# EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

## MINUTES OF THE FEBRUARY 19, 2014 PENSION BOARD MEETING

1. Call to Order

   Chairman Mickey Maier called the meeting to order at 8:30 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

| Members Present | Members Excused |
|---|---|
| Laurie Braun | Aimee Funck |
| Dr. Brian Daugherty (Vice Chair) | |
| Norb Gedemer | |
| Marilyn Mayr | |
| Dr. Sarah Peck | |
| Patricia Van Kampen | |
| Vera Westphal | |
| Mickey Maier (Chairman) | |

   Others Present
   Marian Ninneman, CEBS, CRC, ERS Manager
   James Carroll, Principal Assistant Corporation Counsel
   Daniel Gopalan, Fiscal Officer
   Bob Brinker, BNY Mellon
   Keith Wilson, BNY Mellon
   Brett Christenson, Marquette Associates, Inc.
   Ray Caprio, Marquette Associates, Inc.
   Roger Baumler (and Mrs. Baumler), Milwaukee County Employee
   Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Chairman's Report

The Chairman announced that Dean Muller has formally resigned from the Board. Mr. Muller indicated that due to personal and professional demands on his time, he will be unable to attend future Board meetings.

The Chairman then noted that both he and Dr. Peck will be rotating off from their appointed positions on the Board within the coming months. Because replacements have not yet been appointed, for quorum purposes, it will be very important for all members to attend the Board meetings over the coming months.

4. Minutes—January Pension Board Meeting

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

**The Pension Board unanimously approved the minutes of the January 15, 2014 Pension Board meeting. Motion by Dr. Daugherty, seconded by Ms. Braun.**

5. Investments

(a) Bank of New York Mellon - Cash Overlay

Bob Brinker and Keith Wilson of Bank of New York Mellon ("BNY Mellon") distributed a booklet containing information on the beta and transition management services provided by BNY Mellon for ERS. Mr. Brinker then introduced himself as managing director, head of sales for North America, and Mr. Wilson as managing director of investment management.

Mr. Brinker first provided an overview of the firm. The beta and transition management team is a subsidiary firm of BNY Mellon's asset servicing group. The beta and transition management team is comprised of approximately 36 individuals. The majority of those employees are based in San Francisco, with the remainder spread among Boston, New York and Pittsburgh. There is also a small team located in London and one employee based in Australia. The team is solely dedicated to beta mandates and transition management mandates.

Mr. Wilson then discussed BNY Mellon's beta management applications. BNY Mellon's beta and transition management team converts idle cash to equity and bonds, keeping ERS's cash invested in the market, even though it may be needed in the short-term. There are various situations that may result in un-invested cash. For example, during the transitional period between terminating and hiring managers, the team would manage the process of overlaying any resulting excess cash on the transitional side. A part of that process is also managing risk. For example, if ERS wants to maintain exposure to the equity market, the team ensures that the cash remains in the equity market as part of the transition.

There are two main types of exposure applications within which BNY Mellon operates, re-active and pro-active. Re-active applications involve market movements that necessitate adjustments back to ideal target asset allocations, and include rebalancing, cash equalization and transition management. Pro-active applications involve investment objectives that initiate tactical or strategic adjustments within target asset allocations, such as hedging, managing liquidity and providing efficient beta. BNY Mellon's services for ERS fall primarily under cash equitization. Cash equitization is the process of monitoring fund accounts for excess cash and investing that cash, even though it may be needed on a day-to-day basis. To maintain exposure in the market, BNY Mellon has a broad range of securities available as part of its beta management application. Various securities include physicals, futures, forwards, swaps and options. A futures contract is slightly different than an equity security because it does have to be paid for in one day. Futures contracts are important because they allow for continued exposure to the market without taking any money away from the individuals managers that hold it. Forwards, swaps and options are all longer-term, less active strategies, which allow for investments over a period of several months and do not need to change on a daily basis.

Mr. Wilson next discussed the cash equitization process. ERS has ten equity managers that hold day-to-day operational cash in their accounts resulting from fees, dividends and payments. As standard practice, equity managers will hold a pool of cash, generally in the range of 3% to 5%, to facilitate the ongoing daily operational issues within their fund. However, with the limited returns on cash, it would be more beneficial for ERS to have 100%, versus 95%, of its cash fully invested at all times. Through its cash equitization process, BNY Mellon is able to review ERS's equity manager accounts on a daily basis to quantify any excess cash. Cash equitization allows the individual managers to retain that cash for their needs, while at the same time, purchasing an S&P futures contract with an aggregate of cash across all ten managers, in order to maintain ERS's equity exposure in the market.

In response to a question from the Chairman, Mr. Wilson stated that the index does not have to be the S&P 500 and BNY Mellon can tailor the benchmark to whatever an individual client prefers. For ERS's domestic equity overlay account, which equitizes cash drag from ERS's ten equity managers, BNY Mellon is using the S&P 500 as a benchmark. ERS's plan cash account overlay, which equitizes plan level cash, is benchmarked to the MSCI EAFE, S&P 500 and Barclays U.S. Bond Aggregate.

The cash equitization process allows BNY Mellon to perform daily reviews of manager accounts, locate any excess cash and make appropriate daily adjustments, to ensure ERS has an equivalent daily market exposure.

In response to a question from the Chairman, Mr. Wilson stated that BNY Mellon will use the most liquid contract available on the futures market. This will generally be a front month contract, which can be anywhere from one to three months. BNY Mellon does have investment discretions as to how far out they will go on a futures contract, but they will generally always create a front month contract, which has more liquidity and less risk than an implied interest rate forecast six months out. The cost to roll a contract over is also generally quite small in a tight market and BNY would rather not take the alternative implied interest rate risk of a longer contract.

Mr. Wilson next provided an overview of ERS's cash equitization overlay. One of BNY Mellon's first missions for ERS was to overlay approximately $400 million in pension obligation bonds ("POBs") into the U.S. equity market. The POBs were issued in 2009 and the related overlay closed in March 2010. BNY Mellon currently manages two distinct cash equitization overlay accounts for ERS. As previously discussed, BNY manages the domestic overlay account for ERS's ten equity managers. The exposure in the domestic equity account, which is benchmarked to the S&P 500, is normally within a range of $10 to $25 million. BNY also manages ERS's plan cash account overlay or administrative account. The exposure in the administrative account is generally between $20 and $30 million, with an all-time high of $100 million in March 2010. ERS's contract agreement with BNY Mellon sets the benchmark for the administrative overlay at 18% MCSI EAFE, 39% S&P 500 and 43% Barclays US Bond Aggregate.

Mr. Wilson then noted that there is currently less than a 1/4% return for holding cash. Last year in the U.S., the equity markets were up generally 25%, which is a fairly compelling argument for utilizing cash equitization overlay.

In response to a question from the Chairman regarding BNY's overlay targets, Mr. Christenson stated the targets differ from the ERS's asset allocation targets, mainly because Marquette rolls the real estate and infrastructure portions into the bond portion, and private equity into the equity portion of ERS's portfolio.

Mr. Wilson then discussed performance. As of December 31, 2013, the balance in ERS's domestic equity account was $18,914,021. The return on the one-month overlay itself was 2.67%, versus the benchmark of 2.52%. The overlay also slightly outperformed the benchmark over the three-month and year to date periods. The year to date return figure is just slightly under 32%, which is a much more desirable return than the less than 1% current return on cash.

In response to a question from the Chairman regarding the benchmark outperformance, Mr. Wilson stated that there is tracking error associated with futures contracts from the end of day cash balance, to the next day's investment. The process to determine the aggregate cash balance runs overnight and after reviewing the balances, cash from yesterday's close is then invested the next morning. From a performance perspective, there is a timing delay from the previous night's close, to the point the money is actually invested. This timing differential increases with international securities. For example, the Asian markets will have already closed for the day by the time the cash balances are determined and trading will actually occur on the open of the following day. Therefore, there is a one day lag to get into EAFE securities on the equity side. Fixed income can have a tracking error because the underlying securities do not necessarily match the benchmark.

In response to a follow-up question from Ms. Van Kampen, Mr. Wilson acknowledged that the timing differential could have a slightly detrimental effect in a rising market.

Mr. Wilson continued the discussion of performance. As of December 31, 2013, the balance in ERS's Plan cash overlay account was $14,261,508. The December 2013 performance was down 9 basis points from the benchmark. Performance over the three-month and year-to-date periods was also down, at 26 basis points and 87 basis points respectively.

Mr. Wilson concluded by noting that BNY Mellon monitors both of ERS's overlay accounts for cash balances and reinvests the cash on a daily basis. BNY ensures that the overlays track the benchmark accurately, balancing down to the last contract on a monthly basis.

(b) Marquette Associates Report

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

Mr. Christenson first noted the important benefits of the BNY Mellon cash overlay process for ERS. The cash overlay program is an effective means for maximizing the Fund's exposure, and ERS is very fortunate to have a custodian with an overlay program they can easily link into.

Mr. Christenson next noted the 2014 Investment Symposium sponsored by Marquette Associates in Chicago, IL on September 12. The keynote speaker will be Harry Kraemer, Jr. Mr. Kraemer is an executive partner at Dearborn partners, as well as clinical professor for Kellogg School of Management at Northwestern University, and the former Chairman and CEO of Baxter International, Inc. In addition to the keynote speaker, morning symposium sessions will be held by Marquette's research team. They will discuss their recent research and outlook on the current market environment.

Mr. Christenson then discussed the January flash report. Silvercrest Asset Management is currently on alert for organizational issues due to a change in leadership at the senior level, resulting from the death of its CEO. Marquette will continue to monitor the manager's status and will revisit the issue within the next few months.

The total market value of the Fund as of January 31, 2014 was a little over $1.8 billion. A review of the Fund's portfolio indicates the majority of the broad market composites are very much in line with the Fund's investment policy targets. However, one exception is the private equity composite, currently with a market value of $46 million, or 2.5% of the portfolio, versus the policy target of 6%. This equates to an approximately $60 million underweight for private equity. It is important to keep in mind that it does take a very long time to build private equity investments. Marquette will discuss in greater detail, the Fund's current challenges and possible additional investment avenues for private equity later in the meeting. Another area with some policy differentials is in the international equity composite. Although the total international equity composite is in line with the policy target at 20%, the subaccount for GMO small cap has a fairly large overweight, which is due to a run up on international small caps. Marquette will discuss their recommendation for rebalancing the international equity subaccounts later in the meeting.

Mr. Christenson continued with a discussion of Fund performance. January was a difficult month; the total fund composite was down -1.4% year-to-date. The fixed income composite was up 1.5% year-to-date and both J.P. Morgan and Mellon Capital were on target, with the broad market index, at 1.4% and 1.5% respectively. The U.S. equity composite was down -2.9%, versus the benchmark of -3.2%. The international equity composite was up slightly, at -4.0%, versus the benchmark of -4.5%.

Although January was a very difficult month overall, there were some highlights. Under U.S. equity, Boston Partners continues to preserve capital, beating the benchmark at -2.9%, versus the Russell 1000 index of -3.6%. Artisan Partners, the Fund's mid cap growth manager, was also up at 0.5% in a negative market. Conversely, Geneva Capital continues to struggle, down -3.4% year-to-date, versus the benchmark of -2.2%. Marquette has been disappointed with Geneva's performance and continues to meet with them on a regular basis. Compared to Artisan, Geneva is a very conservative growth manager and has had a difficult period during the strong market environment throughout 2013. Silvercrest is holding steady, up slightly at -3.8%, versus the benchmark of -3.9%. Both ABS and K2 performed well in January under the hedged equity composite, up -0.7% and -0.2% respectively.

The Fund has some exposure to emerging markets under the international equity composite with OFI Institutional Asset Management. OFI was down at -7.8% year-to-date, versus the benchmark of -6.5%. There has been an outflow of capital in emerging markets and Marquette recently issued a brief newsletter on the topic. The newsletter summarized Marquette's view of the recent events, which occurred when some cash began to flow out of emerging market countries in search of better yield. In its newsletter, Marquette stated that emerging markets are still fairly undervalued and they believe this is an overreaction to a short-term event, which will eventually rebound.

Mr. Caprio next discussed rebalancing. GMO small-cap value is significantly overweight under the international equity composite, at approximately $24 million, while Northern Trust ("NTGI ACWI Ex-US ") is significantly underweight, at $13.7 million. Additionally, OFI institutional, which is in emerging markets, is slightly underweight, at $1.3 million. As mentioned earlier, Marquette believes that there is a great deal of value in emerging markets and recommends rebalancing at this time. Marquette recommends taking a total of $15 million from GMO small-cap, and placing $13.7 million in NTGI ACWI Ex-US and $1.3 million in OFI Institutional Asset Management.

**The Pension Board unanimously approved rebalancing the international equity portfolio by moving $15 million from GMO, and placing $13.7 million into NTGI ACWI Ex-US and placing $1.3 million into OFI Institutional Asset Management. Motion by Dr. Peck, seconded by Ms. Van Kampen.**

Mr. Christenson then provided an educational overview of private equity. The private equity strategy is a very complicated asset class that is illiquid and intended as a long-term investment. Private equity involves the buying and selling of pre-existing investor commitments and includes many different sub-strategies. The two main sub strategies are secondaries and co-investments. Private equity does not trade on an exchange like equities and therefore, a secondary market exists where secondaries are often purchased at a discount to the present value, often as much as 15% to 20%. The other main sub-strategy is co-investment or direct exposure. Co-investing involves investing in a number of private equity fund of funds, where each of those funds is purchasing 5 to 20 individual companies. Co-investments allow a manager, such as Adams Street, to make larger investments without dedicating too much capital to a single transaction, resulting in attractive risk-adjusted returns. Adams Street, as a fund of funds manager, has the ability to review a large number of private equity companies in its portfolio and locate the most favorable investment opportunities, typically resulting in quicker investment of capital. The 2009 and 2012 flagship Adams Street funds, which ERS made large commitments to, have exposure to hundreds of companies. Siguler Guff is more of a small to mid-market buyout-only product, which is a very niche market that has recently proven to be very successful. Other private equity sub-strategies include credit, buyout and venture capital. Credit involves private debt investments, while buyout and venture capital are mainly private investments in corporations.

In response to a question from the Chairman regarding fees, Mr. Christenson stated that fees for co-investments are generally lower. While Adams Street would be charging an additional fee (a performance fee of 10% on top of their 1% management fee), there is no underlying manager fee, typically at 2% management and 20% performance.

In response to a question from the Chairman regarding the size of the private investable universe, Mr. Christenson stated that it is fairly large and in the multiple billions.

Mr. Christenson next discussed private equity returns. Over the last ten-year period, ERS's total private equity return has outperformed the S&P 500 by a 10% premium. Generally, over very long term periods of time, private equity should provide an annual premium of around 3% to 4% over the S&P 500. That gain in premium is the desired trade-off for the illiquidity within the private equity asset class. Over the last ten years, there has been a large differential in returns between buyout and venture capital. Buyout returns during the ten-year period have been the strongest, while venture capital has actually been below the S&P 500 throughout that same period. Venture capital was very strong in the late 1990's during the dotcom speculative bubble, fueled by investments in internet-based companies. Venture capital has struggled with recovery since a correction within that sector.

Mr. Christenson then reviewed the Fund's private equity performance. Returns under private equity since the third quarter of 2011 have not been quite as strong, mainly due to the recent strong performance in the public equity markets. One of the most important factors to keep in mind with private equity is to vary the investment exposure through multiple vintage years. It would not be prudent to invest too much in one year because any significant economic event, in any one given year, could have a very detrimental effect on the portfolio. Investments should be diversified across multiple vintage years, and Marquette is very mindful of this when building out ERS's private equity portfolio.

In response to a question from Dr. Peck, Mr. Christenson stated that the vintage year is the year of the first capital call. The internal rate of return is calculated for the investments made in that same year.

Mr. Christenson continued with a discussion of private equity allocation strategy. The typical private equity allocation strategy mirrors the broad market. The buyout market, with investments available in large publicly traded funds or public companies that go private with private equity capital, has much more capacity than venture or credit. Venture capital typically involves smaller firms and has typically been a much smaller bucket over the last ten years. However, with the health care and IPO markets heating up recently, there may soon be some increased capacity within venture capital. In terms of risk parameters, venture capital is the riskiest of all components. One way to measure risk is through standard deviation, but these numbers are typically fairly muted in private equity. The true standard deviation is likely much higher, although managers tend to only report quarterly and the volatility is therefore muted.

A key to attaining successful, long-term private equity returns is having a wide variation of managers to choose from and then limiting exposure to the top 25% products. To accomplish this, Marquette typically recommends investing in fund of funds, with dedicated teams that can successfully identify and invest in the top funds. Fund of funds offer the benefits of vintage year diversification, strong manager selection, geographic and strategy diversification, and exposure to both secondary investments and co-investments. Adams Street Partners flagship funds have many of these benefits. Although Siguler Guff is in the small market buy-out niche, it still provides diversification.

Mr. Christenson next discussed the fund life cycle. The unique characteristic with private equity investments is that they are closed-end investments. The typical life cycle of a private equity fund is 10-15 years, which includes fundraising and fund extensions, if necessary. Capital is committed and then slowly called over an investment period of 4 to 5 years. Those investments are subsequently sold during a 5 to 6 year harvest or exit period, typically through an IPO or another company purchase. As the money is returned, it is very important to keep reinvesting to maintain the vintage year diversification.

Mr. Christenson then discussed the J curve effect. Private equity management fees are paid on the total amount of committed capital, even though a small portion of that capital may be called in one year. This creates a J curve effect where new funds often report negative returns in the first year or two of investment. Positive returns typically don't appear until more capital is called and the harvesting phase of a fund's life cycle begins. Managers justify these fees by beating the S&P 500 over the long run. Additionally, the mangers are performing the bulk of their work in the first few years while identifying favorable investment opportunities.

The current market environment is within historical norms and ERS should receive a premium of 3% to 6%, net-of-fees, over the long term. It is important to note however that private equity is the riskiest of all asset classes in the portfolio. Risk factors include illiquidity, high fees, correlation to public equities, high leverage, high failure rates on venture companies and low credit ratings.

Mr. Christenson next reviewed ERS's private equity portfolio as of September 30, 2013. ERS committed capital to three of Adams Street's flagship funds in 2005, 2009 and 2012. Adams Street has only called $3.5 million from the 2012 flagship fund $40 million commitment. Conversely, Siguler Guff's small buyout fund has called $20 million from their 2012 $40 million commitment. Of the remaining two Adams Street fund's, $12 million has been called from the 2009 flagship fund's $30 million commitment, and there are minimal capital calls remaining from the 2005 flagship fund's $10 million commitment. All remaining funds have been fully called. ERS's total private equity exposure was at $41,861,392 as of September 30, 2013.

The $40 million each that was committed to Adams Street's 2012 flagship fund and Siguler Guff's small buyout fund should be invested in four vintage years with $20 million exposure in 2012, 2013, 2014 and 2015. If ERS does not make any additional private equity investments, there will be no exposure for 2016 and once heavy distributions begin from these funds, there will eventually be zero private equity exposure at some point. Therefore, ERS must make additional private equity investments to reach the 6% policy target. Marquette does not want the Fund to have too much exposure in any one vintage year, and would like to be conservative with the 2014 and 2016 commitment scheduling, increasing exposure incrementally across vintage years. Based on their modeling, Marquette would recommend a $50 million commitment schedule in 2014 and an additional $50 million in 2016. The exposure may get a little high during 2014 and 2015, but should then begin to balance out. This model should gradually get the portfolio up the desired 6% private equity target. With a regular schedule for future commitments, the Fund should then be able to maintain that 6% exposure.

Mr. Christenson then discussed Marquette's recommendations. Adams Street is behind on calling capital from the ASP 2009 US Fund and to date, has called only 46.3%, versus the benchmark of 68.5%. Adams Street is also behind their peers on returns for the ASP 2009 Non-US Developed Markets Fund, the ASP 2009 Non-US Emerging Markets Fund and the ASP 2012 Global Fund. However, under the ASP 2009 Direct Fund, Adams Street has kept up with the median and put money to work here much more quickly. To date under the ASP 2009 Direct Fund, Adams Street has called 69.3%, versus the 2009 North America venture benchmark of 68.6%. Marquette would therefore recommend committing additional capital to Adams Street's direct fund, or possibly splitting money between Adams Street's direct and flagship funds. Adams Street is one of the largest funds in the country and is raising over $1 billion per year. Although Adams Street has struggled a bit recently to invest capital, their historical performance record is very strong and Marquette believes they remain one of the best private equity funds in the country.

Marquette recommends a total commitment of $100 million to private equity, spread across 2014, 2015 and 2016. Marquette's commitment model would place $30 million in the Adams Street 2014 direct fund, $40 million in the Siguler Guff 2015 Buyout III fund and $30 million remaining for 2016, with specific investment allocations to be determined at a later date.

In response to a question from Ms. Van Kampen, Mr. Christenson stated that Adams Street's direct fund may have less exposure to venture capital versus its flagship funds, and a little more U.S. exposure than non U.S.

In response to a follow-up question from Ms. Van Kampen, Mr. Christenson stated that Adams Street is able to invest capital more quickly in the direct fund because the underlying funds are already at a point where they are ready to make an investment in a specific company.

In response to a question from the Chairman, Mr. Christenson stated larger funds such as Adams Street that raise such huge amounts of capital, do struggle a little more than some of the smaller funds to find opportunities to put capital to work. Adams Street does however have access to some of the best venture funds in the country.

Mr. Christenson then noted another option for ERS would be to perform a search for another private equity fund of funds manager. Other favorable funds include Fort Washington Capital Partners Group in Cincinnati and North Sky Capital, based in Minneapolis. The key point to keep in mind with Adams Street is that they do have some of the best relationships and are one of the best private equity funds in the country. Additionally, Adams Street's co-investment team has made very beneficial decisions and investing additional funds with their direct fund seems to be the best option at this time.

In response to concerns from the Chairman and Dr. Peck regarding ERS's continued difficulties in attaining the 6% private equity target, Mr. Christenson stated that the Board could launch a public search for another private equity manager, but should make a decision today regarding any commitment to Adams Street's 2014 direct fund. The 2014 direct fund is essentially fully subscribed and while Adams Street does have a $30 million placeholder in effect for ERS, Marquette cannot guarantee that availability into next month.

The Chairman then stated he is comfortable with Marquette's proposed commitment model, but it may be beneficial at this time to investigate other manager opportunities for the remaining $30 million Marquette has allocated for 2016.

Mr. Christenson then noted if ERS would initiate a new search now, there would only be a 6 to 12 month window to invest those funds after the search is finalized.

After a lengthy discussion between the Board members on the matter, the Chairman requested a motion to commit $30 million to the Adams Street Co-Investment Fund III.

**The Pension Board unanimously approved a commitment of $30 million to the Adams Street Co-Investment Fund III. Motion by Ms. Van Kampen, seconded by Dr. Daugherty.**

Mr. Christenson concluded with a discussion of next steps. Marquette could provide further education for additional private equity investment opportunities, or, initiate a search and review additional private equity manager options.

The Chairman stated that at this time, he believes it would be most beneficial for Marquette to initiate a formal public search and review the potential opportunities available for both debt only and broad flagship funds.

Mr. Christenson stated that Marquette will begin the process and advertise through the formal channels.

6. Investment Committee Report

Ms. Van Kampen reported on the February 3, 2014 Investment Committee meeting.

The Investment Committee heard Marquette Associates' presentation on private equity. Mr. Caprio discussed the mechanics of private equity commitments and reviewed the status of the Fund's current private equity managers, Adams Street and Siguler Guff. Based on current private equity commitments, Marquette predicts that the Fund will likely not reach the 6% private equity portfolio allocation target, and recommends investigating additional avenues for private equity commitments. However, because Adams Street and Siguler Guff are both high quality managers, Marquette does not recommend issuing an RFP at this time. The Investment Committee suggested reviewing additional private equity funds through Siguler Guff and Adams Street at the next Board meeting.

The Investment Committee concluded by hearing Marquette's analysis of the Fund's U.S. equity managers. Mr. Caprio reviewed the U.S. equity managers' returns since 2005, noting that while most of the managers outperformed their benchmarks, Geneva Capital underperformed in 2012 and 2013. However, Geneva did outperform during down markets in both 2009 and 2011. Mr. Caprio also reviewed the U.S. equity manager's five-year risk and return profile in both up and down market scenarios. Mr. Caprio stated that all U.S. equity managers look very positive and Marquette believes that the Fund's current mix of U.S. equity investments is a high quality portfolio mix.

7. Disability Matters

(a) Roger Baumler

In open session, the Chairman welcomed back Mr. Baumler and Mrs. Baumler. The Chairman then stated that the Medical Board reviewed the additional information Mr. Baumler submitted at the December 2013 Pension Board meeting. After taking that additional information into account, the Medical Board recommends granting approval of Mr. Baumler's application for an accidental disability pension. 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 that would require entering into closed session.

**The Pension Board voted 7-0-1, with Ms. Mayr abstaining, to approve granting the accidental disability pension application based on the Medical Board's determination. Motion by Dr. Daugherty, seconded by Mr. Gedemer.**

The Chairman then thanked Mr. Baumler and Mrs. Baumler for their multiple appearances before the Board and for providing the additional information, which helped ensure a complete record for a final decision.

(b) Catricia Goodman

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

**The Pension Board unanimously approved granting the ordinary disability pension application based on the Medical Board's determination. Motion by Ms. Van Kampen, seconded by Ms. Westphal.**

8. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, January 2014

Ms. Ninneman presented the Retirements Granted Report for January 2014. Seventeen retirements from ERS were approved, with a total monthly payment amount of $11,678. Of those 17 ERS retirements, 4 were normal retirements, 12 were deferred and 1 was an accidental disability retirement. Eleven retirees chose the maximum option, and 3 retirees chose Option 3. Four of the retirees were District Council 48 members. Three retirees elected backDROPs in amounts totaling $205,940.

Ms. Ninneman then noted that ERS is almost caught up with its backlog of deferred retirements and January was a fairly basic and quiet month, with nothing out of the ordinary to report.

(b) ERS Monthly Activities Report, January 2014

Ms. Ninneman presented the Monthly Activities Report for January 2014. ERS and OBRA combined had 8,022 retirees, with a monthly payout of $12,540,052.

Ms. Ninneman next noted that there were 52 terminations during the month of January. Of those 52 terminations, a total of 11 members requested a refund of their member contributions.

In response to a question from Dr. Daugherty, Ms. Ninneman stated that the amount of refunded member contributions is shown as a monthly total under the refunded contributions column on the Monthly Activities Report.

Ms. Ninneman then discussed other recent developments. ERS has formally contracted with a new project manager who will coordinate the Pension system software upgrade. The new project manager will be effective March 1, 2014, and will complete the due diligence and initiate various project plans for the software system upgrade.

In response to a question from Dr. Daugherty regarding the project manager's qualifications, Ms. Ninneman stated that the manager is a certified Project Manager Professional ("PMP"), with a sound background in information technology.

In response to a follow-up question from Ms. Mayr, Ms. Ninneman stated that the new project manager is being brought in as a contracted employee through the Joxel Group.

Ms. Ninneman then noted that Milwaukee County switched over to a new e-mail system last week with mixed results. Currently, the main problem appears to be that some e-mails are bouncing back and never getting through the system.

In response to a question from the Chairman, Ms. Ninneman stated that ERS is currently using Outlook but it is the web application, not the desktop application. It is anticipated that most of the issues will be resolved once ERS fully migrates over to the desktop application of Outlook.

Ms. Ninneman next discussed the Vitech system upgrade. ERS is still in discussions with Vitech regarding the cost of the upgrade from version 8.5 to version 10 of the V3 software. ERS believes they can still obtain a significant reduction in cost by moving much of the work in-house to its co-development group.

Ms. Ninneman continued with a discussion of the upcoming employee election for Ms. Westphal's seat, whose current term on the Board will expire on February 28, 2014. Only two employees have taken out nomination papers. Therefore, the primary election will also be the final election, which will be held April 2 through April 10. This means the Board will be without one employee-elected Board member for one month.

Ms. Ninneman next stated that ERS continues to review all processes and procedures involved in the disability decision-making process. Last, ERS has obtained a signed contract with the actuary.

(c) <u>Fiscal Officer</u>

Mr. Gopalan first discussed the January 2014 portfolio activity report. Benefits for the month of January were funded from the ABS and K2 hedge funds in the amount of $17 million. Quarterly dividends were also received from the real estate and infrastructure managers but other than that, January was a fairly quiet month.

Mr. Gopalan concluded with a discussion of the January 2014 cash flow report. Siguler Guff issued a capital call for $1.6 million. After a standard review of accounts, $2.5 million in cash was discovered in the Russell 2000 Index. The cash was a remnant from the AQR termination and was sitting in active reserves. The funds were promptly transferred into the general cash account.

9. Audit Committee Report

Ms. Westphal reported on the February 4, 2014 Audit Committee meeting. The Audit Committee first discussed the annual Pension Board meeting. The Audit Committee once again reviewed the October 2013 e-mail survey results, which surveyed active employees regarding interest in attending the annual meeting. After further review of the survey results, it was noted that the majority of active employees expressed interest in attending the annual meeting but only if they could do so on paid County time. Because the Board is not authorized to approve this, it was decided that the venue for the 2014 Annual meeting shall remain unchanged from the prior year. The annual meeting will be held on the morning of April 16, 2014 at the Italian Community Center.

In response to a question from Ms. Mayr regarding potential 2015 annual meeting venue survey options for retiree members, Ms. Ninneman stated that ERS could review the various survey vehicle options within the coming year.

In response to follow-up questions from Ms. Mayr and other Board members regarding other possible survey vehicles, Ms. Ninneman stated that currently, the only effective way to communicate with retiree members is via regular mail. However, ERS does not have the in-house capacity to coordinate a paper driven survey for approximately 8, 000 retirees.

Ms. Mayr then suggested that the survey be incorporated into the monthly retiree communicator, with volunteers from REMCO staffing tabulation of the survey response.

Ms. Braun added that if REMCO tabulated the survey results, it would take the pressure off ERS and provide an accurate summarization of retiree responses.

The Chairman then suggested that the annual meeting survey for retiree members be included as a future topic item on the Audit Committee Meeting agenda.

The Audit Committee next discussed deferred early retirements. This was a continuation of the topic discussion from the October 16, 2013 Audit Committee meeting. The Retirement Office is currently looking for guidance on what specific process should be followed to authorize and approve early deferred pensions. Mr. Huff noted that this may fall under Pension Board Rule 1040, approval of retirements. Rule 1040 delegates the authority to approve pensions to the ERS manager, in accordance with the laws governing the system. Counsel will further review the matter for continued discussion at a future Audit Committee meeting. The Audit Committee also discussed the early retirement reduction for members at normal retirement age of 64. This issue will also be discussed in further detail at a future Audit Committee meeting.

The Audit Committee concluded with a discussion of the V3 system upgrade. Ms. Ninneman indicated that discussions on financing options for the upgrade are ongoing. ERS is investigating some capital expenditure requests for next year because not all of the upgrade is bondable.

10. Administrative Matters

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

The Chairman concluded by noting a request for approval of attendance at the National Association of Public Pension Attorneys ("NAPPA") Conference in Nashville, TN June 25-27, 2014.

In response to a question from the Chairman, Ms. Ninneman stated that if approved, Messrs. Grady and Carroll would attend the June NAPPA conference.

Mr. Huff commented that NAPPA is a very beneficial group and the upcoming June conference should be very helpful for Messrs. Grady and Carroll in serving the Board and ERS.

**The Pension Board voted 7-1 to approve the attendance of Messrs. Grady and Carroll at the June 25-27, 2014 National Association of Public Pension Attorneys ("NAPPA") Conference. Motion by Ms. Westphal, seconded by Dr. Peck, with Ms. Mayr opposed**.

Ms. Mayr indicated her opposition was based on her view that the fee should first be charged to the immediate employer, the County.

Dr. Daugherty then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 11 and 12 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 voted by roll call vote 8-0 to enter into closed session to discuss agenda items 11 and 12. Motion by Dr. Daugherty, seconded by Ms. Braun.**

11. Pending Litigation

(a) *Stoker v. ERS*

The Pension Board took no action on this item.

(b) *AFSCME v. ERS*

The Pension Board took no action on this item.

(c) *Tietjen v. ERS*

The Pension Board took no action on this item.

(d) *Brillowski & Trades v. ERS*

The Pension Board took no action on this item.

(e) *AFSCME v. ERS*

The Pension Board took no action on this item.

(f) *Weber v. ERS*

The Pension Board took no action on this item.

12. Report on Compliance Review

The Pension Board took no action on this item.

13. Adjournment

The meeting adjourned at 10:15 a.m.

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