EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE MARCH 21, 2012 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	Member Excused
Keith Garland	Linda Bedford
Mickey Maier (Chairman)	
Dean Muller	
Dr. Sarah Peck	
Dave Sikorski	
Guy Stuller	
Monique Taylor	
Patricia Van Kampen	

Others Present
Marian Ninneman, CEBS, CRC, ERS Manager
Mark Grady, Deputy Corporation Counsel
Dale Yerkes, ERS Fiscal Officer
Floyd Dukes, Artisan Partners
Jason L. White, Artisan Partners
Ray Caprio, Marquette Associates, Inc.
Brett Christenson, Marquette Associates, Inc.
Nat Kellogg, Marquette Associates, Inc.
Donna Destefano, Retiree
Steven Huff, Reinhart Boerner Van Deuren s.c.
Steve Schultze, Reporter, *Milwaukee Journal Sentinel*

3. Chairman's Report

The Chairman first addressed the changes to the Pension Board. An Ordinance change passed by the County Board will preclude an ERS staff member from serving on the Pension Board due to potential conflict of interest, effective after Ms. Taylor's current term.

The Chairman welcomed Ms. Taylor to the Board.

The Chairman stated that Mr. Stuller will no longer serve on the Board because of another provision in the Ordinance change that precludes anyone with an ethics violation from serving. The Board will have to authorize and conduct a special retiree election after the Ordinance amendment is signed by the County Executive and published.

The Chairman then stated that though Ms. Bedford, who is absent at this meeting, has graciously continued her service on the Board for almost a year after serving multiple terms, an appointed person serving beyond term is not allowed in the provisions of the new Ordinance amendments. The Chairman suggested that the Pension Board recognize Ms. Bedford for her exemplary long-time service to the Board.

The Chairman concluded by stating that the County Executive must still appoint a person to serve on the Pension Board.

4. Minutes—February Pension Board Meetings

The Pension Board reviewed the minutes of the February 15, 2012 Pension Board meeting.

The Pension Board unanimously approved the minutes of the February 15, 2012 Pension Board meeting. Motion by Ms. Van Kampen, seconded by Mr. Muller.

5. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, February 2012

Ms. Ninneman presented the Retirements Granted Report for February 2012. Seventy-five retirements from ERS were approved in February, with a total monthly payment amount of $139,896. Of those 75 ERS retirements, 69 were normal retirements, 4 were deferred, 1 was a deferred early retirement, and 1 was an early retirement. Fifty-one members retired under the Rule of 75 and 11 chose to retire under the deputy sheriffs window. Additionally, 34

retirees chose the maximum option, and 18 retirees chose Option 3. Forty-nine of the retirees were District Council 48 members. Fifty-one retirees elected backDROPs in amounts totaling $6,781,816.

Ms. Ninneman concluded by stating that 63 individuals on the report actually retired in December 2011. However, due to high volume, ERS was unable to counsel and begin the retirement application process until February. ERS is now caught up with 2011 retirements.

In response to a question from the Chairman, Ms. Ninneman stated that ERS is staffed to handle current workflow. The volume of retirement appointments is down, allowing ERS to concentrate on other responsibilities.

(b) ERS Monthly Activities Report, February 2012

Ms. Ninneman presented the Monthly Activities Report for February 2012. Combined, ERS and OBRA had 7,925 retirees at the end of February, with a monthly payout of $13,093,489.

Ms. Ninneman noted that regarding the pension finals processed, the report is in error; there were 2 early retirements and 74 normal retirements.

Ms. Ninneman then stated that ERS call volume continues to be high. Additionally, employees visit ERS in person, seeking to discuss benefits, eligibility for the Rule of 75, and retirement estimates. Many of those employees are directed to a kiosk in the ERS lobby and to member self-service.

(c) Annual Meeting Program

Ms. Ninneman noted that the Annual Meeting will take place on Tuesday, April 17, 2012, at the Italian Community Center, and then invited comments and suggestions from the Board on the proposed agenda.

In response to a question from the Chairman, Ms. Ninneman confirmed that invitations were sent to the County Executive and to the new County Board chairperson, when elected, but it is unknown whether the invitations will be accepted.

In response to the Chairman's request for additional information on proposed agenda item 6, Investment/Financial Planner, Ms. Ninneman stated that the item was added to address the typical questions received from attendees regarding their personal financial

situations, such as potential Social Security changes and rebalancing income in retirement.

In response to a question from Mr. Grady, Ms. Ninneman stated that it may be more beneficial for the attendees to have a financial planner present as opposed to a fund manager or economist, but that the decision is open for consideration.

After general discussion by the Board, Mr. Grady suggested that Marquette include in its presentation a short educational piece on asset allocation in addition to its performance summary. Mr. Muller then suggested that a market outlook also be included.

Ms. Ninneman stated that the actuary item was dropped from the proposed agenda.

The Chairman concluded by noting that the Board is planning to hold a short official meeting after the annual meeting to handle any pressing business, such as disability applications or appeals. With a new medical board, the Board wants to keep disability claims moving through as quickly as possible.

(d) Fiscal Officer

Mr. Yerkes first discussed the ERS cash flow report. American Core Realty made its final capital call, which will be funded in early April at $4.4 million. $4.1 million appears on the report because that is the amount ERS is sending, with about $300,000 funded through income American Realty will send ERS. Additionally, final Milwaukee County lump sum contributions are included at a total of $30,252,000.

Mr. Yerkes then discussed second quarter funding needs for normal anticipated cash flows for benefit payments.

The Pension Board unanimously approved the liquidation of assets to fund cash flow of $15 million for April 2012, $10 million for May 2012, and $5 million for June 2012. The amounts should be withdrawn from investments designated by Marquette. Motion by Dr. Peck, seconded by Ms. Van Kampen.

In response to a question from the Chairman, Mr. Christenson stated that the $15 million in April is coming entirely from equities.

Mr. Yerkes next discussed the portfolio activity report. Half of the February funding came from the Mellon Large Cap fund and the other half came from Robeco. Additionally, there was a large

amount of pension and added expense for February at $21.6 million. In response to a question from the Chairman, Mr. Yerkes stated that about $20 million of the $21.6 million was for benefit payments. Additionally, approximately $6.8 million was paid in lump sums.

Mr. Yerkes concluded by discussing the annual reimbursement from ERS to the County for 2011 budget allocations. The 2011 total was $1,548,921.22.

The Pension Board unanimously approved reimbursing the County $1,548,921.22 for County-paid administrative expenses in accordance with Ordinance section 201.24(8.8). Motion by Dr. Peck, seconded by Ms. Van Kampen.

6. Investments

(a) Artisan Partners

Floyd Dukes and Jason White of Artisan Partners distributed a booklet containing information on the investments managed by Artisan Partners for ERS. Mr. Dukes then introduced Jason White, one of the associate portfolio managers responsible for ERS's mid-cap growth portfolio.

Mr. Dukes first thanked ERS and the Board for its 12-year partnership with Artisan, stating that Artisan appreciates the confidence and support. This time period was difficult in terms of equity markets and investors, governance, regulatory structure, and volatility in the economic environment, but throughout Artisan has maintained a commitment and focus to its clients. Only 12 different strategies are managed at Artisan, which allows the firm to focus on providing value-added investment services.

Mr. Dukes then provided an update on the firm, which focuses on institutional investments. Artisan currently has $67 billion in total assets under management, divided across five investment teams. The growth investment team is headquartered in Milwaukee and manages $13 billion of the $67 billion in total firm assets. The mid-cap growth strategy was formally closed to new investors in March 2003. Since then, both the clients and the business have been very stable. Artisan Partners maintains its investment integrity by closing its strategies; while there is capacity for existing clients, Artisan has not been marketing mid-cap growth.

Mr. White stated that the growth investment team has been built methodically over the past 12 years. The strategy is to have a

platform of domain experts who know their areas of the economy, who know the best companies and the best secular trends under their area of responsibility. There is enough overlap in terms of knowledge base where the experts can challenge each other, so it is highly collaborative.

Mr. Dukes then noted that in April 2011, Artisan contemplated a public offering through an SEC filing. He stated that the purpose was to continue to evolve Artisan's capital structure in order to become multi-generational. Mr. Dukes and Mr. White are 2 of 43 partners at the firm, all of whom wanted to have a mechanism in place to continue to incent future partners. Despite good intentions, and because of the volatility in the markets and the types of investors and investor behaviors that this volatility attracted, Artisan pulled that offering in December 2011. The firm remains privately held and no key people are planning to leave.

Mr. White discussed Artisan's investment approach in terms of fourth quarter performance. The team continues to execute its philosophy of upside participation and downside protection. While not happy with fourth quarter results, Artisan stands behind the team's execution of process, which has not changed since 2000. The fourth quarter was a volatile period with the Europe debate in full swing. Value outperformed growth for the first time in several quarters, and lower-quality business models also had a reversion to the mean. The last 30 days of the fourth quarter were particularly volatile and caused a wholesale sell-off in growth names that hit the ERS portfolio hard. Artisan stayed with the bottom five performers because Artisan has conviction in its holdings, adding to its highest conviction names during that period with Broadcom and IPG Photonics. Though turnover is trending to the mid 60% range, Artisan has long-time holdings, such as Precision Castparts.

Mr. White then discussed portfolio setup and process. Artisan process involves finding high-quality growth companies exposed to secular trends that are going to cause growth in profits and therefore in stock price. Artisan prefers high-quality business models that are self-funding and not typically involved in situations with a high degree of financial leverage. Artisan currently has approximately 72 well-diversified holdings. The top 25 names make up about 50% of the capital. With those high convictions, positions need to be weighted accordingly, and Artisan is happy with the punching power in the ERS portfolio today. In terms of the weighted average growth rate of the portfolio versus the benchmark, and the P/E ratios relative to the benchmark, the portfolio is at a premium on those metrics.

This is by design; the portfolio is the strongest it has been in years because, looking forward, Artisan will continue taking advantage of the sub-par global economic growth backdrop caused by the fallout of the financial crisis. If a portfolio can be constructed with high-quality companies that deliver strong profit growth relative to the other companies, they will be disproportionately rewarded as they deliver that profit growth.

Mr. White continued by stating that Artisan constructs a portfolio from the bottom up. Each sector is responsible for knowing the best companies and the best trends, and getting those companies in the portfolio. There are typically four power alleys in the economy where the lion's share of the capital resides. The first is consumer discretionary. The second is healthcare, where the weighting is up a fair amount over the last year and where there are concerns about the regulatory environment. The third is industrials, where the weight is down a fair amount over the last year, most likely a result of the valuation process where Artisan takes profits and calls the private market value. Finally, the fourth is the information technology sector, with similar weightings year over year. Overall, weighting remains a sizeable part of the portfolio and presents a good case for growth. Artisan believes the portfolio is weighted to take advantage of the current environment with the market in a period of muted economic growth, low inflation, and low interest rates. Looking at the value of growth cycles over time, the relative premium still shows plenty of upside for growth.

In response to question from the Chairman, Mr. Dukes stated that assets under management are currently $11 billion. Additionally, when a strategy is closed to new investors, any decision is related to the rate of growth in the assets under management and small positions taken in IPOs. Artisan is comfortable managing at the current level and there are no plans for a hard close.

In response to a question from Ms. Van Kampen, Mr. White stated that in terms of exposure to IPOs, exposure is minimal because of the $11 billion in assets under management and small positions taken in IPOs. Recently, Artisan bought into LinkedIn after the IPO, preferring to wait for the right opportunity before becoming involved.

In response to a question from Ms. Van Kampen, Mr. White stated that in terms of sell discipline in higher multiple stocks, Artisan performs detailed investment cases for every security that enters the portfolio. Team members debate ideas over the long term; they become very familiar with the assumptions and probability-weight

the cases as a driver of private market value, which is the key input of valuation. Sell discipline is approximately 85% to 100% of the private market value. If probabilities are weighted appropriately, Artisan will typically take some off the table. Additionally, Artisan is concerned with profit cycles. When a company is in front of the trends, things usually cannot help but improve. Artisan tries to get in early before profits cycles rise up.

In response to a question from Dr. Peck, Mr. White stated that Artisan's strategy is built around discounted cash flow and buying leading companies and franchises that are exposed to secular trends. Overall, Artisan does not sell before value is reached because an opportunity is then lost. Every situation is different and involves a judgment call based on knowledge and experience.

In response to a question from Mr. Muller regarding sell discipline if a company grows beyond market cap, Mr. White stated that Artisan manages to a market cap within a certain degree of the benchmark average and does not initiate a position. If Artisan believes the profit cycle has room to run and there is a lot of appreciation left, Artisan lets it run. Mr. Dukes added that if a company grows beyond a certain market cap, Artisan might not sell it, but Artisan will not add to it, either.

In response to a question from Mr. Muller, Mr. White stated that other industrial companies that Artisan has added in the last few months include companies that are holders of energy efficiency, and companies that provide the tools that allow people to exploit that energy efficiency.

In response to a question from Ms. Van Kampen, Mr. White stated that Artisan tries not to look at the benchmark because an analysis of profit cycle cannot be predicted or controlled. Artisan instead prefers to focus on growth and then invest where there is conviction.

(b) Marquette Associates Report

Ray Caprio, Brett Christenson, and Nat Kellogg of Marquette Associates distributed and discussed the February 2012 monthly report and the Marquette Update for first Quarter 2012. Mr. Caprio then introduced Nat Kellogg as a member of Marquette's research department responsible for private equity and hedge funds.

Mr. Caprio first discussed the Marquette Update. Marquette is a 100% employee-owned institutional investment consulting firm in business for 25 years. Marquette has 48 employees, 179 clients, and

approximately $71 billion in assets under advisement. The ERS Fund is part of a public fund bucket that represents the second largest client sector Marquette has in terms of institutional clients. Marquette presents at and attends conferences to keep informed of trends and events in the capital markets, and then brings that information back to its clients. Marquette also performs its due diligence in the marketplace, conducting over 1,500 meetings in 2011 in a number of different asset classes, as well as 171 on-site meetings with various managers. Lastly, Marquette's website is completely redesigned and now includes a chart of the week, a short newsletter, white papers, and webinars, all of which are meant to educate the client on the economy, asset classes, and the markets.

Mr. Christenson then discussed the market environment. Through February, bonds were flat for the calendar year-to-date, and the U.S. and international stock markets were very strong, up 10%. However, over the last week, the bond market has been hit hard, down about 2% as U.S. Treasury rates increased dramatically by 20 to 30 basis points. When interest rates are very low, they are very volatile, and this is apparent in the bond and equity markets in March.

Mr. Christenson next discussed the February flash report. The year-to-date total Fund return through February was 5.6%, not including real estate as those numbers were not yet available. Fixed income was up 1%, which is in line with the benchmark. U.S. equity was up over 10% and international almost 12%, though underperforming the benchmark. Hedged equity was up about 4½% and infrastructure up 1.1%, not including JPMorgan as those numbers were not available. The Fund is currently 2% underweight in bonds, 1½% overweight in U.S. stocks, and 1.3% overweight in international equities. Marquette does not recommend rebalancing at this time, other than natural rebalancing through cash flow.

Mr. Christenson then noted that under mid-cap growth, a hold is in place with iShares, an index ETF. Marquette has begun the mid-cap growth search process and requests that the Board form an RFP panel.

In response to a question from the Chairman, Mr. Christenson stated that 28 responses were received on the RFP, one of which was from Artisan, and Marquette is narrowing down the list to which firms meet the minimum requirements.

Mr. Christenson then stated that in the February meeting, the Board voted on a new fee structure with JPMorgan. Mr. Caprio explained

that through a review of that documentation, counsel found a potential action item involving the fund structure. JPMorgan offers 3 funds within the infrastructure platform: tax-exempt, for taxable investors; LP, the main fund; and an ERISA fund. Initially, the ERS fund was included in the tax-exempt fund, thus implementing a UBTI blocker to avoid UBTI taxes. However, since ERS is sponsored by a government tax-exempt entity, UBTI does not apply. Marquette concurs with Reinhart Boerner Van Deuren's recommendation to move the ERS fund from the tax-exempt fund to the main fund, which has a slightly higher performance track record because it does not have UBTI blocking. Over the last year, the main fund return had been about 50 basis points higher.

In response to questions from the Board, Mr. Caprio confirmed that the ERS fund should be moved from the tax exempt fund to the general limited partnership fund. There is no cost associated with this move, and the same fee structure, liquidity, and terms apply. Moves between funds are allowed only at the ends of quarters.

The Pension Board unanimously approved moving ERS funds from the tax-exempt fund to the general limited partnership fund within the JPMorgan infrastructure platform. Motion by Dr. Peck, seconded by Ms. Van Kampen.

Mr. Christenson then stated that in 2011, the Pension Board increased the private equity target from 3% to 6%. In closed session today, the Board will discuss the selection of a new manager to complement Adams Street. That process will start at the next Board meeting when Marquette presents specific amounts to commit to Adams Street and the new manager, if one is chosen by then. However, because Adams Street might close the fund in two to three months, Marquette would like to send the documents to Reinhart Boerner Van Deuren now to stay on top of it.

In response to a question from the Chairman, Mr. Christenson confirmed that this is regarding the Adams Street 2012 fund, and that the last time ERS invested in funds with Adams Street was 2009.

Mr. Christenson then discussed the fund managers. Boston Partners in large-cap value and Artisan in mid-cap growth have been very consistent and continue to perform very well in all market cycles. AQR is trending in small-cap, very close to the benchmark and slightly above the benchmark year-to-date. GMO continues to underperform in February. Marquette recommends making a decision on GMO, whether that should be addressed at an

Investment Committee or by the Pension Board today. Marquette also recommends initiating an index fund search in the event GMO is terminated.

The Chairman noted that GMO twice attended Investment Committee meetings to address its performance and provided a timeframe in which its performance could reasonably be expected to improve. However, it has not been able to meet that timeframe. The Chairman stated that he is in favor of searching for a GMO replacement, specifically an index fund, in the large-cap equity space.

Mr. Christenson stated that ERS hit bottom in international. While there is active management in that space, Marquette is seeing a lot of tracking error in the portfolio because of the underperformance. Part of Marquette's recommendation is to avoid tracking error by having an anchor index option.

The Pension Board unanimously approved an authorization to Marquette to begin a search for a permanent international large-cap index option to replace GMO. Motion by Dr. Peck, seconded by Ms. Van Kampen.

Mr. Garland then requested that these recommendations be sent to the Board in advance of the meetings at which they are to be discussed in order to provide enough time for members to review the matters and consider the decisions in advance. The Chairman and Mr. Muller agreed.

The Chairman suggested that the matter be referred to the Investment Committee and requested that any questions on index markets and indexes available be voiced there. Additionally, the Chairman requested that Mr. Muller review and present alternatives for active management at that time, if he so desired.

In response to a question from Ms. Van Kampen, Mr. Christenson stated that Marquette is concerned about GMO small-cap and about GMO's process in general, which is another area to address after the private equity, mid-cap growth, and large-cap international index manager searches have been completed.

In response to a question from the Chairman, Mr. Christenson confirmed that the GMO large-cap international fund is heavily centered in old Europe, heavily weighted towards financials, and has a value tilted towards financials. This and a momentum component have provided headwinds for the last few years.

Dr. Peck then suggested that a discussion of GMO international small-cap be added to the Investment Committee agenda.

In response to a question from Mr. Grady, Mr. Christenson explained that hedged equity turned around recently because of market run-up. Hedged equity is still capturing about 50% of the upside so far this year, and Marquette would like to see more upside capture. It is really the exposure to market that is carrying hedged equity, and Marquette expects to see some alpha this year when hedged equity catches up to the markets a little more. In volatile time periods, however, where everything is moving up or down, managers have a difficult time with their stocks and that is really differentiating. Marquette is starting to see some active managers meet their benchmarks this year. Also, the good stocks are performing better and the bad stocks are performing worse. Hopefully, better returns for hedged equity will be realized this year.

In response to a question from Mr. Muller, Mr. Christenson stated the managers that are holdovers from prior consulting relationships include JPMorgan, Boston Partners, Artisan, AQR, Barings, GMO, and the index funds. GMO had an allocation to small-cap that they moved in and out of. Marquette split it out and made it a permanent allocation for exposure purposes.

The Chairman then requested volunteers to serve on the mid-cap growth equity manager RFP review panel, which includes review of the mid-cap growth managers, conducting interviews, and making a recommendation to the Board. Ms. Van Kampen, Dr. Peck, Mr. Stuller, and Ms. Taylor volunteered to serve on the panel.

In response to a question from Mr. Muller, Mr. Grady stated that an RFP panel is not a meeting of the body if 4 or fewer people are serving on it. Therefore, a public meeting notice is not required. If there are more than 4, a public meeting will need to be held along with a closed session. This is also a bit inefficient because if a 6-member RFP panel is going to be formed, the Board might as well do it.

The Chairman agreed with Mr. Muller's statement that anyone who is not one of the 4 people on the RFP panel should not attend the meeting to avoid necessity of a public notice.

Mr. Grady stated that no decisions are made on that RFP panel. Additionally, this is how most of the RFP panels at the County function—small subgroups of people who make a recommendation to the decision-making body.

Mr. Stuller suggested that public meetings be held for the RFP panel to include interviews by the full Board. The three managers Mr. Stuller has personally talked to indicated there was no concern speaking in open session.

Mr. Garland stated that he might want to attend the RFP panel sessions in order to hear the manager presentations.

The Chairman then stated his goal is to lock down the structure of the RFP panel so any discussions can be conducted on a timely basis and the notice provisions are not violated, whether or not it is done as a full Pension Board with a meeting notice and closed session, or as a defined RFP panel with less than a quorum. However, there might be an issue with a public session at the point when the Pension Board or panel members provide their opinions as to whether they like a certain manager and why. This could be construed as unprofessional and could prove detrimental to the Board's ability to engage managers.

Mr. Grady stated that the Board could provide notice of a potential Pension Board meeting with a potential for closed session, and then whoever wanted to attend could do so. However, which panel members are voting on a recommendation still needs to be defined. For example, everyone who attends or just the main 4 people on the panel.

The Chairman responded that if it is to be handled at a Board meeting, he prefers that whoever shows up be actively involved, make their opinions known, and participate in the recommendation to the Board.

Mr. Christenson then stated that the process will involve Marquette attending an Investment Committee meeting to discuss mid-cap growth equity managers. Marquette will recommend a narrowed list of qualified candidates for the mid-cap growth search, and then a special meeting will be held for the RFP panel to interview the selected candidates.

In response to a question from Mr. Grady, Mr. Christenson stated that the list of managers need not be narrowed down in closed session.

7. Investment Committee Report

There was no Investment Committee report because the March 5, 2012 meeting was cancelled.

The Chairman moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(e), with regard to item 8 for considering the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session, and that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 12 and 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 voted by roll call vote 7-1, with Mr. Stuller dissenting, to enter into closed session to discuss agenda items 8, 12 and 13. Motion by the Chairman, seconded by Dr. Peck.

8. Selection of Private Equity Fund of Fund Manager

In open session, the Chairman stated that the Board was able to complete the RFP process for selection of a private equity fund of fund manager. The Board discussed the matter and considered comments from the Investment Consultant. Based on these events, a manager was selected.

The Pension Board unanimously approved the hiring of Sigular Guff as the small mid private equity fund of fund manager for ERS. Motion by Dr. Peck, seconded by Mr. Garland.

9. Audit Committee Report

Mr. Garland reported on the March 7, 2012 Audit Committee meeting.

The Audit Committee first discussed ERS staffing. The Retirement Office is attempting to add staff through the County process, and Matt Hanchek explained the steps necessary to accomplish this. The vacant unfunded position on the Benefits side could have been moved to ERS, but that position was eliminated with the budget process. The remaining option is to create unfunded positions and ask the County Board to fund it. Mr. Hanchek will do so.

The Audit Committee then discussed pension expenses and the budget process. Mr. Yerkes explained the County and ERS budgeting process, where the funding comes from for each entity, and how the budgets are tracked.

Mr. Yerkes then summarized the budgeting process, stating that it starts with the County budget, which moves through the County committees where it is modified. The modified budget then moves to the full County Board for approval, and then the County Executive has an opportunity to veto an item. The ERS budget has two components—the County budget, and everything else in the ERS budget that is not run through the County budget. Next year, the ERS budget will be separated into those two components so it is clear what the Pension Board can and cannot control.

The Audit Committee next discussed the actuarial report. Ms. Ninneman provided an update on the timeline, noting that files were sent to the actuary and ERS is on schedule with report production.

The Audit Committee then discussed various forms and acceptable beneficiary designation for a member electing Option 6. Mr. Huff confirmed in the meeting that the only acceptable designation other than an individual is an estate. Trusts cannot be named as beneficiaries.

The Audit Committee next discussed Pension Board election ballot forms, the use of paper ballots in particular. The existing rule for electronic voting does not contain provisions for paper ballots and a decision was made to bring this subject to the Pension Board for ruling.

The Chairman then provided background on the use of paper ballots. Years ago for employee and retiree elections, polling stations were set up at various points around the County for employees to vote. An examination of that voting method revealed high direct and indirect costs to the Pension System. An alternative method that allowed voting over the Internet and telephone was adopted and has been used in the last few elections. Exceptions were made to that process that allowed for paper ballots, but those exceptions were not provided for in the rule under electronic voting. The issue before the Board is to determine whether electronic voting using the Internet and telephone should be maintained, and whether exceptions should be allowed for paper ballots.

Mr. Grady then reviewed Rule 1020 for employee elections. The most recent adopted version of the rule, which closely mirrors the retiree rule, was amended in December 2010. Rule 1020 states that "all elections shall be conducted by use of a computer-based internet system and a telephonic system, unless the Pension Board specifically decides to use a paper ballot process for a designated election. Voters should be given the option to vote by either one of these methods, but the system should be designed to limit an eligible voter to one vote per election. If a paper ballot is used, voting shall take place in person, at times and places, and over such number of days as are established by the Retirement Office. The Pension Board reserves the right to grant special accommodations for those with extenuating circumstances. If a telephonic or computer-based Internet ballot system is used, the Retirement Office shall send a notice by mail or electronic communication of the primary or final election to all eligible voters with instructions for the method of voting with voter identification and password, according to the timeline set forth above. If a ballot system other than paper is used, write in votes are not allowed and will not be accepted."

In response to a question from Mr. Muller, Ms. Taylor stated that there was a large volume of paper ballots in the last election because employees find them easier to use than the Internet or telephone.

In response to a question from the Chairman, Ms. Taylor stated that the paper ballots were available on the County website as a downloadable form. Additionally, it was posted on the home page at Votenet.

Dr. Peck then stated that she likes the fact that Votenet is a third party vendor. Additionally, if enough advanced notice and time are provided for voting using either the Internet or telephone, every employee should have the ability to do so, even by visiting the public library for access to a computer.

Mr. Garland suggested extending the voting period from 4 days to 7 or even 14 days to allow for vacations and busy schedules because it cannot be assumed that every employee is comfortable using computer or cell phone technology. Given a larger window in which to vote, the employee might be able to visit the Retirement Office and ask for assistance or seek out another way to vote.

In response to a question from the Chairman, Mr. Sikorski stated that the recent election was a step in the right direction in that the mailing was sent out early. Fewer calls were received from employees indicating they were unaware of an election. In previous elections

using electronic voting, employees did not receive the mailings and the supervisors did not post the notices as they were instructed. There are only 6 public County kiosks. Unless an employee has a job where the employee sits at a desk with a computer, the employee is not checking e-mail every day or even every few days.

In response to a question from Dr. Peck, Ms. Ninneman and Mr. Sikorski confirmed that employees receive everything electronically, including paystubs.

In response to a question from Ms. Van Kampen, Dr. Peck and Ms. Ninneman responded that voting response has always been low.

Ms. Taylor then stated that before Votenet, voting response was much higher. It is not that employees are uninterested in voting, it is that they are not informed.

After general discussion by the Board on voting response levels before and after Votenet, Mr. Grady stated that response level was higher before Votenet, but never high. They were low, and now they are lower.

The Chairman then suggested moving the paper ballot issue back to the Audit Committee to review voting history and analyze the current ERS workforce, and then come back to the Pension Board with a recommendation to either adhere to the current rule and not allow paper ballots or change the current rule to allow for them.

The Audit Committee concluded with a discussion of Option 7, which allows a member to elect a non-standard benefit. A Board rule requires the member to demonstrate why an option is needed outside of the standard options available in order for the Pension Board to approve. These are similar questions a member is required to answer when electing a lump sum payment. An update requiring the member to pay the cost for the actuary to provide factors necessary to calculate the non-standard benefit will be reviewed.

10. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee, and Investment Committee topic lists. The Chairman then stated that anyone with future topic suggestions should voice them.

The Board agreed to remove the Reinhart Partners Issue and the General Private Equity items from the Investment Committee topic list.

The Board also agreed to add County Internal Audit and BackDROP Adjustment items to the Audit Committee topic list.

No action was taken on educational opportunities for the Pension Board members because all proposed opportunities had been previously approved.

11. Disability Pension Matters

(a) Karen Bath - ODR

The Chairman stated that Ms. Bath'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 Dr. Peck, seconded by Mr. Sikorski.

(b) John Bodish - ADR

The Chairman stated that Mr. Bodish'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 accidental disability pension application based on the Medical Board's determination. Motion by Dr. Peck, seconded by Mr. Sikorski.

(c) Michelle Linsey - ODR

The Chairman stated that Ms. Linsey'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 Dr. Peck, seconded by Mr. Sikorski.

(d) Justin Owings - ADR

The Chairman stated that Mr. Owing'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 accidental disability pension application based on the Medical Board's determination. Motion by Dr. Peck, seconded by Mr. Sikorski.

12. Pending Litigation

(a) *Mark Ryan, et al. v. Pension Board*

The Pension Board took no action on this item.

(b) *Lucky Crowley v. ERS*

The Pension Board took no action on this item.

(c) *Renee Booker v. ERS*

The Pension Board took no action on this item.

(d) *Jo Ann Schulz v. ERS*

The Pension Board took no action on this item.

(e) Stoker v. ERS

The Pension Board took no action on this item

13. Report on Compliance Review

The Pension Board took no action on this item.

14. Adjournment

The meeting adjourned at 11:05 a.m.

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