fund's current annual rate of return is twofold. As Marquette has projected, the Pension Board expects that the Fund will not reach the 8% annual rate of return in the next ten years. However, the Board must first choose a portfolio option that will provide the highest returns with minimal risk, while meeting the Fund's liquidity needs. Once a decision in made regarding an optimal asset allocation, the Board must then make a recommendation regarding changes to the Fund's current assumed rate of return to other County parties involved.

Ms. Braun noted that the Board and Investment Committee have been discussing various options to achieve a more realistic assumed rate of return. At a prior Pension Board, meeting Ms. Van Kampen suggested that even if the Fund's 8% return is a 20-year target, the fact that the 10-year annualized returns are projecting a shortfall places an even greater burden to meet the 8% return in years 11 through 20. Ms. Braun suggested that the current 8% annual rate is unrealistic and the Board needs to collaborate with ERS's other stakeholders to manage the costs involved.

Mr. Grady concluded by stating that in terms of a timeline, the Board will likely reach a consensus on a revised asset allocation by the end of 2015. Following that decision, the Board should hold additional discussions in the early months of 2016 regarding any recommended changes to the Fund's interest rate assumption. It is important to hold discussions regarding changes to the interest rate assumption in the first few months of 2016 so that any recommended changes can be incorporated into Buck's actuarial valuation report issued in the spring of 2016.

6. Investment Committee Report

Ms. Van Kampen reported on the October 5, 2015 Investment Committee meeting. The Investment Committee first discussed asset allocation. Marquette reviewed alternative portfolio options A, B and C, which are designed to increase the Fund's 10-year annualized return. All three portfolio options decrease the Fund's current fixed income allocation from 22% to 18% and increase the Fund's private equity allocation from 6% to 10%. Portfolio option B further decreases the Fund's hedged equity allocation from 10% to 8% and increases U.S. equity from 25% to 27%. Portfolio option C further decreases the Fund's hedged equity allocation from 10% to 6% and increases U.S. equity from 25% to 29%. Volatility increases with each portfolio option. Mr. Christenson suggested that any changes to the Fund's current asset allocation should be considered long-term, as the current market environment is expected to continue for some time. Mr. Christenson advised against exceeding a 10% allocation in private equity to mitigate risk. After continued discussion, Mr. Christenson suggested that that projected increase to returns in portfolio options B and C did not warrant the overall increased risk to the Fund.

The Investment Committee continued with a discussion of the 2014 National Conference on Public Employee Retirement Systems ("NCPERS") Public Employee Retirement Systems study results. As requested by the Committee members, Marquette reviewed and analyzed the study's results to help illustrate how ERS is performing relative to its public fund peers. The study was fairly comprehensive and included 187 public funds, with 29% of the study respondents being county pension funds. With the relatively high percentage of county pension funds participating in the study, the Committee felt the study's results were comparable to ERS, with the one exception being that ERS is a more mature plan.

After reviewing the 2014 NCPERS study results, the Committee concluded that, at 62 basis points, ERS's overall fees are in line with the average of 61 basis points from the study respondents. The Committee members also concluded that because ERS does maintain some private equity and hedged equity alternative investments, with higher than average fees, ERS is actually paying a lower amount in fees relative to its peers. ERS's fixed income portfolio measured more conservatively than the average public pension fund in the study. A review of annual rates of return illustrated that only 8 of the public funds participating in the study maintained a targeted rate of return above 8%. Forty of the funds participating in the study maintained an annual return of 8%, 38 were between 7.5% and 8%, 28 were at 7.5% and 36 were below 7.5%. With an annual return at 8%, ERS is currently on the higher end of the spectrum.

Ms. Van Kampen concluded her report by noting that the Investment Committee has arrived at the general consensus that portfolio option A would provide a higher rate of return with minimal risk, while meeting the Fund's liquidity needs. The Investment Committee will hold additional discussions to determine whether a change to portfolio option A should be recommended, or whether the Fund's current asset allocation should be maintained. The Investment Committee should be prepared to issue its final recommendation to the Pension Board sometime in the near term.

In response to a question from the Chairman regarding the Committee's preference for portfolio option A, Ms. Van Kampen stated that Marquette suggested the increased returns estimated under portfolio options B and C were not substantially higher than returns under option A to warrant the increased risk exposure. The Investment Committee would first like to hear from the Fund's private equity investment managers prior to recommending any specific increase to the Fund's private equity allocation.

In response to a follow-up question from the Chairman regarding an approximate date the Investment Committee would be prepared to issue its final asset allocation recommendation to the Pension Board, Ms. Van Kampen and Mr. Christenson stated that the Committee should be able to issue its final recommendation at the December 2015 Board meeting.

Ms. Braun noted that the Investment Committee also expressed a desire to allow sufficient time for all Board members, including the new appointees on the Board, to have input in the asset allocation decision-making process.

Mr. Grady then suggested that if the Investment Committee should ultimately decide to recommend portfolio option A, the Committee should also work with Marquette to develop an interim strategy for investing the excess funds resulting from the increased private equity allocation.

Mr. Christenson agreed with Mr. Grady's suggestion, while noting that Ms. Braun made a similar recommendation at the October Investment Committee meeting. Mr. Christenson stated that fixed income could be maintained at 18%, while temporarily overweighting equities in relation to the private equity underweight. Mr. Christenson added that most of Marquette's clients will typically overweight equities while they work towards increasing their private equity portfolios. Because ERS's private equity portfolio is very close to 6%, it should only take several more commitments to reach the Fund's current 6% target allocation. ERS could maintain a slight overweight to equities while working towards a longer-term 10% private equity allocation and still remain relatively in line with its peer group's positioning.

Mr. Christenson concluded by announcing that Marquette Associates recently held its annual investment symposium and will be posting information from the symposium on its website. One of the keynote speakers at this years' symposium was Frank Abagnale, whose real life adventures inspired the movie *Catch Me If You Can*. Mr. Abagnale gave a very interesting presentation on the increasing instances of identity theft and fraud around the world. Mr. Abagnale has agreed to allow Marquette to post his full presentation from the symposium on its website for six months. Marquette will post Mr. Abagnale's presentation for client-only access sometime in the next few weeks and will provide special login information to access the presentation.

7. Audit Committee Report

Ms. Ninneman reported on the October 1, 2015 Audit Committee meeting. The Audit Committee first discussed optional member required contributions. Ms. Ninneman explained to the Audit Committee that ERS has discovered some errors regarding the payroll deductions of optional member pension contributions. Contributions were deducted from three optional members who did not elect to enroll in ERS. In addition, contributions were not deducted from two optional members who did elect to enroll in ERS. Ms. Ninneman asked the Audit Committee to provide direction for correcting both situations. The Audit Committee concluded that ERS should issue refunds to those members who had unauthorized contributions deducted. The Audit Committee further directed the Retirement Office to calculate the total amount of missed contributions for the two members who did elect to enroll and establish repayment plans with each member. Messrs. Huff and Grady advised the Committee and Ms. Ninneman that the missed contributions must come from the member's County pay and not another outside source. Mr. Huff also advised that ERS must include an 8% interest factor on the refunded contributions and charge a 5% interest factor on the missed contributions. Ms. Ninneman noted that the HR department recently implemented a New Employee Orientation process which should prevent such errors from occurring in the future. Ms. Ninneman reported to the Pension Board that the contribution refund checks will be issued to the three individuals later this week.

The Audit Committee next discussed proposed Ordinance amendments regarding the possible elimination of Option 1 and Option 7 benefits. After concluding its discussion, the Audit Committee requested that the topic be added to the October Pension Board meeting agenda. Ms. Ninneman advised the Pension Board members that Mr. Grady will discuss the proposed Ordinance amendments in detail as the next item on today's agenda.

The Audit Committee continued with a discussion of the normal retirement age 64 early retirement calculation. The Committee reviewed and discussed the question of appropriately calculating an early retirement benefit for an ERS member with a normal retirement age of 64, versus age 60. Ordinance § 201.24(4.2) and (5.2) provides for early retirement at age 55 and 15 years of service, with a 5% reduction for each full year between the member's pension effective date and normal retirement date. However, at the time the Ordinance was written, the normal retirement age was 60. After continued discussion, the Audit Committee agreed to revisit the matter at a future meeting.

The Audit Committee concluded with a discussion of data clean up. In response to a question posed by Ms. Westphal at a prior Pension Board meeting, Ms. Ninneman explained that with the conversion to the V3 system in 2009, ERS imported certain data from its legacy system and some fields did not correlate to the new system. As a result, the converted records require various degrees of "clean up" to insure data integrity. Additionally, the ongoing import of data from the County's payroll system is not "clean" and ERS does occasionally discover errors in old calculations performed by ERS staff. As audits are completed and errors are discovered, the data is corrected. ERS does anticipate that the scope of the cleanup process will diminish over time as errors continue to be identified and corrected.

8. Possible Ordinance Amendments to Options 1 and 7

Mr. Grady first explained that a revised set of documents regarding the proposed Ordinance amendments, dated October 20, 2015, have been distributed to the Pension Board. The revised documents contain updated information from those documents e-mailed to the Pension Board members earlier this week and distributed at the October 1, 2015 Audit Committee meeting. Mr. Grady explained that the revisions are primarily related to the intention behind the proposed Ordinance amendments. Mr. Grady explained that upon initial review of the matter, he believed an Option 1 benefit was not an actuarially-based benefit. At Mr. Grady's request, Buck Consultants performed a detailed analysis of the calculations involved in an Option 1 benefit. In September 2015, Buck issued a report which stated that Buck believes the Option 1 benefit is actuarially neutral. During a subsequent Audit Committee meeting, the Committee members discussed the matter and requested that Buck revisit and confirm its results of the Option 1 benefit analysis. The Retirement Office then provided Mr. Langer with some additional data as to how ERS had previously calculated an Option 1 benefit. After reviewing the additional data from ERS, Buck confirmed with Mr. Grady that they do continue to believe that an Option 1 benefit is actuarially neutral. As a result of Buck's conclusion, the justification from the initial set of proposed Ordinance amendment documents, which stated that the benefit should be eliminated because it was not actuarially neutral, has been removed from the revised set of documents.

Mr. Grady then provided a summary of the proposed Ordinance amendments. Option 1 is a benefit that is in part based on ERS membership accounts and benefits based on membership accounts have been in existence since the inception of ERS. A member selecting an Option 1 benefit would initially have their pension benefit calculated based on their life expectancy and the amount in their membership account at retirement. At retirement, the member would receive an Option 1 pension benefit from ERS for their lifetime. After the member selecting an Option benefit 1 dies, ERS would then calculate the value of the individual's membership account at the date of death, with interest. The amount of pension benefits the member received over their lifetime would then be offset against any membership account balance. After subtracting all pension benefits the member received from ERS during their lifetime, any remaining balance in the deceased individual's membership account would be payable to the member's beneficiary. ERS members could make additional voluntary contributions to their membership accounts prior to 1971. However, the selection frequency of an Option 1 benefit has declined over the years, as the number of active employees with such accounts declined. Over the last ten years, less than ten ERS members selected an Option 1 benefit. However, with the 2011 implementation of Act 10, the membership accounts are once again beginning to grow, and Mr. Grady believes that more ERS members may begin selecting an Option 1 benefit in the future. After reviewing and discussing benefit Option 1 with ERS staff, counsel believes that Option 1 may create future administrative problems because it is a very difficult benefit to understand and administer. Unlike all other available benefit options in ERS, Option 1 requires ERS staff to monitor a member's retirement and perform an additional calculation at the member's death which could be 20 to 40 years later. The potential for errors is greatly increased because of the length of time involved in monitoring the member's retirement and the additional calculations required at the member's retirement. Buck also advised counsel that the necessary steps involved in the actual calculation of an Option 1 benefit at retirement are extremely complicated. Due to the increased potential for administrative errors, combined with the fact that all other options currently available should meet any member's retirement needs, counsel believes that Option 1 should be eliminated from ERS. There is the standard option of a lifetime benefit, with no survivor benefits, that ends at a member's death. There are 25%, 50%, 75% and 100% joint and survivor options currently available to ERS members. There is also a ten-year certain option, which is a ten year guaranteed benefit designed primarily for members that may have serious health conditions at the time of retirement. These options are all calculated at a member's retirement and cover the full spectrum of individual needs. For these reasons, counsel believes it is reasonable that the Pension Board consider recommending the elimination of an Option 1 benefit to the County Board.

In response to a question from Ms. Funck regarding the number of known past errors related to the Option 1 benefit, Mr. Grady stated that there currently are no known errors and that a very small number of members are selecting an Option 1 benefit. The few members who have elected an Option 1 benefit have pre-1971 voluntary contributions in their membership accounts.

Ms. Funck then noted that because all ERS members are now contributing to their membership accounts, the selection frequency of an Option 1 benefit may begin to increase.

Mr. Grady then explained that prior to 1971, ERS members contributed mandatory contributions, but could also make additional voluntary contributions to increase the size of their account. However, today ERS members cannot make additional voluntary contributions to their mandatory membership contribution accounts.

In response to a clarifying statement from the Chairman, Mr. Grady confirmed that ERS is currently unaware of any errors with the dozen or so members who have elected an Option 1 benefit over the past decade. However, the intention for eliminating an Option 1 benefit now is to avoid potential future administrative errors which may occur due to the extended recalculation period following a member's death. ERS members are not currently utilizing Option 1 and they have a full suite of alternative retirement benefit options to select.

Ms. Ninneman noted that there is also the added risk of large balances exiting the Fund via an Option 1 benefit. It is impossible to predict how funds will flow out of the Fund anytime a lump sum payment option is available to members.

Ms. Funck then suggested that ERS members may wish to select an Option 1 benefit to ensure that a beneficiary could recoup their mandatory contributions in the event that member should die prematurely.

Messes Van Kampen and Ninneman suggested to Ms. Funck that a member could instead elect one of the joint and survivor options to ensure distribution of benefits to a beneficiary following their death.

Mr. Grady then stated that he believes the main issue surrounding the Option 1 benefit issue is philosophical. The Fund is a defined benefit pension plan and is not intended to serve as a 401(k) or 457 defined contribution savings plan. The County taxpayers and investment returns are the primary funders of ERS, along with the relatively small amount of mandatory employee contributions. The retirement benefit a member ultimately receives from ERS does not correlate to the size of their individual membership account.

Ms. Funck opined that County employees are foregoing increased salaries that are available in comparable private sector positions in exchange for receiving a pension benefit from ERS. In addition to those reduced wages, ERS members are now required to contribute their own funds to the Plan. Therefore, Ms. Funck believes ERS members should have a benefit option available that would allow a member's beneficiary to receive their member contributions in the event of death.

Mr. Grady responded that the Department of Human Resources contends that all wages for Milwaukee County employees have been or will soon be set to market value. Therefore, Milwaukee County employees should not be making less than anyone in comparable private sector positions.

Mr. Harper stated that he believes the major intent behind the proposed elimination of Option 1 is to decrease risk in the Fund by reducing the potential for large amounts of future lump sum distributions upon a member's death.

Mr. Grady and Ms. Ninneman expressed agreement with Mr. Harper and added that the amount of an Option 1 lump sum distribution is uncertain because it would be calculated at a member's death. There will also be an increased future risk as members begin to retire at advanced ages, with larger member contribution account balances. A fixed interest rate of 5% is also applied to membership contribution account balances, which could greatly increase the amount of a member's account 30 years from now. Although a member's pension benefit will "carve away" from their membership account balance during retirement, there is no way to predict what the final membership account balance would be following recalculation upon a member's death. In addition to all of these unknown factors, ERS must maintain and track membership account data throughout the member's lifetime and perform complicated calculations upon the member's death.

In response to a question from Ms. Funck, Mr. Grady stated that aside from Option 1, there is no other benefit option available that would allow a member's beneficiary to receive lump sum membership account distributions in the event of a member's death. However, a member's beneficiary could receive a lifetime monthly benefit under any of the joint and survivor options currently available.

Ms. Braun then reiterated that ERS is a defined benefit pension plan and is not designed to serve as an individual savings account on behalf of its members.

Mr. Grady also reminded the Board that members not presently eligible to receive a retirement benefit from ERS may still request a refund of their ERS membership account within 180 days of termination of employment.

Mr. Leonard stated that even though he represents the retirees, as a trustee he took an oath of office to act as a fiduciary to the Fund, not its individual members. Mr. Leonard further stated that he is required by that oath to safeguard the interests of the Fund and reducing the potential for future administrative errors is in the best interest of the Fund as a whole.

In response to questions from Messes. Funck and Braun, Mr. Grady stated that the Pension Board is being asked to weigh in on a benefit policy recommendation because the Pension Board is in charge of administering ERS. The Option 1 benefit is an outdated benefit that adds an unnecessary level of complexity to the administration of ERS. While the Pension Board cannot act to eliminate a benefit option, the Pension Board can make the recommendation for a change to the County Board.

In response to a question from Mr. Gedemer regarding the calculation of benefits under the other available benefit options, Mr. Grady stated that under any other option, the membership account balance is meaningless, because benefits are calculated based on a member's final average salary and years of service

Mr. Gedemer then opined that the Pension Board should recommend eliminating Option 1 from ERS because it involves too many unforeseen variables. Although very few members are electing an Option 1 benefit now that may change as the retirement age is increasingly adjusted higher.

Mr. Grady noted that because of the unknown variables involved with an Option 1 benefit, it would also be very difficult for a member preparing for retirement to decide whether an Option 1 benefit would be better or worse than benefit Options 3, 4, 5 or 6. With an Option 1 benefit, no present value of the stream of payments is provided. With an Option 1 benefit, a member may see a large $1 million membership account balance and instinctively feel the need to ensure any remaining membership account balance would go to a beneficiary when they die. However, that $1 million figure may, in fact, be lower than the present value of another option and because ERS does not provide such information to its members, there is no meaningful way for a member to make an accurately informed decision.

Ms. Van Kampen expressed agreement with Mr. Grady, stating that employees will often opt to take their money up front and that may not always be in their best interest.

Mr. Gedemer indicated that he understands both sides of the argument. However, Option 1 does provide every ERS member with the opportunity to select a benefit that may not ultimately be in the best interest of the Fund. At some point in the future, a large amount of high lump sum Option 1 distributions could dramatically decrease the value of the Fund.
Mr. Gedemer suggested that if members want to have more control over their money, they should consider contributing to the 457 deferred compensation plan with the understanding the Pension Fund is still an available benefit. Mr. Gedemer also remarked that he believes ERS members do not truly understand the differences between a defined benefit and defined contribution plan.

Ms. Ninneman also noted that members with a high balance in their membership account must make a carefully informed decision when selecting an Option 1 benefit. Ms. Ninneman expressed concern while noting that her staff cannot provide the necessary advice because they are not professionally licensed financial advisors.

Mr. Grady continued the discussion by noting that another piece of the proposed Ordinance amendment involves a recommendation that the County Board add to the Ordinances some of ERS's current benefits options that were previously added by the Pension Board via the Rules. The Pension Board previously added the 25% and 75% joint and survivor options, and the ten-year certain benefit option to ERS via the Rules. This would simplify the record and help to add a level of permanency to those benefit options.

Mr. Grady concluded with a discussion of benefit Option 7. The Ordinances currently allow the Pension Board the discretion to grant an ERS member any other kind of benefit, with no constraints other than it must be actuarially neutral. ERS members have historically come before the Pension Board to periodically request an Option 7 benefit. A prior example includes one member entitled to health insurance who requested a 1% joint and survivor benefit. The member's request was primarily designed to provide health insurance to a surviving dependent. While the Pension Board did grant a handful of Option 7 benefits in the past, they ultimately ceased the practice to avoid another scenario similar to the purchase of service errors from occurring. The Pension Board then passed a Rule stating that they would not grant any optional retirement benefit below 25%. Members have also appeared before the Pension Board to request a present value calculation of their benefit and subsequent lump sum payment of that amount. The Pension Board previously denied granting two such requests and passed a Rule stating that they would not grant any future lump sum payments. Counsel believes that Option 7 is also fraught with potential problems related to cash flow issues and member education. ERS's existing benefit options should provide a sufficient range for its members to choose from. Additionally, the Pension Board should eliminate further risk by removing itself from the potentially troubled position of granting members individually designed benefit options. Mr. Grady explained to the Board that the proposed amendment would remove the Pension Board's authority to grant any benefit option not listed in the Ordinances.

Mr. Leonard then stated that there has been sufficient discussion to suggest that recommending the approval of the proposed Ordinance amendments are in the best interest of the Fund and its individual members. Mr. Leonard then asked to call a motion to recommend the County Board approve the proposed Ordinance amendments.

Ms. Funck expressed concerns, noting that when the Option 1 benefit issue was raised at a prior Audit Committee meeting, it was presented as only impacting members hired before 1971. Ms. Funck noted that she will never vote to remove any benefit or freedom from ERS members.

Mr. Grady reiterated to the Pension Board that refunds of membership accounts will still be an available option to terminated members within 180 days of termination of employment.

Ms. Braun indicated that she believes the Pension Board is obligated to act in the best interest of the Fund.

In response to a question from Ms. Ninneman, Mr. Grady stated that if the Pension Board does not pass a motion to approve the proposed amendments today, any County-elected representative could make the same proposals for adoption by the County Board. However, even if the County did make these proposals, the matter would likely come back to the Pension Board for comment. However, Mr. Grady indicated that he has not yet raised these proposals with the County because he believes these are matters of administration which should be initially addressed by the Pension Board.

Mr. Grady explained that the Pension Board members can vote however they like. Mr. Grady stated that if a motion is passed to approve recommending the proposed Ordinance amendments to the County Board, he would draft a cover memo to the County Board that would condense the information provided in the bullet point summary in the revised set of documents dated October 20, 2015.

In response to a question from Mr. Harper regarding ERS membership accounts, Mr. Grady stated that membership accounts are tracked separately, but are comingled and managed by the Pension Board.

The Pension Board voted 7-1, with Ms. Funck opposed, to recommend that the County Board adopt the proposed amendments to sections 201.24(7.1) and 201.24(7.2) of the Milwaukee County Code of General Ordinances. Motion by Mr. Leonard, seconded by Ms. Braun.

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 items 9 and 10 for considering the financial, medical, social or personal histories of the listed persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of those persons, and may adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g) with regard to items 9 through 13 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board unanimously agreed by roll call vote 8-0 to enter into closed session to discuss agenda items 9 through 13. Motion by Ms. Braun, seconded by Ms. Funck.

Messes Ninneman, Aikin and Lausier recused themselves from and left the room during the closed session discussion of agenda items 9 and 10.

Mr. Gedemer recused himself from and left the room during the closed session discussion for agenda item 12.

9. <u>Appeal - Carolyn Lee</u>

In open session, the Chairman thanked Ms. Lee for attending today's meeting and invited her to address the Board. The Chairman explained to Ms. Lee that the Pension Board members have been previously provided with a summary of the relevant facts and circumstances regarding her appeal.

In response to a question from the Chairman, Ms. Lee confirmed that she is requesting forgiveness for payment of interest to ERS in the approximate amount of $50.00 related to pension overpayments.

Ms. Lee thanked the Board for the opportunity to appear today and discuss her appeal. Ms. Lee explained that in August 2015, she received a letter from ERS (the "Letter") explaining that she had received pension overpayments related to cost of living adjustments ("COLA") beginning in 2012. Ms. Lee stated that based on the Letter, it is her understanding that she received two COLA adjustments in 2012, one in July 2012 and an additional adjustment allocated in December 2012. Ms. Lee stated that ERS then applied additional COLA adjustments to her pension payment each subsequent December, until July 2015. Ms. Lee noted that according to the Letter, the COLA miscalculation was definitely an error on the part of ERS, although Ms. Lee stated that she was uncertain as to whether it was a human or computer-related error. Ms. Lee stated that in the Letter, ERS apologized for the error which resulted in overpayments of approximately $700.00, which included an amount of $49.10 related to interest on the overpaid amounts. Ms. Lee explained that she understands she must repay the $600 plus in overpayments. However, Ms. Lee stated that she believes it is unfair to be penalized for a mistake ERS made and she should not have to be held responsible for repaying the additional $49.10 in interest related to the overpayments.

In response to a question from the Chairman, Ms. Lee answered that she has not yet repaid the $600 plus in overpayments. Ms. Lee stated that while she has agreed to repay the amount related to the COLA overpayments, she was waiting to appear before the Pension Board to appeal the interest amount prior to issuing her repayment.

In response to a follow-up question from the Chairman, Ms. Lee confirmed that she retired from County employment in July 2012.

In response to a clarifying statement from the Chairman, Ms. Ninneman confirmed that Ms. Lee received two annual COLA adjustments in 2012. The first COLA adjustment was correctly applied in July 2012, while the second COLA adjustment was incorrectly applied in December 2012. Thereafter, Ms. Lee improperly received a COLA adjustment each subsequent December, until discovered in 2015.

Ms. Ninneman then explained that the error regarding Ms. Lee's COLA adjustment was discovered via an audit of ERS's COLA payments. ERS is now aware of a system-related issue with the annual COLA adjustments. The known COLA issue is now being addressed and corrected by the system vendor.

In response to questions from Ms. Van Kampen and Mr. Leonard regarding the number of prior system-related COLA errors ERS has discovered, Ms. Ninneman stated that some other retirees have been impacted but she cannot provide an exact figure today.

In response to a follow-up question from the Chairman, Ms. Ninneman stated that she is not aware of any other current system-related COLA errors. However, Ms. Ninneman noted that because ERS does run reports monthly, it is possible that more similar errors could be discovered.

Ms. Lee then commented that after inquiring with friends who have also retired from Milwaukee County, she appears to be the only one affected by the COLA issue. Ms. Lee expressed concerns that she is being "singled out" and hoped that there are no other retirees who may be too uncomfortable to come before the Board to appeal a similar circumstance.

In response to Ms. Lee's comment, Ms. Ninneman stated that ERS does audit its payments on a monthly basis and those audits are now much more comprehensive than in the past. There have also been prior cases where retirees have contacted ERS to ask why they had received a second COLA adjustment in a 12-month period. Ms. Ninneman explained to Ms. Lee that ERS is required to correct any errors and hoped that she would not feel as though she was being singled out.

Ms. Lee acknowledged that she understood ERS must correct any errors. However, Ms. Lee also noted that the error first occurred in the year she began receiving her pension payments and she was not aware of any issue with the December 2012 payment until three years had passed. Ms. Lee stated that she thought the second increase in December 2012 was simply standard at the time she received it. Ms. Lee further stated that she received no detailed statement with the July 2012 or December 2012 payment that would have explained the reason for the increase. Ms. Lee admitted that she does partially accept responsibility because she did not pay close attention to the approximate $30.00 which was added to her monthly payments. However, Ms. Lee commented that three years is quite a long period of time for a system-related error to remain undetected by ERS.

Mr. Leonard remarked that similar appeals have occasionally come before the Pension Board when a human or system-related error has resulted in an overpayment and a retiree is then asked to repay any overpayment, plus interest. Mr. Leonard noted that he has been consistent in the past and is comfortable with asking a retiree to repay any overpaid amounts. However, Mr. Leonard indicated that he does not believe retirees should be assessed a penalty of interest on those overpayments. Mr. Leonard stated that he will maintain a similar position in regards to Ms. Lee.

The Chairman thanked Ms. Lee for appearing before the Board and indicated that the Board may be in closed session for some time to discuss her appeal in addition to a number of other matters. The Chairman stated that the Board will communicate its decision to Ms. Lee in a timely fashion.

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board voted 5-3, with Messes Harper, Funck and Mr. Leonard dissenting, motion by Ms. Van Kampen, seconded by Ms. Braun, to deny the appeal by Carolyn Lee consistent with the discretion assigned to the Pension Board by Ordinance section 201.24(8.17) to interpret the Ordinances and Rules of the Employees' Retirement System of the County of Milwaukee ("ERS"), based on the following facts and rationale:

<u>Factual Background</u>.

1. Ms. Carolyn Lee began receiving pension benefits from ERS upon her retirement in July 2011.

2. In accordance with the Ordinances and Rules, a member is entitled to an increase in the member's benefit effective on the first day of the month in which a member reaches the anniversary of his or her retirement date. Accordingly, ERS increased Ms. Lee's benefit in July 2012 to reflect the annual COLA increase.

3. In December 2012 and every December thereafter, Ms. Lee was provided another COLA increase.

4. In July 2015, ERS determined that Ms. Lee's COLA increases were erroneous because Ms. Lee should have received her COLA increases in July, not December. Therefore, Ms. Lee was receiving her increases seven months earlier than she should have. This error resulted in an overpayment of $682.26, plus interest.

5. ERS recalculated Ms. Lee's monthly pension benefit to reflect the correct COLA increases, and Ms. Lee will receive this corrected monthly benefit going forward.

6. On August 25, 2015, ERS notified Ms. Lee of its error and requested that she pay back the $682.26 overpayment, plus interest in the amount of $49.10. ERS informed Ms. Lee that it would offset her future benefit payments if she did not repay the amount by September 4, 2015.

7. Ms. Lee appealed ERS's decision under Rule 1050. Ms. Lee agreed to repay the overpayment, but argued that she should not have to pay the interest that has accrued on the overpayment amount. At the Pension Board Meeting on October 21, 2015, Ms. Lee stated that she felt it was unfair to charge her for the interest given that the error was not her fault.

<u>Pension Board Conclusions</u>.

8. Rule 1050 provides the procedures for ERS to follow when it determines that a member's benefit was paid in error and that the member has received an overpayment.

9. Rule 1050(1) states that upon discovery of an erroneous payment, ERS shall determine whether the benefit should have been paid and in what amount.

    a. Ms. Lee received an initial COLA increase to her monthly pension benefit in July 2012, which was correct. Then Ms. Lee erroneously received another COLA increase in December 2012, and every December thereafter.

    b. Ordinance section 201.24(5.7) allows a member to receive an increase on the first day of the month in which a member reaches the anniversary of the member's retirement date.

c. Thus, the Retirement Office correctly concluded that Ms. Lee should have been receiving her COLA increases in July and had been receiving her COLA increases seven months earlier than she should have received them, resulting in an erroneous benefit and overpayment.

10. When a payment has been made in the wrong amount, Rule 1050(1)(b) requires that ERS pay the member the correct benefit amount going forward.

    a. ERS recalculated Ms. Lee's monthly pension benefit to reflect the correct COLA adjustments and has been paying Ms. Lee the correct benefit amount since July 2015.

11. In accordance with Rule 1050(2)(c), the Retirement Office notified Ms. Lee of its error in writing and explained the nature and amount of the overpayment. ERS also requested that Ms. Lee repay the entire overpayment, plus interest, in a lump sum payment. ERS further indicated that if Ms. Lee declined to repay the overpayment in a lump sum, ERS intended to reduce the amount of Ms. Lee's future benefit payments until it recovered the overpayment amount, plus interest.

12. Ms. Lee argues in her appeal that she did not cause this error, and it is unfair for her to be penalized for the error in the form of an interest payment. She also noted that the repayment of the overpayment is hardship for her as she is on a fixed income.

13. Rule 1050 requires ERS to collect interest on an overpayment. Additionally, Rule 1050(2)(b) expressly provides for the interest rate payable on the overpayment. Furthermore, requiring ERS to collect interest on an overpayment is consistent with the overpayment correction methods in the IRS's Employee Plans Compliance Resolution System, which plans follow to correct errors such as overpayments.

    a. In accordance with the interest calculations specified in the Ordinances and Rules, ERS determined that it had overpaid Ms. Lee in the amount of $682.26, with $49.10 accrued interest.

14. ERS is a tax-qualified plan under the Internal Revenue Code ("Code") and must comply with Code requirements applicable to

governmental plans, including being administered in accordance with the Ordinances and Rules.

15. The Pension Board finds that because Rule 1050 requires ERS to collect interest on an overpayment, Ms. Lee is responsible for paying the overpayment in the amount of $682.26 as well as interest on that amount.

10. <u>Disability Application - Brenda Jamerson</u>

The Pension Board discussed the matter in closed session.

After returning to open session, the Chairman explained that Ms. Jamerson is deceased but did apply for a disability retirement prior to her date of death.

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

11. <u>Pending Litigation</u>

(a) <u>*Tietjen v. ERS*</u>

The Pension Board took no action on this item.

(b) <u>*Angeles v. ERS*</u>

The Pension Board took no action on this item.

(c) <u>*Trapp, et al v. ERS*</u>

The Pension Board took no action on this item.

(d) <u>*Baldwin v. ERS*</u>

The Pension Board took no action on this item.

(e) <u>*Mecouch v. ERS*</u>

The Pension Board took no action on this item.

(f) <u>*Walker v. ERS*</u>

The Pension Board took no action on this item.

12. <u>MDSA Rule of 75</u>

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board voted 4-1-3, with Mr. Leonard opposed, and Messer's Gedemer, Harper and Ms. Funck abstaining, to interpret the Collective Bargaining Agreement between Milwaukee County and the Milwaukee County Deputy Sheriffs' Association to determine eligibility for the Rule of 75 benefit based on the retiring Deputy's date of membership in ERS. Motion by Ms. Van Kampen, seconded by Ms. Bedford. The motion failed to pass because it lacked the necessary five votes as required by Ordinance section 201.24 (8.5).

Mr. Grady explained that although the motion failed, the Pension Board may reconsider the motion at its November 2015 meeting.

In response to a question from Mr. Leonard regarding the possibility of postponing further Board action until the arbitration is complete, Mr. Grady stated that if the Pension Board takes no further action on the matter, the matter will come back before the Pension Board once the arbitrator issues a decision.

In response to a question from the Chairman regarding the arbitration schedule, Ms. Ninneman and Mr. Grady stated that the arbitration hearing is scheduled for November 30, 2015 and, therefore, the Board has one additional month to reconsider the matter.

Ms. Funck explained that she is not prepared to issue a decision on the matter today. Ms. Funck noted that some additional information could aid in her decision-making process, although she could not advise Mr. Grady what specific information might be helpful.

Mr. Grady requested that Ms. Funck notify him or Ms. Ninneman with any additional requests for information regarding the matter.

In response to a question from Mr. Leonard regarding the initiation of the arbitration process, Mr. Grady stated that the parties to the collective bargaining agreement ("CBA") agreed that they would resolve any issues with the CBA through arbitration. In this particular instance, the union filed a grievance and requested a hearing before the arbitrator. Mr. Grady also explained that the Pension Board has a dual role in the matter because the Pension Board is responsible for interpreting the ERS Ordinances, which includes the CBAs.

13. Report on Compliance Review

The Pension Board took no action on this item.

14. Reports of ERS Manager & Fiscal Officer

(a) Retirements Granted, September 2015

Ms. Ninneman presented the Retirements Granted Report for September 2015. Fifteen retirements from ERS were approved, with a total monthly payment amount of $27,255. Of those 15 ERS retirements, 11 were normal retirements and 4 were deferred. Six members retired under the Rule of 75. Seven retirees chose the maximum option and three retirees chose Option 3. Seven of the retirees were District Council 48 members. Four retirees elected backDROPs in amounts totaling $1,286,481.95.

Ms. Ninneman noted that there was one large backDROP amount in September but it was otherwise a light month for retirements. The Retirement Office is using the resulting extra time to get current on other matters.

In response to a question from Mr. Leonard regarding the current number of ERS members who are eligible to receive a backDROP, Ms. Ninneman stated that there are at least 1,000.

Mr. Grady added that because ERS eliminated the backDROP benefit nine years ago, and the number of ERS members has also decreased by over 1,000 employees in the last four to five years, it is likely that approximately less than half of the current members are now eligible to receive a backDROP. Another important factor to consider is that the County also changed its formula for calculating backDROPs in 2011, which has greatly decreased the amount for future backDROP payments. Therefore, the only members who can still receive large backDROP payments are members who were already eligible to retire in 2011. The larger backDROP payments will eventually cycle through the system but that process will take several years.

In response to a question from Ms. Bedford, Mr. Grady answered that a member's eligibility to receive a backDROP is based on a member's date of hire and not their date of retirement. As a result of the 2011 backDROP formula change, a member hired in 2005 will not be able to receive a very large backDROP amount.

(b) Retirement Services Update

Ms. Ninneman provided a staffing update and announced that the Retirement Office recently hired a replacement for the vacant ERS Manager position. The new ERS Manager should complete employee orientation on November 9 and is scheduled to begin working in the Retirement Office on November 10, 2015.

In response to a question from Ms. Braun regarding the new ERS Manager's background, Ms. Ninneman stated that the new ERS Manager was previously employed with an actuarial consulting company and has prior management experience with benefit plan administration.

Ms. Ninneman continued by noting that one vacancy remains in the Retirement Office for a clerical specialist in the records room and interviews for that position are currently underway. In addition, one individual recently hired as a Retirement Specialist resigned effective this week. Ms. Ninneman noted that because that position was recently vacant, she does have a list of certified candidates to choose from which may accelerate the replacement timeline.

Ms. Ninneman next reported that Managed Medical Review Organization, Inc. ("MMRO") will be ready to start review of pending disability claims in December 2015. The Retirement Office has scheduled two implementation meetings with MMRO in November to review ERS's rules and policies and discuss MMRO's claims submission process. MMRO did agree to begin reviewing a few special claims next week.

Ms. Ninneman concluded by reporting the Retirement Office will hold a preretirement session during the afternoon of November 5, 2015. Currently, over 100 members have registered to attend the November 5 session. The educational session is geared towards ERS members seeking to retire in the next six months and provides a general overview of the retirement process. The session will also provide an overview of life, health and Social Security benefits, as well as a presentation by deferred compensation. ERS invites all of its life and health insurance vendors to attend the session to help answer any questions a member may have regarding their pending retirement.

In response to a question from Ms. Funck regarding the frequency and venue for the preretirement sessions, Ms. Ninneman stated that the sessions are presented bi-annually and are typically held at the Milwaukee County Zoo.

(c) Fiscal Officer

Ms. Lausier distributed the September 2015 portfolio activity report. Ms. Lausier noted that she has also issued a revised August 2015 portfolio activity report. The revised August report incorporates updated report data ERS received from several of its managers. Benefits and expenses for September were funded with a disbursement of $17 million from fixed income.

Ms. Lausier distributed the September 2015 cash flow report and a report illustrating the quarterly funds approved by the Board for disbursements. The Pension Board approved funding for the 2015 fourth quarter in at its September 2015 meeting. Ms. Lausier will request funding for the first quarter of 2016 at the November 2015 Pension Board meeting.

In response to a question from the Chairman, Ms. Lausier confirmed that the amounts for fourth quarter funding approved by the Pension Board last month should be sufficient for the remainder of the 2015 fourth quarter. The month of October is currently anticipated to be a very light month for retirements. While it is anticipated that retirement activity will increase during the months November and December of 2015, there should still be sufficient funding.

Ms. Ninneman noted that ERS does anticipate a very high number of retirements will occur during the months of January, February and March of 2016.

Ms. Lausier concluded with a discussion of the third quarter check register.

In response to a question from Ms. Braun regarding payments to Accountemps totaling approximately $30,000 in the third quarter, Ms. Ninneman stated that ERS hired a temporary Certified Public Accountant ("CPA") through Accountemps to fill in while ERS was hiring permanent replacements for the Fiscal Office. Because ERS has now hired an Assistant Fiscal Officer, the temporary CPA through Accountemps will be leaving on Friday.

In response to a question from Mr. Grady, Ms. Ninneman confirmed that the newly hired Assistant Fiscal Officer is also a CPA.

15. <u>Administrative Matters</u>

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

16. <u>Adjournment</u>

The meeting adjourned at 1 p.m.

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