Milwaukee County Employees' Retirement System (ERS)
Investment Committee Meeting
MINUTES

Call to Order
Chairperson Patti Van Kampen called the Investment Committee to order at 2:32 p.m. on Monday, June 6, 2016 in 203P of the Milwaukee County Courthouse, 901 N. 9th Street, Milwaukee, WI 53233.

Board Members Present:
Laurie Braun
Patti Van Kampen

Others Present:
Brett Christenson, Marquette Associates
Chris Caparelli, Marquette Associates
James Carroll, Assistant Corporation Counsel
CJ Pahl, Budget and Management Coordinator, Office of the Comptroller
Marian Ninneman
Tina Lausier

Mr. Christenson requested to start the discussion with the Proposed Asset Allocation change.

2. **Topic: Changes to Proposed Asset Allocation:**

Currently, County ordinances provide that the Fund's investments in "common stock" shall be limited to 75% of total assets. Mr. Christenson stated that everything except Real Estate and Fixed Income would be considered equity or "common stock" thus we currently have 26.5% in non-equity funds.

Current investment policy:	Real Estate	8.5%
	Fixed Income	18.0%
		26.5%
		73.5% - "common stock"

Marquette has provided 2 alternatives – the differences are noted to be:

Portfolio A:

Hedge Funds	lower by 1.5% to 8.5%
Real Estate	higher by 1.5% to 10.0%

(This would change the "common stock" funds to 72.0%)

Portfolio B:

Fixed Income	higher by 2.0% to 20%
Hedge Funds	lower by 2.5% to 7.5%
Real Estate	higher by 1.5% to 10.0%
Private Equity	lower by 1.0T to 9.0%

(This would change the "common stock" funds to 70.0%)

The question is, how much buffer do we need? Ms. Van Kampen noted that under the Portfolio A model, there is a higher return, with lower volatility, and lower risk.

Mr. Christenson felt very comfortable with the additional 1.5% buffer provided with Portfolio A, and all were in favor of recommending to adopt Portfolio A.

Mr. Christenson will prepare to present this change at the July pension board meeting.

1. **<u>Topic</u>: Updated Private Equity Funding Model:**

   Mr. Christenson provided information and context with the Private Equity Commitment Model tables and graphs. He stated that in any investment (closed-end), you have to have a plan on what to invest yearly, in order to maintain the target exposure of 10.0%. As evidenced by the graph on page 4, our current investment plan started with s 2.5% exposure in 2013, and is projected to peak at 9.1% of assets by around 2019, before falling back to 2.0% in 2024. In other words, these types of investments require new commitments yearly or bi-yearly.

   Marquette recommends the following:

   $50 million (or $40 million to be more conservative) in 2017
   $25 million in 2018
   $25 million in 2020

   Making a $25 million commitment going forward each year should help the fund reach and maintain the 10.0% target allocation. As a side note, Mr. Christenson stated that Mesirow is launching their new Fund VII soon. There is nothing to do today, but it is something to think about for the long-term.

   In response to a question from Ms. Van Kampen, Mr. Christenson stated that the recommended commitments are not different than what was originally discussed.

   Ms. Braun commented that the ASP Co-Invest Fund III is being called at a much slower pace than expected. In response, Mr. Christenson stated that ASP admitted they raised too much money, and are having difficulty finding quality investments. On the positive side, they are holding the capital calls until they find A+ class investments and are not investing in lower quality investments.

3. **<u>Topic</u>: Marquette Memo – IFM Fee Reduction:**

   Mr. Christenson provided a copy of the letter from IFM Global Infrastructure Fund regarding the New Currency Hedging and Fee Structure. This provides a new share class where they hedge, that comes along with a new fee structure. The table on page 3 shows the differences between the current and new fee structure – the new fee structure charges high fees, when the fund earns a return between 10.0% and 13.0%, but we would not complain if those types of returns were realized. At returns above 14.0% or below 9.5%, the new fee structure is more favorable.

   Marquette recommends that we wait until we get closer to break even with the performance fee before we make the switch to the new fee structure.

   In response to a question by Ms. Van Kampen regarding the Trading Cost Study that is on the list of topics, Mr. Christenson stated that he added it to the list, but it could now be removed from the list of topics.

There will not be an investment committee meeting in July or August. The next Investment Committee meeting is scheduled for Monday, September 12, 2016, at 2:30p.m., in Room 203P of the Milwaukee County Courthouse at 901 North 9th Street, Milwaukee, WI 53233.

Meeting adjourned at 3:25 p.m.