EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE MAY 16, 2012 PENSION BOARD MEETING

1. Call to Order

   Chairman Mickey Maier called the meeting to order at 8:35 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present	Member Excused
Mickey Maier (Chairman)	Keith Garland
Dean Muller	
Dr. Sarah Peck	
Dave Sikorski	
Monique Taylor	
Patricia Van Kampen	

   Others Present
   Marian Ninneman, CEBS, CRC, ERS Manager
   Mark Grady, Deputy Corporation Counsel
   Dale Yerkes, ERS Fiscal Officer
   Vivian Aikin, ERS
   Jeremy Getson, AQR
   Robert L. Hudon, FMA
   Kathryn A. Vorisek, FMA
   Brett Christenson, Marquette Associates, Inc.
   Larry Langer, Buck Consultants
   Emily Urbaniak, Buck Consultants
   Marilyn Mayr, Prior Pension Board Member and Retiree
   Donna Destefano, Retiree
   D.A. Leonard, Retiree
   Steven Huff, Reinhart Boerner Van Deuren s.c.
   Steve Schultze, Reporter, *Milwaukee Journal Sentinel*

3. Minutes—April Pension Board Meetings

The Pension Board reviewed the minutes of the April 17, 2012 annual Pension Board meeting and the April 17, 2012 special Pension Board meeting.

The Pension Board unanimously approved the minutes of the April 17, 2012 annual Pension Board meeting. Motion by Ms. Van Kampen, seconded by Mr. Muller.

The Pension Board unanimously approved the minutes of the April 17, 2012 special Pension Board meeting. Motion by Ms. Van Kampen, seconded by Mr. Muller.

4. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, April 2012

Ms. Ninneman presented the Retirements Granted Report for April 2012. Thirty-one retirements from ERS were approved in April, with a total monthly payment amount of $44,748. Of those 31 ERS retirements, 11 were normal retirements, 16 were deferred, and 4 were disability retirements. Nine members retired under the Rule of 75. Additionally, 13 retirees chose the maximum option, and 10 retirees chose Option 3. Thirteen of the retirees were District Council 48 members. Six retirees elected backDROPs in amounts totaling $1,283,884.

(b) ERS Monthly Activities Report, April 2012

Ms. Ninneman presented the Monthly Activities Report for April 2012. Combined, ERS and OBRA had 7,900 retirees at the end of April, with a monthly payout of $13,081,313.

Ms. Ninneman then stated that ERS held only 17 appointments in the month of April. The number of retirement estimates requested by employees retiring within 6 months is also reduced. Additionally, in terms of legal issues, ERS employees continue to ask questions relating to benefit calculations, legal provisions, and opinions from counsel, all of which are being researched by an ERS analyst. Regarding customer service, call volume, walk-ins, and e-mail inquiries continue at a high volume.

In response to a question from the Chairman, Ms. Ninneman confirmed that ERS workload has resumed a more normal level.

(c) Internal Audit Recommendations

Ms. Ninneman stated that a report was e-mailed to the Board that contained 14 recommendations from the County's internal audit department. The suggested deadline to comply with the recommendations is either May 1, 2012, or the end of June or July. ERS has either revised or created new procedures for the COLA corrections and is currently reviewing the Ten-Year Certain and Life option, the calculations around when the ten-year period begins, and whether a backDROP was chosen. ERS is on track to complete the recommendations by mid-year.

In response to a request from the Chairman, Ms. Ninneman agreed to provide an update to the Board in the form of a written report when compliance is reached.

In response to a comment from the Chairman, Ms. Ninneman agreed that Option 7 has been administratively challenging. Recreating the paperwork will be difficult because some of it goes back 10 to 20 years.

(d) Retirement Statistics First Quarter Report

Ms. Ninneman stated that ERS recently began reviewing retirement numbers and maintaining statistics in order to pinpoint trends to predict staffing and the funds needed to pay benefits. There is not yet enough data collected to present any solid findings, but ERS will continue to track how employees are retiring, their benefit options, their age, and years of service. ERS plans to present these statistics to the Board in the next 6 months.

(e) Co-Development First Quarter Report

Ms. Ninneman provided a first quarter co-development report, stating that ERS continues to realize cost savings through the co-development team that is handling work in-house that Vitech used to perform. The total savings for the first quarter of 2012 is approximately $109,000, and ERS expects to continue this cost savings through the remainder of the year.

Ms. Ninneman then stated that the co-development team is reviewing a new testing tool that will reduce the amount of time needed for manual testing when a change order or a system modification is implemented. Additionally, the co-development team is starting to co-manage the change orders to determine what the team can handle and what needs to be passed on to Vitech. There are currently 275 help desk tickets.

In response to a question from the Chairman, Ms. Ninneman confirmed that the report shows net annual savings and then total savings so far for 2012 by comparing proposed Vitech costs to co-development team cost estimates for specific job tickets and work already performed.

(f) Individual Retirement Meeting Survey First Quarter Report

Ms. Ninneman discussed the individual retirement satisfaction surveys. At all one-on-one retirement sessions, ERS requests that members complete a survey on the retirement experience. Survey volume continues to be high and results reveal top scores, indicating that ERS staff is knowledgeable and performing well. Any negative survey comments are addressed with staff.

In response to a question from Mr. Muller, Ms. Ninneman stated that the comment received about the pension estimator being inaccurate is valid, and that ERS submitted a change order to correct it. The problem is the way the information transfers from Ceridian; it is sometimes counted twice and ERS has to make manual corrections depending on when the estimate is run.

(g) Authorization for Retiree Election

Ms. Ninneman stated that since Guy Stuller is no longer on the Board, ERS would like Board approval to hold a retiree election for the balance of Mr. Stuller's term through November 2013.

The Chairman then stated that questions about the election process were referred to the Audit Committee, but the May Audit Committee meeting was canceled and there is no proposal yet for the Board to review. If the election process is going to change, staff input will be needed because costs will change and rules will need to be revised.

Ms. Mayr noted that the election process was discussed in an Audit Committee meeting two months ago and she suggested that ERS return to the previous process of paper ballots. In her view, components of the existing rules relating to any desired changes could simply be lifted out. There would be no cost to the changes for retiree elections because ERS sends out a monthly notice to all retirees and election materials could be included in that packet.

Ms. Ninneman agreed that the election process was discussed at the Audit Committee, but stated that no decision was reached on how to handle the ballots.

Ms. Mayr noted that at an earlier request of the Chairman, she polled the retirees about the election process and they all indicated they wanted to return to the previous process of paper ballots.

Mr. Huff then stated that the existing Retiree Member rule allows the Board to elect for a full term as opposed to a partial term to avoid another election at the end of the partial term.

The Chairman then stated that he preferred that the Audit Committee and ERS staff review the election process and make a recommendation as opposed to handling it at the Pension Board level.

In response to the Chairman's question as to whether the Board was ready to discuss the election process today or preferred a recommendation from a separate committee, Dr. Peck stated that she would like to see a recommendation on the process and cost ahead of time. Ms. Van Kampen stated that it would be helpful to review this information, but that she would accept the Board's decision since she is unfamiliar with the previous process of paper ballots.

The Chairman stated that he would like to elect a retiree member to the Board as soon as reasonably possible and requested that Ms. Mayr walk the Board through the paper ballot process to help determine whether the Board could take action now.

Ms. Mayr stated that the ballots for elected and retiree positions are drawn up the same way. Existing rules already contain provisions on things such as timelines, required signatures, and the number of elections held. There would be no additional cost other than envelopes. Instructions would simply be to fill out the ballot and send it to ERS or, as a suggestion the Board, to an independent agency of the County, such as the County Comptroller, because of concerns raised in prior elections.

In response to a question from the Chairman on feasibility and cost, Ms. Ninneman stated that she did not know the exact cost of reverting to a paper ballot process, but that it would include printing approximately 7,500 envelopes, return mail, and staff time to open and verify the ballots. Since the recordkeeping process would be manual, significant staff time would be needed and ERS cannot accommodate that.

Ms. Mayr then commented that this process could be worked out with the Comptroller so there would be no extra cost to ERS to open envelopes and count ballots.

A Milwaukee County retiree then suggested the possibility of using retiree volunteers to open envelopes and count ballots. Dr. Peck responded that this must be done by an independent third party, but the suggestion is appreciated.

Ms. Taylor then suggested that, if Votenet were removed from the process, any cost associated with reverting to a paper ballot process would be eliminated since ERS would not have to pay Votenet for the election.

A Milwaukee County retiree then commented that retirees had no confidence in the way votes were handled in the last election. There was no audit trail, and retirees did not want to provide social security numbers over the phone. Therefore, they did not vote.

The Chairman stated that he is not comfortable making changes to the election process on the fly at the Board level. There are two choices before the Board; to continue using the Votenet election process, or to request that the Audit Committee discuss the process and make a recommendation to the Board. While good ideas have been and are being proposed, the Chairman is not comfortable taking action today.

In response to a question from Ms. Taylor on the cost of using Mailcom, Ms. Ninneman stated that the ballot and return envelope could be included in existing Mailcom mailings, but that the ballots would need to be coded for verification purposes to ensure only one vote per member is cast. Exact cost is unknown, but it would include return envelopes, individualized ballots, and staff time for opening and recording the ballots. If the County Comptroller is used to open and record the ballots, it needs to be verified whether they are staffed to do so, and would volunteer to do so.

At Ms. Van Kampen's suggestion for a point person to be named to research and develop a revised election process by the next Audit Committee meeting, Ms. Taylor volunteered.

In response to a question from Mr. Muller, Ms. Mayr stated that she has not yet checked with the Comptroller's office to see if they were willing and able to open and record the ballots. Ms. Ninneman then noted that she spoke with the Audit department and Audit chose not be involved.

The Chairman then stated that any decision on the election process will be delayed until the research and development is done and it can be presented to the Board.

The Board then discussed when and how to hold a retiree election and whether to elect for the partial or the full term.

The Pension Board voted 3-3, with Dr. Peck, Ms. Taylor, and Mr. Muller approving and Ms. Van Kampen and Messrs. Maier and Sikorski dissenting, to authorize a retiree election for a full term under current Votenet procedures. Motion by Dr. Peck, seconded by Mr. Muller. The motion failed to pass because it lacked the necessary five votes as required by Ordinance section 201.24 (8.5).

The Pension Board unanimously approved a retiree election for a partial term under current Votenet procedures. Motion by Dr. Peck, seconded by Mr. Muller.

Mr. Grady then confirmed that the Votenet system for this retiree election will use randomly-generated identification numbers in place of Social Security numbers and birth dates.

(h) Fiscal Officer

Mr. Yerkes first discussed the ERS cash flow report. April cash flow was only $10 million as opposed to the $15 million approved in March, and lump sum payments came in lower than what was forecasted.

Mr. Yerkes next discussed the portfolio activity report. In 2009, ERS received a $400 million additional contribution from the County. At the same time, Marquette became ERS's investment consultant and changed the asset allocation, bringing in long-short and infrastructure investments, and direct investments in real estate. In April 2012, the process was complete with the exception of private equity, which will take 10 to 15 years to work into the portfolio. Additionally, March funding of $15 million came out of the U.S. equity investments; $7.5 million from Mellon Capital large-cap and $7.5 million from Robeco. For April funding, $5 million came from Robeco and $5 million came from one of the cash overlay accounts.

In response to a question from the Chairman about the first quarter check register, Mr. Yerkes stated the WI SCFT line item was for child and spousal support. Specifically, wage assignments relating to retired members.

In response to a question from the Chairman, Mr. Yerkes stated that ERS is set for funding through the end of this quarter.

5. Actuarial Valuation Results - Buck Consultants

Larry Langer from Buck Consultants distributed an actuarial valuation presentation, noting that the numbers are final with the exception of the OBRA results, which will be available later this week and included in the report next week. Mr. Langer then introduced Emily Urbaniak, a consultant at Buck Consultants.

Mr. Langer first discussed the purpose of an actuary, which is to determine actual and estimated contributions to a retirement fund. An actuary also verifies the amount of money in a fund compared to the amount of money needed to fund benefits. Valuations are reviewed annually to make adjustments for anticipated versus actual events. Factors attributed to deviating valuation results include market value returns, payroll and benefit payments, and changes in plan provisions. With ERS, market value returns were just over 0% compared to the 8 % expected, payroll decreased by almost 14% compared to a 3.5% anticipated increase, and benefit payments increased from $163 million to $188 million. The biggest impact, however, resulted from changes in plan provisions over the past year, including the 1.6% multiplier, the age 64 retirement requirement, and the State-mandated member contributions. The impact of these factors on the 2012 actuarial valuation resulted in an actual 2012 funded status of 89.2%, which is 1.2% higher than the budgeted 2012 funded status of 88.1%. Additionally, the actual contribution is lower than the budget contribution from last year, and accrued liability decreased by 1.5%.

In response to a question from the Chairman as to how ERS compares to public funds in terms of funded status, Mr. Langer stated that the national average for larger funds, typically State funds in the billions of dollars, is a funded status of somewhere around 77% or 78%. Local funds tend to be slightly lower at roughly 77%. With an average assumed rate of return of 7.9% nationally, ERS has a slightly higher assumed rate of return. The Board has good policies in place to maintain the health of the Plan. For example, experience reviews are performed every 5 years to ensure assumptions are still prudent. Another policy is that contributions are developed in such a way that they trend toward 100% funding over time.

Mr. Langer then discussed the actuarial valuation process. The ERS Plan is a defined benefit plan. When employees retire or terminate, they receive a benefit as defined by an Ordinance. There are no provisions for what is put into the plan because it is difficult to predict the amount of money needed to pay out those benefits. The actuarial valuation process determines that amount. The process involves inputs such as membership data, benefit provisions, asset data, actuarial assumptions, and funding policy. Membership data includes who receives the benefits and the active members who are part of the System and could potentially receive a benefit in the future. Benefit provisions are already defined and self-explanatory. Asset information is based on the minimum amount of assets in the Fund, which is important when determining contributions. Actuarial assumptions are used to bridge the gap between now and the future and include demographic information on things such as member life as well as investment information on things like salary increases and the type of investment return realized over the long haul. This input is placed in an actuarial valuation model and outputs such as unfunded accrued liability, funded status, employer contribution, member contribution, and actuarial gain or loss are determined. The total dollar amount sufficient to pay benefits for members currently in the Fund is then computed, and a funding policy, or how that amount is paid off, is developed. The funding policy is what breaks that amount into small, regular installments that the County will pay off over the course of time.

Mr. Langer then noted that the next experience review will be performed later this year for 2013, and a report will be presented that discusses whether any existing assumptions should be updated. One assumption that will require an update due to changes in the actual standards of practice will require an update to mortality. People are living longer, and this factor likely will be included in the valuation for next year, resulting in an as yet undetermined increase in cost. Tweaks will be made to other assumptions, as well, and a discussion will be held on ways to invest the return.

Mr. Langer next discussed the funding policy in more detail. The components of the ERS funding policy include an actuarial cost method, or how the cost is divided between past service, current service, and future service. ERS uses an actuarial cost method, Entry Age Normal, which is the most common cost method used by public plans across the nation. As for asset valuation methods, Buck Consultants uses a smoothed value of assets as opposed to the market value of assets because the market value of assets results in contribution volatility. Since the ERS Plan is mature, and it holds assets on behalf of the membership, the returns are smoothed out over a 5-year period to the extent that they are above or below the 8%. Some retirement systems have been stretching those asset returns over a longer period of time, and ERS may want to look at extending the 5-year period to 6 or 7 years to try and mitigate contribution volatility. Contribution volatility is one of the biggest contributors to corporate pension plans shutting down because contribution requirements in the private pension plan world are restrictive. Public plans are not constrained by those rules, so there is more latitude in terms of developing a contribution policy.

In response to a question from Mr. Muller, Mr. Langer stated that the Pension Board determines the smoothing period. In other plans, other bodies may have influence over the contribution and funding policy, which can lead to problems.

Mr. Grady then clarified that the assumptions within the purview of the Pension Board include things like contribution smoothing, the asset corridor, demographics, payroll, inflation rate, and benefit levels. The County Board has control over the assumptions set by Ordinance, such as contribution variance, the 30-year amortization assumption, and benefit changes.

Mr. Langer then discussed a 10-year history of ERS member demographics. There has been a significant decrease in active employees from approximately 6,000 members to around 4,000 members.

Mr. Grady then noted that ERS had several hundred retirements in November, December, and January, so the 4,000 count is most likely artificially low. Hiring will be done to fill many of those vacant positions, and the number of active employees will increase.

Mr. Langer continued by stating that a change in the covered members of the Fund can drive the results of the Plan. A high volume of retirees during the year decreases active payroll and increases benefit disbursement, which contributes to a decrease in liabilities. Overall, there is much less on which to base contributions.

Mr. Langer then addressed the benefit provisions governed by County Ordinances. The primary benefit change is the State-mandated contributions, which is included in the report for the first time. Another significant impact to the cost of the Plan is the decrease in the multiplier from 2% to 1.6%, which affected the majority of active members. The ongoing cost of the Plan decreased about 20% as a result of these changes. Additionally, the County portion of the contribution was reduced by roughly a quarter to a third as a result of the State-mandated member contributions.

Mr. Langer stated that another critical factor of the valuation is the market value reconciliation. ERS's rate of return was around 0% and the result of that, all else being equal, was a decrease in the funded status and an increase in contributions. However, other changes resulted in an increase in the funded status and a decrease in contributions. Overall, the increase in the funded status was softened. Additionally, the amount of benefits paid out in 2011 was $187 million and the amount of assets in the Fund was over $1.8 billion. The ERS Plan is paying out 10% of the assets towards benefit payments, which is a feature of a mature plan.

Mr. Langer then stated that the purpose of the actuarial value of assets, or a smooth or average value of assets, is to control contribution volatility. The difference between the 8% return and the actual return is phased in over a 5-year period, and the upcoming budget contribution for 2013 is the last reflection of the 2008 market, or the end of the 5-year period. For the 2011 Plan year, a 0% return was realized instead of the 8% return, so a 1.8% negative return is reflected in this year's valuation. While market value returns of 6.3% in 2007, -22.5% in 2008, 20.4% in 2009, and 11.7% in 2010 do not seem close to an 8% return, contributions are adjusted up to reach the 8% return or down if the 8% was exceeded, and the range of returns from a low of -22% to a high of 20% is 42%. If the returns were reflected all at once, the contribution in 2008 would have spiked approximately $30 million. So again, the benefit of smoothing is to prevent spikes in contributions. The downside is that when good returns are realized, contributions are expected to decrease but they do not because past returns are still being absorbed.

Mr. Langer then discussed unfunded accrued liability on an actuarial basis and on a market value basis. The majority of retirement systems do not have the needed amount of money in the fund, so contributions are adjusted upward to pay off the unfunded liability. The actuarial accrued liability for ERS last year decreased by about $5 million. This year, it decreased by $30 million, and a continued decrease is expected. The primary driver of the decrease is an increase in the number of retirees in the system, or the maturity of the system. In addition, the growth of benefits is a bit lower with the implementation of the 1.6% benefits multiplier. Additionally, the funded status is 84.6% for the market basis and 89.2% for the actuarial basis, and as the funded status reflects the market returns over the next few years, contributions will continue to increase.

Mr. Langer continued by stating that when actuarial results are developed, they are compared to accrued liability and assets from the previous year's valuation. If there is less unfunded liability than was anticipated in the previous year, there is an actuarial gain. If there is more unfunded liability, there is an actuarial loss. Based on last year's valuation, then, assets of approximately $1.8 billion are anticipated, which is a loss of around $80 million. The loss does not mean that $80 million disappeared from the Fund; it means it is a loss compared to the 8% return reflected in the valuation. There was a gain of $25 million on the liabilities side, which means liabilities increased by $25 million less than what was anticipated.

Mr. Langer then discussed gross ERS budget and actual contributions, which are the total amounts offset by member contributions. Last year's budget number was $30.4 million and the actual was $24.9 million. The normal cost, or the cost of benefits occurring during the year, decreased because of lower benefits accrued resulting from lower salaries and the 1.6% multiplier. Contributions and the actual accrued liability remained relatively the same. Budget amounts for 2013 include an increase in normal costs because of a payroll increase assumption of 3.5%, which will help mitigate an increase in the number of members. Net annual amortizations, or the difference between the market value of assets and actuarial value of assets, increase in 2013. That difference is recognized over time, and a piece of it is included in this budget contribution amount. Contributions are expected to increase unless an 8% actuarial rate of return is met or exceeded, but contributions should eventually level off.

Mr. Langer then stated that the decrease of $5.5 million between the 2012 budget and actual contributions is a combination of lower salaries and the benefit multiplier. Additionally, assets performed beyond expectation. As part of the budget process, Buck Consultants anticipated gains reflected as a result of the asset valuation method. This $1.7 million additional is one-fifth of the result of the 0% return this past year. Going from a $24.8 million actual contribution to the budget amount is the phasing in of the valuation returns for this year reflecting the difference between market and actuarial value.

Mr. Langer then discussed State-mandated contributions. Last year, under Act 10, the State mandated that members contribute to the retirement system. A contribution policy was created that states that members and the County should split the required contribution. In the Wisconsin Retirement System, there is a separate contribution requirement for retirees and other groups, such as public safety and employees. However, in Milwaukee County, there is only one contribution requirement, which needed to be split among these same groups. Therefore, the member contributions for this year's valuation results to be used in 2013 are 4.4% for general employees and 5.4% for public safety employees.

In response to a question from Mr. Grady, Mr. Langer confirmed that the total 2013 budget contribution is $30.6 million. Public safety employees are projected to contribute $1.1 million and general employees are projected to contribute $7.5 million for a total of $8.6 million, leaving the County with $22 million.

Mr. Langer then addressed OBRA plan results, which are not finalized yet. There were many changes within the OBRA system, primarily one large series of cash-outs last year and another early this year. This year's cash-outs, though they occurred beyond the valuation date, will be reflected in the report because it will make a material difference, plus the amounts are known and impact can be determined. Last year, OBRA liabilities were $5 million as opposed to a $2.1 billion liability in ERS. That $5 million is a result of cashing people out, so that number will decrease to somewhere in the $2 million to $2.5 million range. There will be a corresponding decrease in the contribution amounts, though a lot of the contribution requirements are for the allocation of administrative expenses for OBRA.

Mr. Langer then summarized 3 key points of his presentation. One, the events that impacted the valuation that resulted in a slightly higher funded status and slightly lower employer contributions include low market value returns, payroll decrease, and changes in Plan provisions. Two, over the next few years, contributions will trend upwards in the absence of asset returns in excess of 8%. Three, the Plan has matured to the point that expected investment returns are not sufficient to pay for benefit disbursements despite ERS being well-funded. Cash flow will be at a premium as assets are paid out in benefit payments in the next few years, and the Board should review its policies to address this.

Mr. Langer concluded by outlining the next steps in the valuation process. The 2012 recommended budget contributions will need to be approved as soon as they are complete. A letter must then be sent to the County Executive requesting these funds.

In response to a question from Mr. Muller regarding increasing the smoothing to 10 or 15 years to study impact, Mr. Langer stated that the typical asset smoothing period is 5 years. Some systems, like California, use a much longer period.

Mr. Muller stated that since reducing the 8% rate of return would increase contributions, perhaps a better option would be to change the smoothing period. A market cycle is 7 to 10 years, and it would be easier to reach the actuarial rate of return over a longer period than 5 years. This would be a good, strategic move for the Fund.

Mr. Langer responded that with shrinking head counts in many government plans along with higher liabilities as more people are retiring, it may be prudent for the Board to place more emphasis on the liabilities side. Additionally, the policy will continue to evolve with new and better tools for projections, changes in government accounting standards, and changes in actuarial practices.

The Chairman then stated that a request for ERS funds could be sent to the County Executive now, but the OBRA request will need to wait until the OBRA numbers are final.

Mr. Grady suggested that the Board vote to approve the contribution request for ERS and forward that to the County now because it is 95% or more of the contribution. When the OBRA report is received, it can be forwarded to the County for information purposes until the Board can ratify the OBRA contribution at the June meeting.

The Pension Board unanimously approved the contribution request to the County Executive in the amount of $30,582,000, to be offset by employee contributions. Motion by Mr. Sikorski, seconded by Dr. Peck.

6. Investments

(a) AQR

Jeremy Getson of AQR distributed a booklet containing information on the investments managed by AQR for ERS. Mr. Getson then introduced himself as a principal at the firm who leads the strategies team, covering the eastern half of the United States.

Mr. Getson first provided an overview of the firm. AQR is a partnership owned by 18 principals of the firm, versus 15 at this time last year, and that number will continue to grow as the organization evolves. There are currently 265 people in the firm, versus 220 this time last year. Growth was realized in all areas, including the investments, trading, and research teams. AQR is a multi-asset class organization in terms of strategies managed. The ERS strategy is run by the stock selection team, a bottom-up team that builds models to evaluate stocks around the world.

Mr. Getson then provided an overview of the assets under management. At the end of the first quarter, AQR was managing approximately $52 billion in assets split between global equity and alternative strategies. Equity strategies are managed against benchmarks, whereas alternative strategies are more unconstrained and use different tools. Trends over the last few years in the multi-asset and alternative strategy space involve a push toward greater diversification on a globalized basis. With long-only strategies at $23.5 billion, the largest sectors are in global or international equities, with $2.1 billion in U.S. and international small-cap. AQR's team builds process models to evaluate securities from the bottom up, applying that process globally, whether in large-cap or small-cap, outside the U.S. or emerging markets. The assets of this class support that entire team, as opposed to an individual team for individual strategies. When AQR evaluates the effectiveness of its strategies, AQR looks at how the strategies work globally in different regions, rather than just in the local region, which results in a more robust and rigorous outcome to the research and valuation. AQR currently has four strategies in the small-cap space at about $1.8 billion.

Mr. Getson next discussed AQR's investment philosophy. Markets are not perfectly efficient, but are difficult to outperform. Inefficiencies can be exploited through a diversified and disciplined approach using a bottom-up process. While a quantitative and systematic process, it is really driven by the fundamentals that drive stock returns. The first step of the investment process involves defining the benchmark, the active risk, and the investment universe. Using a cheap-with-a-catalyst strategy, AQR looks for companies with good properties and attractive valuations to industry peers, and properties that are showing signs of improvement. Companies must have sound accounting practices and healthy balance sheets, and management behavior should be favorable to stockholders. AQR also looks for investors who have more information, who have a demonstrated track record in how they invest. Additionally, AQR does not build a concentrated portfolio of a few companies; it builds a diversified portfolio with many hundreds of positions. Banks are compared to banks, and utilities are compared to utilities, though a small component of the process compares across industries. The overall process can be broken down into two components—research, or identifying desired stocks, and implementation, or how those evaluations are included in the portfolio. The process identifies desirable and undesirable stocks, and it is difficult to capture the information from undesirable stocks because the only alternative is not to hold them. AQR spends a lot of time on improving the set of signals and characteristics it looks for and tries to minimize the costs of implementation when identifying key overweight securities that are cheap and improving, and underweight securities that are expensive and deteriorating. In terms of how this applies to the U.S. small-cap value area, AQR starts with Russell 2000 Value Index constituents, but eliminates stocks with insufficient trading volume. Any non-constituents that do have sufficient trading volume but that still might be considered small-cap are added, and then stocks where the model does not apply or that are subject to client restrictions are weeded out. On average, AQR targets a 5% active tracking error risk which, despite a volatile market, has been difficult to realize in the last few years. From a macro prospective, dispersion within industries or stocks has been decently low, so much of the risk is driven by more broad-based macro phenomenon as opposed to company-specific.

Mr. Getson then stated that the second step of the investment process involves evaluating the attractiveness of each stock. Stock selection is about 85% of the active risk, with industry selection at about 15%. The portfolio manager has a very narrow focus and evaluates securities based on whether they are cheap. Underneath that criteria are individual indicators to capture a wider range of criteria. Portfolios are built for each of these indicators and the stocks are ranked accordingly. The stocks at the top are those that reflect the preferred characteristics and at the bottom are those that lack those characteristics. AQR then optimizes the rankings to meet the constraints of the benchmark.

Mr. Getson then discussed small-cap value performance. In 2011, performance trailed the benchmark by 1.3%. The environment in 2011 was frustrating in that a long-only strategy could not capture value based on undesirable securities. Over long periods of time, AQR does an equal job of identifying stocks that will perform better than the benchmark, as well as those that will underperform. Last year just happened to be a year where AQR did a better job of identifying the underperformers, which is harder to capture. The last 3 years show solid outperformance, which was really driven by a very strong 2009 and 2010. The last 3 to 5 years show modest outperformance.

Mr. Getson stated that 2011 performance was driven by sector industry rotation, primarily utilities, which performed well in small-cap last year, and energy. Utilities is an area AQR disliked because of bad momentum and sentiment, characteristics with which analysts and short sellers are more negative. Energy is in a frustrating place in general. AQR was underweight in energies when it outperformed earlier in the year and then underperformed in the third quarter. Stock selection on average was slightly positive last year. Even though active risk is tilted more toward individual stock selection than sector industry bets, low dispersion in industry stocks make it difficult to realize higher returns. Dispersion is more likely to be seen across the sectors or industries, given the macro phenomenon.

Mr. Getson continued by stating that 2012 performance lags slightly. While the first quarter was decent, April was a more challenging month. So far, 2012 is proving to be a difficult year in stock picking within consumer discretionary and industrial. However, the portfolio is very diversified and cheaper than the benchmark. The 310 holdings in the portfolio represent the higher quality characteristics for which AQR strives.

In response to a question from Dr. Peck on how long the stocks are held, Mr. Getson stated that it depends on many factors. Different themes and triggers have different life cycles. Those that are more valuation-oriented or stable tend to be held 1 to 1½ years. Those more sentiment- or momentum-based are 6 months to 1 year. On average, there is 70% turnover in a 12-month period on a total dollars traded basis, not on a names traded basis.

Mr. Getson then stated that the portfolio holds a lot of names in the various sectors. There is an underweight to both utilities and financials, and a large overweight to healthcare, where momentum and sentiment are the most positive.

Mr. Getson then noted that when systematic strategies are run, they are amenable to being tested through history and time. Professor Ken French provides a dataset dating back to 1920 that AQR looks at for simple combinations of value and momentum, or cheap stocks with a catalyst. The dataset shows that over time there is variation, but the last few years have been uniquely challenging for these types of strategies. The same process applied globally reveals varying difficult periods in different global markets, like Japan. Though periods like this will continue to occur, there is confidence that progress will be positive long term.

Mr. Getson concluded by stating that AQR continues to put a lot of effort into improving the investment process by reviewing signals found in news items, feeds, and wires. AQR is also text-parsing for sentiment by analyzing the number of positive words versus negative words used in the different media, which has some correlation to momentum but possesses a little faster pickup. On an institutional ownership level, mutual fund holdings are reviewed to identify high conviction ideas, which tend to have stronger outperformance than the average holding mutual fund. The individual characteristics can provide insight into where the money will flow.

In response to questions from Ms. Van Kampen, Mr. Getson stated that analyst input and research is geared toward building a model. Once that model is built, the output targets various stocks using different criteria and signals to capture and review new ideas. At that point, determining how much weight and risk to assign to each item is a judgment call based on current events.

In response to a question from Mr. Muller as to the prospects for small-cap versus mid- and large-cap, Mr. Getson stated that on average, AQR traditionally has been a bit more skeptical of a small-cap premium versus a large-cap, leaning more toward active management with small-cap.

In response to questions from Dr. Peck, Mr. Getson confirmed that language used in the media is constantly evolving based on time and world events, so the words used when text-parsing for investor sentiment need to be tweaked on an ongoing basis. The model process is also tweaked on an ongoing basis to take into account that as people understand more about these words and events, there is less opportunity to take advantage of the effects. Once an event is well-documented, it becomes easy to pursue and achieve, so therefore, the effects are not as easy to capture or are too short to capture.

(b) <u>Fiduciary Management Associates</u>

Robert Hudon and Kathryn Vorisek of Fiduciary Management Associates distributed a booklet containing information on the investments managed by FMA for ERS. Mr. Hudon introduced himself as the chief marketing officer, and Ms. Vorisek as the senior managing director and chief investment officer.

Mr. Hudon first provided an overview of the firm. Total assets under management are $1.5 billion, almost all in small-cap and mid-cap assets. At the end of 2011, FMA started to transition completely out of large-cap and fixed income legacy positions, and those accounts and clients will be gone by mid-year, most of which were multiemployer-balanced accounts. Small-cap strategies and wealth management clients remain but FMA no longer manages those assets. FMA has had great success with small-cap strategies since 2007, and mid-cap strategies were introduced in April 2010. The firm is in good shape and stable, and continues to grow in its asset classes.

Ms. Vorisek then addressed FMA's investment philosophy and process. FMA has a relative value philosophy and focuses on attractive valuations when identifying sectors and stocks in which to invest. In addition, FMA looks for catalyst-driven opportunities that will drive earnings higher for those same sectors and specific companies. Investment philosophy involves seeking out companies with strong earnings, good balance sheets, financial flexibility, and management teams that are high-quality in nature and that generate good returns for their shareholders. The investment objective of the strategy focuses on generating risk-attractive investments, so risk is an important metric when building a portfolio. Lower risk is consistently taken in the ERS portfolio than in the market. FMA has also been able to generate very consistent returns over a long period of time and has a long tenure in managing fundamentally-based portfolios in the small-cap market. FMA participates in rising markets, but with its risk focus and risk and portfolio management processes, it has been able to protect capital to a great extent. Overall, 5-year returns indicate that FMA generates higher returns than the market and with lower risk.

In response to a question from the Chairman, Ms. Vorisek stated that FMA runs a more concentrated portfolio than AQR with roughly 80 companies in the portfolio.

Ms. Vorisek then stated that in terms of consistency and performance, and relative to the medium small-cap value manager and the Russell indices, FMA outperformed its peer group and its indices on a rolling 5-year basis. There are periods within a cycle where different characteristics provided leadership and that resulted in weaker performance, but over a longer period or a market cycle, there is definite outperformance through stock selection. FMA strategy also outperformed the Russell 2000 Index each year of the last 5 years, and very few small-cap value managers can claim that.

Ms. Vorisek stated that first quarter 2011 was a difficult quarter for FMA strategy. It was a low-quality quarter in terms of market characteristics and it prompted FMA to look more closely at quality relative to its strategy, how FMA is positioned, and how FMA would be expected to perform in certain market environments. As a measure of quality, then, FMA reviewed return on invested capital for companies within the Russell 2000, specifically quintiles, and then netted out the performance of the top quintile companies in terms of generating returns relative to the bottom quintile. The assumption would be that high-quality companies with better return characteristics would outperform lower quality companies, which is true. The challenge, however, is that there are and have been periods where lower quality companies have sustained market leadership, and those periods lasted about 10 to 16 months. What is interesting about the current market cycle over the last few years is that this low-quality period has lasted about 26 months, or double the average. This analysis also shows that the Russell Growth Index typically outperforms the Russell 2000 Value Index in these lower quality periods. FMA's relative performance was strong, and it remains focused on capital preservation in down markets.

Ms. Vorisek then discussed the small- and mid-cap investment team of six members. The most recent addition was in January of this year, and this person moved from the large-cap and fixed income team as those assets were rolled out of the firm. The team is composed entirely of sector specialists in the small-cap market, so there is comprehensive due diligence as part of the investment process in understanding trends and dynamics within the sectors, within the marketplace, and in identifying stocks within the portfolio. This is the reason behind a more concentrated portfolio. FMA wants each company, because of the level of due diligence, to have the potential to make a meaningful impact in the portfolio. Position sizes are usually around the percent at the smaller end and can grow up to about 2% within the portfolio. Approximately 80% of the outperformance mentioned earlier was driven by stock selection, so the depth of experience and the focus of the team on identifying those particular companies out of a universe of almost

1,400 companies in the Russell 2000 Value Index are critical to driving performance.

Ms. Vorisek then provided a performance overview through March 2012. FMA is ahead of the benchmark on a 1-year and inception basis to date. While there was underperformance in the first quarter, FMA regained the bulk of that underperformance in April and is now roughly in line with the market. In the fourth quarter of 2011, there were no high-quality or low-quality leadership issues or strong characteristics one way or the other, and FMA outperformed by a few hundred basis points. Then a fairly steep decline in quality occurred in terms of leadership from mid-December through mid-February, and that is where the bulk of the FMA underperformance occurred in the first quarter. Since then, as that issue continues to be moderated, FMA recaptured much of the performance. Companies with the lowest share prices, the lowest market caps, the lowest returns, and the highest data were the outperformers in the first quarter. These characteristics are not typically the characteristics FMA is attracted to, so that 8-week period had a negative impact on performance.

Mr. Vorisek next discussed market trends relative to what FMA looks for in the marketplace and how the portfolio is structured. Macro issues in the marketplace are analyzed to provide a compass for executing strategy. The analysts, or the sector- and industry-specialists, help construct a diversified portfolio, but FMA is not afraid to take more significant sector vets. In terms of total return this year, FMA is looking for 8% to 12% in the small-cap market. This was achieved by April for the third year in a row. The last two years were more difficult but barring any European calamity, this year will be different. The pullback in the small-cap market from the recent peak of about 5% to 7% is a natural digestion, and the economic news is a little softer than it was over the prior 6 months. Developments in Europe need to watched, such as with China and Brazil, and those issues will need to be incorporated into the portfolio strategy, but at this point FMA is somewhat trading range bound for the next several months as the European issues sort themselves out. Other factors include the upcoming election. In typical election years, until there is greater certainty about who wins, there is a pause in the market. Attention is also being paid to the fiscal flip causing negative impact to the GDP in 2013, and investors are wary of that, as well. Overall, though, the fundamental growth environment is much stronger today, and much more broad-based than it was in the last 2 years. Employment and GDP numbers are better, the financial system in the United States is in much better shape, and solid earnings growth is being realized. Companies are growing and expanding their workforce, and that adds to the broadness of the base of this recovery and differentiates it relative to the position the world was in last May, or the May before.

Mr. Vorisek next discussed market positioning, or portfolio positioning, as of the end of the first quarter 2012. There are some deviations relative to the Russell 2000 Value Index, specifically a dramatic underweight in financial services. This underweight has occurred for the last 3 years. However, FMA made changes to accommodate a larger investment in regional banks because balance sheet improvements have occurred and these banks are lending. There is an overall 3% to 5% increase in lending in the smaller commercial banks, and that is a definite positive to the growth process. FMA outperformed the benchmark in technology and consumer discretionary and with a pro-growth stance in the economy overall, the portfolio is structured in more cyclical sectors to take advantage of that higher growth. Other areas showing new opportunities include the housing market, the auto and aerospace industries, and construction and agricultural equipment industries. These are areas in the market in which FMA has a position in order to leverage positive industry trends.

Ms. Vorisek concluded by stating that in terms of portfolio characteristics, a forward-price-to-earnings metric shows that FMA is roughly in line with the value index, yet has a much stronger earnings growth forecast for the portfolio companies. In addition to a demonstration of quality within the portfolio, the 5-year return on equity surpasses that of the index itself within a lower debt-to-capital ratio.

In response to a request from Mr. Muller for more information on the manufacturing renaissance, Ms. Vorisek stated that more manufacturing activity is coming back to the U.S., predominantly from China, because labor costs have increased in China and there are no quality issues in the U.S. When transportation cost is taken out of the mix, there is closer parity on the manufacturing costs. FMA believes that trend will continue because there is plenty of well-educated labor given the unemployment rate in the U.S., and that means low rates. In other areas of auto manufacturing, there are annual sales rates of about 14 million in passenger cars this year. That rate was as low as about 9 million in the last few years, with a steady or gross of 16 to 17 million passenger cars being produced in a year. The industry is coming off the bottom aggressively, but is not at a full production level yet. One of the stocks in the ERS portfolio is an auto retailer, a direct beneficiary of this condition in the market place. They can leverage the costs within their company, pay down a lot of debt, restructure the business, and then acquire additional dealers to provide some growth. Volume has also increased on the housing side anywhere from 5% to 20%, with some homebuilders reporting a 35% increase in new orders. There are no homebuilders currently in the ERS portfolio because there are better opportunities for upside leverage in other areas that may not be as cyclic and exposed, but there is a reroofing company that receives about 80% of its business in replacement roofing, but that also sells doors and windows and garages and things of that nature. There is a bit of a change in consumer spending habits as well; over the last few years, consumers have been receiving bonuses, house values have stopped decreasing, portfolio earnings have risen, and spending habits are changing toward some higher discretionary items, such as home improvement, travel, and leisure.

In response to a question from Ms. Van Kampen, Ms. Vorisek stated that the focus on risk control is used at many levels. At the structural level, relative to the fact that FMA looks for companies with lower valuation, there is a bias to have less data in the portfolio. There are limitations relative to sector weighting, so although sector bets are taken they are limited to twice the benchmark average or 15% of the portfolio, whichever is greater. By stock selection metrics, FMA looks for higher-quality companies. Overall, these are structural focuses or outcomes of the process that will reduce the risk within the portfolio. However, FMA is also hands-on relative to risk management from a portfolio management or portfolio construction standpoint, and that plays into more dramatic market declines where risk is actively avoided. In the late 2008 and early 2009 period, a large issue within the marketplace was access to capital because of what was happening in the financial services industry. FMA was able to identify that as an outsize risk and scrub the portfolio of companies that did not generate enough free cash flow to build out their growth plans. Reviewing the macro factors that will have overriding influence on the market or characteristics of companies within the market is all part of FMA's portfolio management process.

(c) Marquette Associates Report

Brett Christenson of Marquette Associates distributed and discussed the March and April 2012 monthly reports, stating that the first quarter report will not be available until next week because Marquette's new reporting system is in process of being fine-tuned.

Mr. Christenson first discussed gross of fees Fund rankings. In the first quarter, the Fund was up about 6.5% and in the 48th percentile, or right above median. On a 1-year basis, the Fund is in the 52nd percentile, or below median, and on a 3-year basis in the 44th percentile, again slightly above median. The 3-year return of the Fund through March of 2012 is 14.3%. This is a strong return considering the Fund is structured a little more conservatively than the peer group, and that is in part a testament to the asset allocation.

Mr. Christenson then discussed the market environment. The market continues to be volatile and interest rates continue to drop, though there is a slight recurring increase and decrease to the rates as the effects of current events like the financial crisis in Europe and the U.S. are felt in the market. As a result of a drop in interest rates, strong returns in the fixed income markets were realized, especially the BarCap Long Government with a return of 4.3% for the month. The BarCap Aggregated Index, the benchmark to which the managers are tied, was up 1.1% for the month. Without that 1.1% return, the bond market has been relatively flat year-to-date. The reality is that the interest rate environment is very low and a 32% allocation to fixed income would be a very large drag on the portfolio for the next few years. While some fixed income is necessary, the allocation was reduced by 3% and private equity was added. For U.S. equity, year-to-date returns of various stock market indices are strong. A slight setback occurred in April, and in May the market is down about 3.5%. The valuation of the U.S. stock market represented by the S&P 500 P/E Earnings Ratio is well below its long-term average, which is an indicator that the stock market is fairly valued today, if not slightly undervalued. The market will need to come to terms with current global macro issues in order to realize a more stable environment. For international equity, the 10-year return for the MSCI EAFE, most of which is in Japan and Europe, was about 5.9%. The 10-year return for the MSCI Emerging Markets is much different at 14.3%. This is likely to continue because the emerging markets have very little debt, much higher prospects for growth, and a lower middle class that improves every day. GMO, whose benchmark is the MSCI EAFE and who does not have emerging markets in its portfolio, has struggled considerably versus its benchmark. Marquette sent out an RFP for replacing GMO with an index fund, or MSCI ACWI, which has about 25% in emerging markets. Additionally, replacing GMO with an in index fund could result in an annual $500,000 fee savings to the Plan.

Mr. Christenson next discussed the flash report, noting that the iShares for mid-cap growth is a placeholder for a mid-cap growth manager. GMO large-cap international is on notice for performance, and the RFPs for the index search are due back late next week, so the subject could possibly be addressed at the next Investment Committee meeting. Other managers on alert, all for professional turnover, include Barings EM, ABS, American Realty Advisors, and Morgan Stanley. Marquette recommends that American Realty Advisors should continue on alert, but Barings EM, ABS and Morgan Stanley could be placed back in compliance. Barings had a person terminate, ABS sold 40% of their firm to an outside firm, and Morgan Stanley had a few people on their broad real estate team leave, but there have been no other changes to the management of the companies or to the core teams.

The Pension Board unanimously approved removing the alerts for Barings EM, ABS, and Morgan Stanley. Motion by Ms. Van Kampen, seconded by Dr. Peck.

Mr. Christenson then discussed market values. The total market value of the Fund as of April 30 was approximately $1.7 billion. Fixed income was about $25 million underweight, although that has changed through May. All other assets were very close to the benchmark, with the exception of a significant underweight to private equity where the 3% from fixed income was recently added. There are no rebalancing needs today, but Marquette likes to keep that action item on the agenda every month.

Mr. Christenson next discussed investment manager returns. The total Fund composite lost 0.1% in April and had a year-to-date return of about 6.4%, slightly above the median for the year. Fixed income was up 1.7% and slightly beat the benchmark, which was up 1.4%. U.S. equity was up 13.3%, outperforming a benchmark of 12.3%. International continues to struggle versus a 9.7% benchmark with a 9.1% return. In terms of specific manager performance, Barings was up 11.2% versus 8.7%. GMO large-cap continues to struggle, up 4.1% year-to-date versus the same benchmark of 8.7%, but down 3.2% in April. GMO small-cap was up 11.4% versus a 14.4% benchmark. Barings EM was up 10.5% versus a 12.7% benchmark. Real estate was up 3% year-to-date, and all 3 underlying managers—American Realty, Morgan Stanley, and Trumbull—were each up almost exactly 3%. Infrastructure was up about 4.5% year-to-date, with no quarter data yet reported for J.P. Morgan. Real assets, or real estate and infrastructure, make up about 14% of the portfolio.

Hopefully, these assets are on track to realize an 8% return for the year.

Mr. Christenson then stated that if GMO small-cap continues to struggle, that will be the next area of the portfolio to address. While both AQR and GMO have a value/momentum component to their investment models, AQR seems to have made more adjustments and has not underperformed by as much. The environment today appears to be very difficult for GMO. On a 7-year basis, they are up 2.2% and their benchmark is up 3.3%. This is not a dramatic underperformance, but it is a continuing problem so the question becomes how long to wait GMO out. Overall, Marquette would like to see the international portfolio have better tracking with more of an emerging and small-cap component, which an index fund will provide. A Marquette white paper study indicates that the large-cap space on the non-U.S. side is becoming more and more like the U.S. stocks where the large-cap managers and the broad managers consistently had difficulty outperforming the benchmark. There are a few superstars, but no consistency. The managers that did outperform had components of emerging markets, but there was no statistical evidence over the time period in the study that suggested any confidence in true outperformance of active managers. Currently, 100% of international in the ERS portfolio is actively managed, and Marquette suggests indexing only a part of it with a component in emerging.

In response to a comment from the Chairman on the new look of the Marquette report, Mr. Christenson stated that the yellow highlighting in the old report to indicate a manager was over the benchmark does exist in the new report, except that outperformance appears in green and underperformance appears in red. Marquette asked InvestorForce to change the color of the highlighting.

In response to a question from Mr. Muller, Mr. Christenson stated that standard deviation at the portfolio level and manager level will now be included in the quarterly reports, along with much more statistical data.

In response to a question from Dr. Peck, Mr. Christenson stated that returns net of fees will be used for Fund rankings going forward.

Mr. Christenson then discussed Marquette's model on private equity and the plan to build it into the ERS portfolio. Pension funds typically have tremendous cash flow needs. Private equity funds are a long-term allocation and care must be taken to slowly build and diversify over a number of years. Private equity commitments cannot be balanced quickly but rather over vintage year periods. The Marquette model shows level commitments of about $30 million starting in 2014. After that, the commitment really ramps up until it starts to tail off in 2020. At that point, the commitment would be maintained at a 5%, 6%, or 7% level. If this money were committed in only one or two years in a bad economic environment, like a recession, that could severely hurt the bulk of the private equity portfolio.

Mr. Christenson next outlined the assumptions in the Marquette model. The first assumption is an 8% annual total fund return. Over the last few years, return has been all over the place, and that could change how much commitments are adjusted in future years. Another assumption included is the 10-year total cash flow projections from the actuary. A third assumption is the committed capital call/distribution, or the percent of money that will be called and distributed at the net asset value. The scale Marquette developed assumes a 6% IRR in NAV, with the rest of the IRR distributed in one year.

Mr. Christenson continued by stating that in the Marquette model, $20 million appears in the 2012 and 2013 columns. Using the two existing managers, assume $40 million each is committed to Adams Street and Siguler Guff, and each manager estimates that the next funding will put $10 million to work per year; this is the $20 million appearing in those columns. Assuming projections go as planned in 2014, a $10 million increase appears in the model for 2014 and beyond for a total of $30 million. In this situation, a commitment would be made to the next Adams Street fund at $40 million, or whatever it would take in 2014 to get to that $30 million. The most important thing is not to overcommit, and Marquette's recommendation is to commit $40 million to each manager, which will then result in $20 million per year over the next 4 years, with a reassessment in two years.

In response to a question from Mr. Grady, Mr. Christenson stated that there is a slight concern that the managers could put a much greater amount to work than the $10 million. However, if they were to do that, it would generally mean that the managers saw a great opportunity that would likely benefit the plan rather than hurt it. Additionally, it would decrease the amount going in the next year and the year after, so there is no danger of over-committing.

In response to a comment from the Chairman, Mr. Christenson stated that the footnotes included in the model are not updated.

Adams Street has called approximately $20 million and is getting close to final close.

The Pension Board unanimously approved committing $40 million to Adams Street Partners and $40 million to Siguler Guff for 2012 funds. Motion by Dr. Peck, seconded by Ms. Van Kampen.

7. Investment Committee Report

Dr. Peck reported on the May 7, 2012 Investment Committee meeting.

The Investment Committee interviewed the three investment manager firms approved by the Pension Board. William Blair, Frontier Capital, and Geneva Capital each provided an overview of their services, investing philosophy, and proposed ERS team. Following the presentations, the Investment Committee members had an opportunity to ask questions and discuss the merits of each firm to decide which best meets the needs of ERS.

The Investment Committee recommends Geneva Capital be retained as the investment manager for mid-cap growth. Investment sales are comparable and performance was at least as good, if not arguably better, than the other firms. Most importantly, Geneva's fee was 10 basis points lower, plus it is a local firm.

The Pension Board unanimously approved retaining Geneva Capital as the investment manager for mid-cap growth. Motion by Dr. Peck, seconded by Mr. Sikorski.

In response to a question from the Chairman, Mr. Christenson stated that Marquette will ask Reinhart to prepare the contract with Geneva Capital and will use the funds currently held in iShares, as well as a transition manager, to set everything up.

8. Audit Committee Report

There was no Audit Committee report because the May 2, 2012 meeting was cancelled.

9. 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 Chairman noted that the BNY Mellon item on the meeting topic list should be scheduled, or at least a report should be requested from BNY Mellon on comparable fees for the contract's Most Favored Nations clause. Mr. Huff noted that BNY Mellon must also prepare a more complete report on forex compliance.

In response to a question from Mr. Muller, the Chairman stated that the smoothing rate topic will come to the Pension Board as part of the experience review later this year.

The Board agreed to add the format of the annual meeting as a topic to the Pension Board list.

The Chairman then noted that with Linda Bedford no longer serving on the Board, the Vice Chair position is open and nominations are being taken. Discussion on this topic will be deferred to a future meeting, at which Mr. Garland is present.

The Chairman then stated that at the last meeting, the Board debated whether non-pension Certified Employee Benefits Specialist designation courses were appropriate for the educational background of the Board, but no decision was reached. The topic was moved to the Audit Committee list.

The Pension Board unanimously approved Pension Board member attendance at the Certificate for Public Plan Policy 2012 program as part of its educational seminars. Motion by Mr. Sikorski, seconded by Ms. Taylor.

10. <u>Disability Pension Matters</u>

(a) <u>Kyle Dulan - ADR</u>

The Chairman stated that Mr. Dulan'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 Ms. Van Kampen.

(b) Robert Wojczulis - ODR

Mr. Huff noted that the City-County Transfer Ordinance, which is not well-defined, is open for interpretation by the Board.

Mr. Grady then stated that the question is whether years of City service should be counted in order to apply for an ordinary pension or to reach the Rule of 75. These years are not used in calculating the benefit, but they are used under the City-County Transfer Ordinance for eligibility purposes. If Mr. Wojczulis has a combination of City and County years totaling more than 15, which he does, he can apply. The same rule applies for the Rule of 75 eligibility in terms of adding City and County time together with age. Mr. Grady and Mr. Huff agree that the Ordinance has been properly applied in this case to not give Mr. Wojczulis credit for his years of City of Milwaukee service in his County benefit calculation, but count the years toward being eligible for a pension.

The Chairman stated that Mr. Wojczulis' 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 and the interpretation that his years of City service count toward eligibility for a benefit, but not toward years of benefit credit. Motion by Dr. Peck, seconded by Ms. Van Kampen.

11. Pending Litigation

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

The Pension Board took no action on this item.

(b) *Renee Booker v. ERS*

The Pension Board took no action on this item.

(c) *Jo Ann Schulz v. ERS*

The Pension Board took no action on this item.

(d) *Stoker 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 12:10 p.m.

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