EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE MARCH 16, 2016 PENSION BOARD MEETING

1. Call to Order

The Chairman called the meeting to order at 8:35 a.m. at the Marcus Center for the Performing Arts, 929 North Water Street, Milwaukee, WI 53202.

2. Roll Call

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

Others Present
Marian Ninneman, Director-Retirement Plan Services
James Carroll, Assistant Corporation Counsel
Vivian Aikin, Sr. Pension Analyst
Tina Lausier, Fiscal Officer
Kathryn A. Vorisek, FMA Fiduciary Management Associates, LLC
Eric J. Welt, FMA Fiduciary Management Associates, LLC
Brett Christenson, Marquette Associates, Inc.
Christopher Caparelli, Marquette Associates, Inc.
Larry Langer, Buck Consultants
Troy Jaros, Buck Consultants
Steven Huff, Reinhart Boerner Van Deuren s.c.
Ray Kress, Retiree

3. Minutes—February 17, 2016 Pension Board Meetings

The Pension Board reviewed the minutes of the February 17, 2016 Pension Board meeting.

The Pension Board voted 6-0-2, with Ms. Funck and Mr. Leonard abstaining, to approve the minutes of the February 17, 2016 Pension Board meeting. Motion by Ms. Van Kampen, seconded by Mr. Harper.

4. Investments

(a) Fiduciary Management Associates

Eric Welt and Kathy Vorisek of Fiduciary Management Associates ("FMA") distributed a booklet containing information on the investment management services provided by FMA for ERS.

Mr. Welt first provided a brief overview of the firm. FMA had $1.7 billion in total assets under management ("AUM") under its small cap and SMID cap market strategies as of December 31, 2015. FMA released an announcement in February 2016 indicating the firm intends to complete an acquisition agreement with Mesirow Financial. Mr. Welt concluded his remarks stating FMA's investment team has only grown over the years and there have been no material turnovers on the team.

Ms. Vorisek next discussed FMA's pending acquisition by Mesirow Financial. Ms. Vorisek reported that FMA has engaged in discussions with Mesirow over the last six months regarding its potential acquisition. Like FMA, Mesirow is an employee-owned firm and in its search for a partner, FMA felt it was important to identify another firm with a similar ownership structure. FMA believes that its portfolio managers and team members should align their interests with its clients by investing in the actual product. FMA's team members will continue to have the opportunity to invest in the overall firm at Mesirow. While Mesirow is a large organization, FMA was also attracted to Mesirow's entrepreneurial nature and focused business units. Fifteen of FMA's 18 total employees will be transitioning to Mesirow. FMA will be transitioning its entire investment team, infrastructure and operations into Mesirow's equity business unit, which Ms. Vorisek will lead. All of FMA's senior members will have three- to five-year employment contracts with Mesirow. FMA utilizes SEI Investments for its middle and back office functions and will be transitioning those functions to Mesirow's larger infrastructure platform, but FMA's reporting will remain consistent. Because Mesirow has a larger infrastructure platform, some positions at FMA in Human Resources, IT and legal compliance will overlap with

Mesirow and will be eliminated. These areas were becoming an increasing drain on senior management's time as FMA has continued to grow as a firm. Mesirow's large infrastructure platform was a primary consideration in the acquisition because it will provide FMA's investment team greater time to focus on investments. Ms. Vorisek explained that she will become the Senior Managing Director and Head of Mesirow's Financial Equity Management team. Ms. Vorisek reported that she and Leo Harmon will continue on the small and SMID cap portfolio management team, with Tim Ewing as a new addition. Mr. Ewing is presently managing large and micro-cap strategies for Mesirow and will continue to separately manage those assets in addition to the new platform for FMA's small and SMID cap team. FMA's research, training and operations teams will be transitioning to Mesirow intact and nothing should change from the client's perspective. FMA is looking to close on its acquisition on March 31, 2016 and move into Mesirow's offices shortly thereafter.

In response to a question from Ms. Van Kampen regarding future anticipated growth, Ms. Vorisek stated that she believes that pace of growth in the small and SMID cap strategies will accelerate following the acquisition with Mesirow. In particular, there will be a chance to increase the assets in the SMID cap strategy as Mesirow introduces new potential clients.

In response to a question from Ms. Van Kampen, Ms. Vorisek explained there will be just under $2 billion in AUM under the small cap strategy following the acquisition and the capacity is $2.5 billion. The SMID strategy will have $250 million in AUM following the acquisition and will have room for growth. FMA believes that it can grow another $2.5 to $3 billion in SMID assets following the acquisition.

In response to a question from Ms. Braun, Ms. Vorisek explained that the performance figures in FMA's booklet are all listed at gross-of-fees and FMA's fee is approximately 65 basis points.

Ms. Vorisek continued with a discussion of FMA's investment philosophy. FMA's relative value investment philosophy focuses on seeking attractively valued investments with identifiable catalysts which are expected to generate accelerated earnings and cash flow growth. FMA's investment objective is to consistently outperform the benchmark over a market cycle, while participating in rising markets and protecting capital in down markets. FMA's clients benefit from the deep experience of its investment team. Ms. Vorisek reported that she and Leo Harmon continue to act as co-portfolio managers and are supported by five sector-specific analysts. The investment team members have a great deal of combined industry experience and a long history of working together at the firm. The investment team's depth of experience and cohesiveness remain key factors to the firm's success.

FMA's long-term performance goal is to generate 250 to 300 basis points of outperformance and FMA's ten-year annualized returns have exceeded the value index by almost 300 basis points. Over that same ten-year period, FMA's risk was measured at approximately 85% of the Russell 2000 Value benchmark. These attractive risk-adjusted returns typically lead to strong outperformance over a market cycle, particularly during challenging market environments. FMA is a high-quality manager and high-quality leadership has been gaining momentum in the market since March 2014. With its focus on high-quality investments, FMA outperforms by the greatest magnitude during periods of high-quality leadership in the market. An unusually elongated period of low-quality leadership took hold in the market from November 2008 through February 2014. Companies that outperformed in this extended low-quality period were typically smaller in nature, with smaller market caps, lower stock prices and inferior balance sheets. These periods of low-quality leadership within a market cycle typically last from 12 to 18 months. However, the recent 63-month period of low-quality leadership was extended because the Federal Reserve (the "Fed") was injecting liquidity into the market following the 2008 financial crisis. The Fed's action has allowed these low-quality companies to remain in business and prosper in a period where they normally would have struggled. While FMA did outperform the Russell 2000 Value Index during this extended low-quality cycle, the magnitude of its outperformance is less significant relative to high-quality market cycles.

Ms. Vorisek then discussed current market dynamics. The market environment has been challenging and despite its outperformance, FMA recorded a negative return in 2015. The market environment in the early portion of 2016 has not improved and there has been some recent concern of a potential recession in the United States. Fears of a possible recession drew the markets down significantly in January 2016 and these concerns have not abated. However, FMA remains focused on its belief that a recession will not occur in the United States and this current cycle of market corrections, with relatively muted returns, will continue for an additional eight to nine months. Emerging market economies are adjusting viciously after a period of rapid growth. Weakness in the emerging markets is having one of the greatest impacts relative to diminishing global growth. FMA will continue to monitor these events closely, but is not overly concerned, as this period of adjustment continues in the market. A second concern relates to the pace of the Fed's future rate increases. A key component to this concern is the Fed's transparency in communicating future rate increases. During periods where the Fed has communicated and raised interest rates more slowly, the market has continued to climb. FMA believes that we are currently in this type of environment because the Fed has been very transparent in terms of its rationale relative to the next rate increase. FMA believes that following the initial rate increase earlier this year, the Fed may implement only one or two additional increases in 2016. With the upcoming 2016 presidential election, FMA believes the Fed will not implement any additional rate increases beyond September 2016; and, when the next rate increase does occur, FMA believes it will be a non-event.

Ms. Vorisek explained that FMA maintains a watch list of approximately ten recession indicators and FMA is presently focusing its attention on one of those indicators, high-yield spreads. High-yield bond spreads relative to the ten-year treasury have escalated over the last 12 to 18 months, reaching close to 800 basis points in terms of spread. However, outside of a major recession, these spreads typically have short-term peaks. High-yield spreads have recently pulled back and stabilized, lending support to FMA's belief that the U.S. will not enter into a recession. Energy spreads are the largest component of this overall increase and oil prices will be an important indicator of future trends in high yield spreads. A final factor that has influenced the markets is the dominance of the small cap growth index over the small cap value index. Since 2009, the growth index, which is led by health care and technology, has dramatically outperformed the value index, which is led predominantly by financial services. However, a significant drawdown in health care stocks began in January 2016 and overall market valuations in the last three months point to a reversal of this trend. FMA expects this reversal to continue and believes value stocks will begin to outperform again.

In response to a question from Ms. Van Kampen, Ms. Vorisek confirmed that a market environment where value outperforms growth is beneficial to FMA and most managers with a quality bias. Relative to its peers and the general market, FMA's greatest periods of outperformance have occurred from the middle to the end of a market cycle. FMA's performance pattern is predominantly driven by stock selection and its ability to identify and select companies that can outperform in a slow-growth environment.

Ms. Vorisek then provided an overview of the portfolio and its positioning. As employment figures and wages continue to rise, FMA believes the U.S. consumer is in relatively good condition. The portfolio is overweight to consumer discretionary, as growth in consumer spending has been steadily consistent, with a broadening of fortune across all economic levels. FMA believes this positive trend will continue and consumer discretionary will remain a positive sector of the market. The portfolio also maintains an overweight to technology. Blackbaud Inc., a company that sells software to non-profit organizations, is one of FMA's top-performers. Exhibiting consistent growth in a choppy market, Blackbaud Inc. maintains a 75% market share while introducing a new suite of products. Blackbaud Inc. is one example of the unique company-specific products FMA seeks to invest in. The portfolio is underweight to the financial services sector, which has a high weighting in the Russell 2000 Value Index. Regional banks, located in areas with strong population growth across the country, comprise the largest holdings in FMA's financial services sector. The portfolio also maintains holdings in real estate investment trusts ("REITs"). While REITs are not necessarily cheap or attractive investments, they provide consistent cash flow via dividends and consistent earnings growth over time. FMA primarily maintains REITs as a defensive nature in the portfolio because they are less exposed to the economic cycle. The health care sector is one overweight position in the portfolio which FMA has been trimming because valuations here have become too high.

Ms. Vorisek concluded with a discussion of performance. The portfolio exhibited strong outperformance on a relative basis in 2015, with a one-year return of 0.2% gross-of-fees, versus the Russell 2000 Value Index at -7.5%. FMA maintains a very high-quality portfolio and stock selection drove 100% of the returns in 2015. FMA has outperformed the Russell 2000 Value Index since the inception of its relationship with ERS in October 2009.

In response to a question from Mr. Harper, Ms. Vorisek stated that health care REITs have performed very well in the last nine months relative to health care in general. Through February 2016, the health care sector has been the second weakest performing sector behind energy but, prior to this recent period, the health care sector outperformed REITs.

In response to a follow-up question from Mr. Harper, Ms. Vorisek stated the overall yield on the Russell 2000 Value Index is approximately 1% to 1.5%.

(b) <u>Marquette Associates Report</u>

Brett Christenson and Christopher Caparelli of Marquette Associates distributed the February 2016 monthly report.

Mr. Caparelli first discussed the February 2016 flash report. Fiduciary Management was placed on alert for organizational issues last month. Artisan Partners, Geneva Capital, GMO and ABS all remain on alert for performance issues. As of February 29, 2016 the Fund's total market value was just over $1.6 billion. In terms of policy differentials, the fixed income composite is just below the 18% target at 17.9%. The U.S. equity and international equity composites are each underweight by approximately $25 million and performance has been weak in both of these areas during January and February of 2016. The underweights in equities are offset by overweights in hedged equity, real estate and infrastructure. Real estate currently has the largest overweight at $80 million. However, a $40 million withdrawal is scheduled for the end of the 2016 second quarter from Morgan Stanley real estate which will move real estate closer to its 8.5% target allocation.

Mr. Caparelli continued with a discussion of performance. Market performance during the first half of February 2016 was a continuation of the January risk-off trading environment. However, signs began to appear in mid-February that oil prices had bottomed out and a substantial rally took hold in the market which has continued through mid-March. The Fund's year-to-date performance as of February 29, 2016 is -3.1% net-of-fees but almost all of the negative performance occurred during the month of January 2016. The Fund's one-month return for February 2016 was -0.1%, which brings the Fund's year-to-date performance to approximately -1% to -1.5% as of March 15, 2016. Despite all of the recent volatility in the marketplace, the Fund has performed favorably on a relative basis. As of February 29, 2016, the Fund's fixed income year-to-date return is 2.0%, net-of-fees, versus the benchmark at 2.1%. The Fund's U.S. equity composite has underperformed year-to-date at -6.8%, net-of-fees, versus the benchmark at -5.5%. However, performance in the U.S. equity markets can vary widely from month to month and, with the exception of Artisan Partners, Marquette is not overly concerned about individual manager performance. As of February 29, 2016, the year-to-date return for Artisan is down at -12.4%, net-of-fees, versus its benchmark at -6.1%. Mr. Caparelli reported that he recently contacted Artisan to discuss its underperformance. Artisan reported that overweights of its healthcare and technology sectors, which performed well in 2015, have negatively affected its performance in 2016. The remaining U.S. equity managers remain relatively close to their benchmarks in the -5% to -6% range.

The Chairman and Ms. Braun then questioned a disparity relative to Fiduciary Management's performance. Marquette's February 2016 monthly report lists Fiduciary's one-year return as of February 29, 2016 at -10.2%, net-of-fees. However, the report Fiduciary Management distributed during today's presentation lists its performance for the 2015 calendar year at 0.2%, gross-of-fees, as of December 31, 2015.

Mr. Christenson then suggested that the variation in FMA's performance between the two reports could be attributed to favorable performance in January 2015, which would have been included in Fiduciary's 2015 calendar year figure. Mr. Christenson also noted that FMA's report does not include its fee of 65 basis points.

In response to a follow-up question from Mr. Harper, Messrs. Christenson and Caparelli explained that Fiduciary is presenting its one-year return as a rolling figure, while Marquette's report presents Fiduciary's one-year return as of February 29, 2016. Therefore, Fiduciary's report reflects the favorable returns realized in January 2015, while Marquette's report reflects the dramatic underperformance in the market in January 2016.

Mr. Caparelli concluded his discussion of performance. The Fund's international equity composite is exhibiting relative outperformance with a year-to-date return of -6%, net-of-fees, versus the benchmark at -7.9%. With a year-to-date return of -4%, net-of-fees, versus its -8.9% benchmark, most of that relative outperformance can be largely attributed to Vontobel. There has been some diversion in performance in the hedged equity composite between ABS and Parametric. As of February 29, 2016, ABS is down at -7.2% year-to-date, net-of-fees, and -2.0%, net-of-fees, in February 2016. Conversely, Parametric has performed relatively well over those same periods at -1.9% year-to-date, net-of-fees, and 0.5% in February 2016, net-of-fees. Real estate and infrastructure are both quarterly-valued but Marquette anticipates favorable returns once those managers have fully reported. Returns in March have generally been stable relative to January and early February 2016 but increased uncertainty relative to oil prices, and additional action from the Fed on interest rates, will likely lead to continued volatility in the markets.

In response to a question from Ms. Van Kampen, Messrs. Caparelli and Christenson stated that because real estate is valued quarterly, real estate returns are not yet included in the total Fund year-to-date return. Marquette anticipates that favorable real estate returns should enhance the Fund's total year-to-date return at the end of the 2016 first quarter.

Mr. Christenson next discussed recent firm turnovers relative to the Fund's equity managers. Artisan Partners became public in 2013, Geneva Capital was acquired by Henderson Global Investors in 2014 and FMA is now being acquired by Mesirow. Mr. Christenson noted that over the last several years, he has had frequent communication with FMA. Mr. Christenson noted that Ms. Vorisek and Mr. Harmon are both stock pickers who have also had to devote some of their time to managing FMA's daily business operations. Mr. Christenson believes that FMA's acquisition by Mesirow will prove positive over the long-term because it will provide Ms. Vorisek and Mr. Harmon with additional time to focus on portfolio management. Mr. Christenson added that it is not uncommon for firms to be bought and sold during low-interest-rate market environments.

Mr. Christenson then reported that Vontobel's Chief Investment Officer and star money manager, Rajiv Jain, has just announced that he will be departing Vontobel effective May 31, 2016 to develop his own firm. Mr. Jain has been the sole project manager ("PM") for Vontobel's emerging markets and international equity products and the lead PM for its global product. Mr. Jain has proven to be an exceptional PM; and, although Vontobel's performance has flourished under his leadership, Marquette believes that Mr. Jain's departure will create serious question marks throughout the firm. Mr. Jain has been working independently from his Florida office with sole buy-and-sell decision-making responsibilities, utilizing Vontobel's research team only for back-up support. Mr. Jain served as Vontobel's leader and provided strategic direction and investment team oversight. For these reasons, Marquette recommends ERS immediately terminate its investment in Vontobel's international product. Marquette believes that many of Vontobel's other large institutional investors will have similar concerns and will soon exit, creating large outflows on the product. Vontobel is a co-mingled fund, with quarterly liquidation that requires a 15-day notice period. That 15-day notice period would begin today. Mr. Christenson reported that he has already discussed the matter with Ms. Ninneman, who has confirmed that she could execute and send Marquette's termination letter to Vontobel today upon the Board's decision. Marquette recommends liquidating the product and placing the funds in ERS's current index fund. If the Board decides to liquidate the product today, ERS would not receive the funds for another 10 to 15 days, but Marquette would place an overlay in the Europe, Australasia, Far East ("EAFE") Index until the funds are received. Once the funds are received from Vontobel, Marquette would instruct Northern Trust to invest the liquidated cash in its index fund.

In response to a question from Ms. Braun, Mr. Christenson confirmed that Vontobel has outperformed ERS's index fund.

In response to a question from Ms. Van Kampen, Mr. Christenson confirmed that, if and when established, ERS may wish to investigate Mr. Jain's new firm as a potential new investment vehicle for the Fund. Marquette believes that Mr. Jain is leaving to start his own firm and it could be launched shortly after his May 31, 2016 departure from Vontobel.

In response to a follow-up question from the Chairman regarding any non-compete agreement Mr. Jain may be subject to, Mr. Christenson stated

ERS can invest wherever it chooses but noted Marquette will follow up with Vontobel to discuss any restrictions relative to Mr. Jain.

Mr. Harper stated that while the Board could terminate ERS's investment in Vontobel, he suggested the Board should consider reallocating the liquidated funds towards additional rebalancing, to enhance the Fund's overall performance and meet investment policy targets.

The Pension Board voted 7-0-1, with Ms. Funck abstaining, to provide Vontobel 15-days' notice to terminate and liquidate ERS's investment in its international product and place the liquidated assets into ERS's index fund, as recommended by Marquette. Motion by Mr. Harper, seconded by Ms. Bedford.

Mr. Christenson concluded with a discussion of the international small cap manager request for proposal ("RFP"). A total of 32 investment firms responded to the RFP. Mr. Christenson explained that one of the RFP respondents, Rainier, was recently acquired by Manning & Napier and Marquette has excluded them from the search. Marquette also excluded Northern Trust, American Century and FIS because these managers did not meet certain minimum requirements specified in the RFP. In addition, Marquette eliminated the five managers with the highest fees. These managers include Principal, Algert, Epoch, GlobeFlex and Driehaus. Mr. Christenson explained these five managers have fees at or above 1.2%, while the industry standard fee for international small cap managers with approximately $200 million in assets under management ("AUM") is closer to 0.9%. Of the 23 remaining managers, Segall Bryant was slightly below the $200 million minimum product AUM as of December 2015. However, Segall contacted Marquette to ask if they could complete the RFP, with the understanding that its AUM would be very close to the product minimum within the next several weeks. Mr. Christenson explained that Marquette was comfortable with allowing Segall to complete the RFP because it prefers retaining smaller managers in the small cap space.

Mr. Christenson then explained to the Board that Marquette recommends screening the remaining 23 managers into three groups. Marquette first analyzed the differential between each manager's upside and downside market capture. It is optimal to retain managers with a higher upside market capture ratio and a lower downside market capture ratio. Therefore, Marquette recommends eliminating 5 of the 23 managers with the lowest upside/downside differential. These five managers include Pictet Asset Management, Lord, Abbett & Co., Thompson Siegel & Walmsley, AQR Capital Management, and Fidelity Institutional Management. Marquette next recommends eliminating the managers with the lowest three-year returns. These managers include Fisher Investments, ClearBridge Investments, LLC, AllianceBernstein L.P., Dimensional Fund Advisors LP, Grantham, Mayo, Van Otterloo, and advisory Research, Inc. The twelve candidates that remain constitute a blend of growth, value, stock-picking and quantitative products. Mr. Christenson noted that many of the 12 candidates Marquette is recommending for final consideration have significantly outperformed their benchmarks over the three-, five-, seven-, and ten-year periods.

In response to a question from the Chairman, Mr. Christenson explained the annualized returns in Marquette's RFP candidate analysis are gross-of-fees.

In response to a question from Ms. Van Kampen, Mr. Christenson stated that some of the best products will close before obtaining a five-year record and, therefore, Marquette is not overly concerned that TimesSquare Capital Management and Quantitative Management Associates do not have five-year returns to report.

Mr. Christenson noted that if the Board is comfortable with Marquette's recommendations, additional in-depth discussions related to the 12 finalist candidates will be scheduled for the next Investment Committee meeting.

The Pension Board voted 7-0-1, with Ms. Funck abstaining, to approve the 12 international small cap manager RFP candidates, as recommended by Marquette Associates, for consideration at the next Investment Committee meeting. Motion by Ms. Braun, seconded by Ms. Van Kampen.

In response to a question from Mr. Harper, Mr. Christenson advised that Marquette will distribute a copy of the 12 finalist RFP responses to the Board prior to the Investment Committee meeting. It will contain very detailed information on the candidates in a question and answer format.

5. <u>Investment Committee Report</u>

Ms. Van Kampen reported on the March 7, 2016 Investment Committee meeting.

(a) <u>Amendment of Investment Guidelines</u>

The Investment Committee discussed updates to ERS's Statement of Investment Policy. In December 2015, the Pension Board approved changes to the Fund's asset allocation policy targets. Following the asset allocation changes, it was discovered that the Ordinances provide that the Fund's investments in "common stock" shall be limited to 75% of total assets. The

Committee discussed the implications of the 75% limitation relative to the recently approved asset allocation changes. Mr. Huff presented an analysis of the 75% limit to the Investment Committee and explained that after further review of the Ordinances, no clarification could be made relative to the intended definition of common stock. Therefore, it could not be determined what action, if any, was necessary to ensure ERS remains in compliance with the 75% Ordinance limitation.

Mr. Huff then provided a summary analysis of the Ordinance limitation to the Pension Board. In 1968, the County Board adopted Ordinance section 201.24(9.1)(b), which limited ERS's investments in common stock to 50% of total Fund assets. In 1971, the County Board adopted an amendment to the Ordinance that increased the limitation from 50% to 75% of total Fund assets. Since the initial implementation of the Ordinance, the nature of investment vehicles has changed dramatically, and many of ERS's current investment products did not exist in the 1960's and 1970's. Therefore, it is difficult to ascertain what the County Board originally intended when it adopted the Ordinance limit. Mr. Huff explained to the Board that the Ordinances and Rules do not define "common stock" and, therefore, it remains unclear how the 75% limitation should be applied operationally to the Fund today. It also remains unclear whether the recently revised asset allocations would violate the 75% common stock limit. When the 75% Ordinance limit was originally adopted, the Pension Board would buy and hold individual stocks. Today, however, the Pension Board hires investment managers to invest in stock and often invests in partnerships, which creates tiers of investments. For example, a first tier investment may result by investing in a partnership. As that partnership invests in common stock of operating companies, a second tier investment is created. It is unclear if only the first tier investment, or the first and second tier investments combined, should be considered when applying the 75% limit. The Pension Board must now attempt to determine how the 75% common stock limit enacted over 45 years ago should apply to the tiers of investments in ERS today. Mr. Huff explained that ERISA plans faced this same dilemma as these new investment vehicles became available. The Department of Labor ("DOL") subsequently issued clear rules which described how ERISA plans could determine whether a specific investment should be considered a "look through" investment. The look through approach means an investor's interest would be recorded down to the second tier. However, it is not at all clear how the DOL rules for ERISA plans would apply to governmental plans such as ERS. If it was determined that ERS maintained look through investments, it would require substantial monitoring to ensure the Fund would not exceed the 75% common stock Ordinance limitation. The only conceivable method to ensure compliance with the 75% limit would be for the custodian to monitor the Fund's investments daily. However, because some of the Fund's investments are not valued daily, the custodian would still experience problems with monitoring the investment percentages. Mr. Huff concluded his remarks by explaining that the Pension Board must first determine which of ERS's investments it will monitor. Once determined, the Pension Board should establish a plan for how those investments will be monitored.

Mr. Christenson next provided comments to the Board. Mr. Christenson explained that if the Pension Board followed the most conservative approach relative to defining common stock, the U.S. equity, international equity, hedged equity, private equity and infrastructure assets classes should all be considered common stock. Marquette believes that fixed income and real estate are two asset classes that could be excluded for purposes of the 75% limit. The Fund's current investment policy targets are set at 18% for fixed income and 8.5% for real estate, which equals 26.5% in assets that could be excluded as common stock. This approach would only provide a 1.5% buffer to the 75% limit and ERS would have to remain very close to its current targets in fixed income and real estate. Mr. Christenson suggested the Pension Board may wish to consider increasing the Fund's targets under the fixed income and/or real estate composites by a few percentage points to provide an additional 2% buffer.

In response to a question from Ms. Van Kampen regarding common stock in the Fund's infrastructure asset class, Mr. Christenson stated that Marquette contacted IFM and J.P. Morgan for further information following the Investment Committee meeting. J.P. Morgan responded by stating that all of ERS's assets are set up as corporations and IFM would have a similar response. Mr. Christenson explained that whether all or a portion of the infrastructure assets are set up as corporations, it must be assumed that all infrastructure holdings are common stock because anything not set up as a corporation could be converted to a corporation at any time.

Mr. Huff noted that real estate partnerships are also set up so they could invest in common stock.

In response to a question from Ms. Braun regarding any helpful guidance the DOL might provide ERS, Mr. Huff stated the DOL could provide guidance relative to identifying look through investments. Mr. Huff explained that while certain guidance from the DOL may be helpful if it applied to public funds, nothing in the Ordinances suggest what the County Board's intentions were when it originally implemented the limitations on common stock.

In response to follow-up questions from Mses. Braun and Van Kampen, Mr. Huff explained that any interpretations from the DOL without the exemptions provided by the DOL would likely lead ERS toward including underlying operating companies at the second tier level, which would not be beneficial in avoiding 75%.

The Chairman remarked that 45 years have passed since the County Board amended the Ordinance to increase ERS's limit in common stock investments to 75%. The Chairman suggested that because the investment world has changed so dramatically in 45 years, now may be an appropriate time for the Pension Board to explain its current dilemma to the County Board. The Chairman suggested the Pension Board could explain the thoughtful process it engaged in with counsel and Marquette, and ask the County Board to comment on its interpretation that the 75% limit should apply only to the Fund's U.S. equity and international equity assets classes. The Chairman also speculated that requesting input from the County Board could also create additional questions.

The Chairman then asked for comments from the Board.

Ms. Van Kampen noted the Investment Committee did discuss the possibility of requesting input from the County Board and the Committee members expressed some concerns with the idea. The Investment Committee felt that because there is about to be a significant change to the composition of the County Board, the County Board would not be able to issue a timely response to the Pension Board.

Ms. Braun remarked that the Pension Board is likely more informed on the matter because it is receiving expert advice from counsel and Marquette and questioned whether the responsibility to interpret the 75% limit should fall with the Pension Board or the County Board.

Ms. Van Kampen suggested that as an alternative to requesting input from the County Board, the Pension Board could issue a statement to the County Board. The statement would indicate that after careful analysis, the Pension Board interprets the 75% Ordinance limit to include only common stocks in the Fund's U.S. equity and international equity asset classes.

Ms. Ninneman discussed whether the Pension Board could recommend an Ordinance amendment to the County Board to clarify the 75% limit. Ms. Ninneman noted that with the upcoming election in April, nothing would happen at the County Board level until May 2016 at the earliest. An Ordinance amendment would require expert discussion at the Finance

Committee meeting before the matter would be placed on the County Board agenda and could improve timing of the County Board's response.

The Chairman agreed that the timing would be difficult and suggested that October or November of 2016 is a more realistic timeframe for a response from the County Board.

Mr. Carroll suggested that the primary issue facing the Pension Board is how the phrase "common stock" should be interpreted relative to the Fund's current investment vehicles. An Ordinance amendment may be the most definitive way to clarify that question, because common stock is not currently defined in the Ordinances and the original intent of the County Board is unclear. Mr. Carroll added, however, that the Pension Board must decide whether it will seek the input of the County Board after receiving further analysis and advice from counsel and Marquette.

In response to a question from Mr. Harper, Mr. Christenson explained that with the Fund's fixed income composite at 17.9%, and real estate at 13.4%, ERS should currently be well above the 25% minimum. The real estate composite is currently overweight by 5%. The Pension Board is slowly drawing down the excess real estate assets, but the pending withdrawals will not be completed until June 2016 and September 2016. This schedule would provide the Pension Board with additional time to clarify the issues surrounding the 75% limit or, rescind some of the pending real estate withdrawals, if necessary.

Mr. Harper remarked that six months appears to be a reasonable amount of time for the Pension Board to reach a definitive conclusion on the matter.

Mr. Leonard then questioned whether the County Board or Finance Committee would have sufficient expertise to make an informed decision on the matter. Mr. Leonard also suggested the County Board will experience disruption as its composition changes over the next several months. In addition, the County Board will soon be entering its budget cycle which runs through September 2016. Mr. Leonard stated that he believes the Pension Board has sufficient expert guidance to answer the questions in the next six months. Mr. Leonard suggested the Pension Board wait until the fall of 2016 before requesting any input from the County Board.

Mr. Huff then explained there have been legal lists of permitted investments in public plans but these lists are going away. Mr. Huff suggested that it could be helpful to explain to the County Board that ERISA does not provide a legal list and private plans can invest in whatever is prudent and diversified.

Mr. Christenson suggested that asking the County Board to remove the 75% common stock limit from the Ordinances would be the simplest solution to the problem. Mr. Christenson added, however, that as long as the 75% Ordinance limit remains effective, it should be followed in the strictest manner possible.

Ms. Braun suggested that asking the County Board to interpret an Ordinance adopted 45 years ago is not the right course of action. The Pension Board has the authority to interpret the 75% limit and adopt Rules.

Mr. Christenson suggested the Pension Board may wish to revise the Fund's current asset allocation policy if it decides the 75% limit should exclude fixed income and real estate assets. Currently, the combined policy targets in fixed income and real estate would only provide a small buffer of 1.5%. Mr. Christenson also suggested that because the Ordinance is so outdated, and possibly restricting the Pension Board's ability to maintain a sufficient level of return in the Fund, it would be prudent to at least inform the County Board of the issue.

In response to a question from Ms. Van Kampen relative to monitoring the percentages in the Fund's various asset classes, Mr. Christenson stated that each asset class must be classified as containing either 100% common stock or zero common stock. Mr. Christenson stated that to date, the Fund has never fallen below the 25% minimum. Fixed income is a very stable asset class that rarely moves unless the Pension Board decides to remove or add funds. Real estate is also an asset class with low volatility. However, as the Fund's real estate assets are reduced over the next six months, it would be prudent for the Pension Board to adjust the current targets in fixed income and/or real estate to provide an additional buffer beyond 1.5%.

After a lengthy discussion, the Pension Board decided it would not issue a formal resolution or recommendation at today's meeting relative to the 75% limit. The Pension Board concluded that until further guidance is provided, it is inclined to exclude ERS's allocations to fixed income and real estate for purposes of the 75% common stock limit. Marquette agreed to monitor ERS's asset mix to ensure compliance with the 75% limit. At a later date, Marquette may propose revisions to the asset allocations as set forth in ERS's Statement of Investment Policy ("Investment Policy") to ensure continued compliance with the 75% limit, which may include proposing an increase to ERS's allocation to either fixed income or real estate. Marquette and the Investment Committee may also consider adding commentary to ERS's Investment Policy to clarify the Pension Board's interpretation of the 75% limit. Finally, if needed, the Pension Board concluded that it may consider seeking future guidance from the County Board, either in the form of advice concerning how to interpret Ordinance section 201.24(9.1)(b) or an Ordinance amendment.

(b) Actuarial Data Relative to Expected Return Rate

Larry Langer and Troy Jaros of Buck Consultants then distributed a draft report to the Pension Board regarding ERS's investment return assumption.

Mr. Langer first discussed the basic funding equation of a retirement system. He explained that the actuarial process is essentially a budgeting exercise that follows a simple equation. Short-term contributions are determined by the actuarial valuation process. The valuation process is based upon a plan's estimated investment return, benefits, and expenses, using assumptions and methods recommended by the actuary and adopted by the Pension Board. Mr. Langer further explained that over the long-term, contributions are adjusted to reflect a plan's actual investment return, benefits and expenses. Key elements relative to a plan's long-term contributions are the assumptions. However, Mr. Langer noted that it is important to remain mindful of the fact that actuarial assumptions only change the timing of contributions into a plan, while the actual investment returns will determine the ultimate cost of a plan.

Mr. Langer then reviewed the actuarial valuation process. Mr. Langer explained that there are many unknown variables involved in the retirement process, which can present challenges when predicting the amount of annual contributions. To estimate the amount of future retirement benefits that will be paid, the actuary will collect certain relevant data from ERS. This data includes variables such as membership data, benefit provisions, funding policy and the amount of ERS assets. Another important variable includes assumptions. The two broad groups of assumptions include demographic and economic assumptions. Mr. Langer stated that the greatest economic assumption is the rate of return used in the valuation. No set of assumptions will last indefinitely, and assumptions must be periodically reviewed and updated as needed. Mr. Langer further stated that ERS has established a prudent five-year experience review policy to review the assumptions used in its valuation. ERS's last experience review occurred at the end of 2012 and the latest assumptions were adopted for use with ERS's 2013-2017 valuations. Mr. Langer explained that it is generally a best practice to maintain a regular experience review schedule, and ERS's next experience study is scheduled for completion in time for adoption with the January 2018 valuation. However, Mr. Langer noted that if plan provisions or the composition of the portfolio changes significantly, it is not unreasonable to explore different assumptions in the interim.

Mr. Langer next discussed considerations for the investment return assumption. He stated that it is important to remember that short-term returns are not indicative of long-term returns. When considering the rate of return, Mr. Langer stated that Buck reviews the expected rates of return from the underlying asset classes based upon accepted industry practice. An aggregate expected real rate of return is then determined for ERS's target asset allocation policy. Mr. Langer explained that the aggregate return should include a margin of conservatism. In general, a lower return assumption is easier to achieve and has a higher likelihood of securing future benefits by increasing future contributions.

Mr. Langer then discussed a survey compiled by the National Association of State Retirement Administrators ("NASRA"), which illustrates the change in distribution of public pension investment return assumptions over the past 15 years. He noted that many of the funds in the NASRA survey are large state-wide systems, but the survey also includes some smaller state-wide systems. With close to $2 billion in assets, ERS is relatively close to a small state-wide system, and Mr. Langer noted the information in the NASRA survey is beneficial for the Pension Board to consider. However, Mr. Langer cautioned that the NASRA survey reflects overall trends and does not quantify all the unique situations involved with the various retirement systems. For example, the survey does not provide any indication of the underlying risk tolerance of the boards that oversee the various funds. Therefore, the survey should be viewed as an informational tool and not a primary driver of a decision to change ERS's current assumed rate of return. Mr. Langer further explained that the NASRA survey reflects that the trend in public pension investment return assumptions has been a steady decrease over the past 15 years. The survey reflects a median return assumption of 8% in 2001. As of February 2016, the median return assumption decreased to approximately 7.5%. With a return assumption of 8%, ERS falls in the top one-third of the survey results, but Mr. Langer cautioned that should not be a singular reason to decrease ERS's return. Mr. Langer suggested that many of the reductions reflected in the survey likely occurred over a period of time in funds that previously maintained higher returns of 8.5% to 9%.

Mr. Langer explained that Buck used an economic forecasting model to estimate nominal and real returns over various time periods based on ERS's new asset allocation and Buck's current return expectations. Mr. Langer further explained that current standards of practice suggest the use of an assumption that falls within the 40th and 50th percentile of projected returns based on the long-term asset allocation. The forecast results indicate a 50th percentile return of 7.1% over the shorter-term period of five years, and 7.98% over the ten-year period. Buck believes it is reasonably likely that

ERS's current 8% assumption will be achieved between 40% and 50% of the time over the next ten years. However, over the longer-term, the 50th percentile returns are forecast to be above 8% over the 15- to 30-year periods. Over the longer-term periods, Buck expects the 8% return to be achieved over 60% of the time. Mr. Langer also explained that as of January 1, 2016, ERS has unrecognized assets that will provide buffers to achieving the 8% return over the next 10 years. Based on these results, Buck believes ERS could maintain its current 8% investment return.

Mr. Langer stated that investment earnings account for the majority of revenue for a funded pension plan. Depending upon how well a plan is funded, approximately 55% to 75% of funds for benefits result from investment earnings, and contributions account for approximately 20% to 30%. Therefore, the accuracy of the projection of expected future investment returns plays a very important role in ERS's funding and contribution level. Mr. Langer further stated the investment return assumption is what drives the contribution pattern. If the assumption is set too low, costs and liabilities will be overstated, causing the current generation of taxpayers to be overcharged while undercharging future generations. Conversely, if the assumption is set too high, costs and liabilities will be understated, undercharging the current generation of taxpayers at the expense of future generations. Mr. Langer explained that the Actual Standard of Practice 27 ("ASOP 27") is the process establishing and reviewing investment return assumptions. ASOP 27 is based on a very long-term view of 30 to 50 years. Because public retirement systems operate over an extended timeframe, the long-term perspective promotes stability and predictability of funding costs.

Mr. Langer then discussed the impact of changing ERS's investment return assumption to 7.5%. Although the current 8% investment return assumption can be maintained, it could be reasonably reduced to 7.5%. At the request of the Pension Board, Buck developed estimates of anticipated contributions assuming ERS's rate of return is reduced from 8% to 7.5% effective January 1, 2017. Mr. Langer noted the estimated contributions are preliminary figures because they are based upon January 1, 2106 preliminary valuation results. In the preliminary January 1, 2016 figures, total 2016 budget contributions are $59,436,000, and the preliminary actual 2016 total contributions are $59,818,000.

If the ERS's rate of return remains at 8%, the preliminary 2017 total budget contribution is $60,548,000. If ERS's rate of return is reduced to 7.5%, the preliminary 2017 total budget contribution increases to $70,692,000. These preliminary calculations were based on a market value of assets of about $1.715 billion.

Mr. Langer noted that the returns have been close to the amount budgeted, despite the recent market returns being 2% rather than the expected 8%. Mr. Langer also noted that membership contributions are also in line with the funded ratio on the Actuarial Value of Assets basis. The funded ratio on the market basis did decrease by about 2%, but Mr. Langer reminded the Pension Board that contributions are based upon the average over 10 years, so there is time to make up the loss.

Mr. Langer noted that the change in the assumption rate ultimately affects contributions to ERS. If ERS's rate of return assumption is reduced to 7.5%, the normal cost, which represents the cost of benefits accruing during the year, increases from $17 million to $19 million. If ERS lowered the assumed rate to 7.5%, the net annual amortizations, which is the increase in the unfunded liability paid off over 20 years, would increase by about $8 million. To make up the decrease in assumption rate, Mr. Langer explained that the total contribution must increase from approximately $60 million to $70 million. This contribution increase translates to a 20% increase in member contributions. Accrued liability would also increase by about $120 million. This change in liability would cause the funded value to decrease from 77% to 73%.

Next, Mr. Langer explained the projections over 10 years based on the assumption rate. The projections using the actual budget amounts from 2015 showed slight increases of about 1% annually, over the course of 10 years. Mr. Langer reminded the Pension Board that contribution increases would not be as significant due to the funding policies recently adopted. The projections using the 2016 budget amounts and an anticipated realized 8% return, showed annual contribution increases of about 2.5% as net asset losses are reflected. If the Pension Board adopts the decreased assumption rate of 7.5%, the projected contributions increase approximately $10 million annually more than with a higher assumption rate.

Mr. Langer next presented a series of options the Pension Board could consider as an alternative to reducing the rate of return to 7.5%. He first suggested the Pension Board could wait to lower the assumption rate until the quinquennial review is conducted in the fall of 2017. Mr. Langer reasoned that as part of the quinquennial review, Buck Consultants will review and update actual costs and contributions for each assumption. This process may lead to reduced assumed expenses moving forward.

Mr. Langer also proposed providing the County Board and members notice that requested contributions will increase greatly in the coming years due to this change. One way to do that is through a "phase-in" approach which calls for increased contributions over a period of time rather than immediately.

Another approach presented by Mr. Langer would be to alter the assumption rate based on a schedule. An example would be to use a low assumption rate, such as 6%, for five years followed by an elevated assumption rate, such as 8%, for the next five years. This would allow ERS to build a cushion during the first five years in the event ERS is not achieving 8% earnings over the next five years.

Mr. Langer expanded upon the idea of providing notice to the County Board and members that contributions will increase. As previously discussed, if ERS were to continue using an assumption rate of 8%, the contributions would increase from $60.5 million in 2017 to $77.6 million in 2026. If the Pension Board were to adopt an assumption rate of 7.5%, the contributions would be expected to increase from $70.7 million in 2017 to $89.0 million in 2026. Finally, if the Pension Board were to continue with an assumption rate of 8%, but consistently had an actual rate of return of 6%, the contributions would need to increase from $60.8 million in 2017 to $100.0 million in 2026. Mr. Langer encouraged the Pension Board to share this with the County Board and employee members so they understand the importance of and reasoning behind increasing contributions.

Mr. Langer then presented his phase-in options for a 7.5% assumption rate. A phase-in allows the required increase in contributions to be spread out over either three or five years. At the end of the phase-in period, the difference in necessary contributions and actual contributions during the phase-in period is spread out over the rest of the 10-year investment cycle. For example, a three-year phase-in would call for contributions of $63.9 million in 2017, $69.0 million in 2018 and $75.2 million in 2019. These contribution amounts result in a contribution shortfall of about $10 million more than if the lower assumption rate was immediately adopted. After the phase-in period, the requested contribution would increase annually by about $2 million to cover the contribution shortage from the phase-in period and other expected increases.

Mr. Langer concluded by reiterating that maintaining the assumed rate of return is not unreasonable, but lowering the rate of return is also not unreasonable. Mr. Langer recommended that if the Pension Board chooses to reduce the assumption, that the Pension Board wait until the quinquennial review in 2017 to do so.

The Chairman called for questions from the Pension Board.

Mr. Christenson asked if Mr. Langer has other public fund clients, and, if so, if those clients have reduced their actuarial assumed rate of return in the last three to four years.

Mr. Langer explained that most clients that have reduced their rate were funds that had a high rate such as 8.5% or 8.25%. Mr. Langer also has a client that has reduced from 8% to 7.5%, but there has not been much movement from 8%. Mr. Langer did note that there are not very many funds that still have a rate higher than 8%.

The Chairman asked Mr. Langer to clarify whether the clients that have chosen to decrease have reduced immediately or phased in the decrease.

Mr. Langer confirmed that most clients have chosen an immediate implementation. He noted that these clients have had fund-specific concerns that called for an immediate implementation. In Mr. Langer's opinion, a phase-in approach is not unreasonable.

Mr. Langer clarified that any change to the investment return assumption will decrease the funded ratio immediately. However, the decrease would also put more money into ERS to secure benefits. A phase-in approach would have a similar result.

In response to a question from Mr. Harper regarding what other clients have done to make progress towards achieving 100% funding, Mr. Langer suggested contributing as much as is affordable, provided the contributions are above a minimum threshold. The contributions would also include payments for unfunded liabilities. Mr. Langer stated that ERS is currently above the minimum threshold as it is paying down its unfunded liability over 20 years.

After a brief discussion regarding ERS potentially understating its unfunded liability, Mr. Langer explained that it is difficult to predict whether an assumed rate of return is accurate and how a change in that rate would affect the funding ratio without seeing such a change implemented.

At the suggestion of Ms. Funck, the Pension Board considered whether to continue discussing lowering the assumption rate or wait until the impact of the change in retirement age and salary freezes can be determined. The Pension Board chose to continue the discussion as the Pension Board must soon submit its proposal to the County Board regarding the requested contribution amount for 2017. Mr. Leonard also reminded the Pension Board that they owe a fiduciary duty to ERS.

Messrs. Leonard and Christenson asked if lowering the assumption rate to 7.5% in a two-year phase-in approach was reasonable for ERS. Mr. Langer clarified that a phase-in approach would not require the Pension Board to lower its assumption rate multiple times until the final goal of 7.5% was reached. Instead, the Pension Board would adopt the new assumption rate and gradually increase the requested contributions until the contributions for the set assumption rate are reached.

Ms. Van Kampen suggested that rather than the Pension Board setting the contribution amounts through the phase-in, the Pension Board should simply present its recommendation to the County Board, and allow the County Board to determine the best method and time frame for funding the amounts.

At the request of Ms. Funck, Mr. Langer explained how he compiled the data regarding the assumptions discussed. He went on to explain that the quinquennial review would involve all possible assumptions and five years of historical data. As a result, the quinquennial review is much more thorough than the review conducted related to assumption rate.

Next, the Pension Board engaged in a discussion regarding the expected results of the assumptions in the quinquennial review. Mr. Langer confirmed that he expected the assumptions would be lower than what was included in the report regarding assumption rate. However, Mr. Langer explained that despite the current salary freeze, he would factor in some salary increases because it is not realistic to assume that no employee will receive a raise over the next 30 years. Ultimately, Mr. Langer expects that if the Board would lower the assumed rate to 7.5%, any expected increases in mortality and salary assumptions would equal out.

At the request of Ms. Westphal, the Pension Board debated whether this issue should be reconsidered by the Investment Committee before making a recommendation. As part of this discussion, Ms. Funck again recommended that the Pension Board delay this decision until the quinquennial report is conducted and Mr. Leonard motioned for a vote.

In response to a question from Mr. Christenson, Mr. Langer confirmed that Buck could prepare the budget amounts for both an assumption rate of 7.5% and 8% for presentation at the May Pension Board meeting. Mr. Langer noted, however, that preparing the budget amounts for both an assumption rate of 7.5% and 8% for presentation at the April Pension Board business meeting could be difficult. Mr. Langer noted that Buck typically completes its annual valuation report by the end of May, to allow for June delivery of the ERS and OBRA budget contribution requests.

Several Board members and Mr. Christenson of Marquette Associates asked Mr. Langer if there was enough time for him to supply the required numbers by the due dates if a decision was delayed until a future meeting. Mr. Langer could not guarantee that. Ms. Ninneman stressed that the established timeline for the 2016 actuarial valuation has to be maintained regardless of when the decision to change the investment rate of return is made.

After continued discussion among the Board, it was decided that waiting until the May Board meeting to review parallel rates and discuss the matter further could risk delaying the 2017 ERS and OBRA budget contribution requests. The Pension Board determined that it could not risk delaying the 2017 budget contribution requests, and, if changes to the Fund's assumed rate were not decided before the May Board meeting, they would likely not be completed in time for implementation with the 2017 actuarial contribution calculation.

The Chairman called for comment.

The Pension Board voted 7-0-1, with Ms. Funck abstaining, to reduce the actuarial assumed rate of return to 7.5%, with implementation for the 2017 actuarial contribution calculations. Motion by Mr. Leonard, seconded by Ms. Van Kampen.

6. Audit Committee Report

Ms. Westphal reported on the March 3, 2016 Audit Committee meeting. The Audit Committee began by continuing its February 2016 discussion of the disability retirement process. After a lengthy discussion, the Committee members directed Messrs. Carroll and Huff to review all Ordinance and Rule references to disability and draft proposed best practices. Counsel will present recommendations for additional discussion at the April 2016 Audit Committee meeting.

The Audit Committee next discussed future Pension Board meeting dates. At the January 2016 Pension Board meeting, Ms. Ninneman explained that the Fiscal Office was experiencing timing issues with receiving the data it needed to prepare the monthly Portfolio Activity and Cash Flow reports. Ms. Ninneman proposed moving the monthly Board meetings to the fourth Wednesday of the month, to provide the Fiscal Office sufficient time to complete and review the reports distributed at the monthly Board meetings. Ms. Ninneman later contacted the individual Board members to discuss availability for the proposed meeting date changes. A proposed revised meeting schedule was distributed to the Audit Committee for review.

Ms. Westphal then explained to the Pension Board that the revised meeting schedule was included in today's materials and asked the Board members to review and discuss the proposed changes. Ms. Westphal noted that with the revised meeting schedule, the November 23, 2016 and December 28, 2016 Board meetings are scheduled to occur during holiday weeks. Ms. Westphal asked the Board members if they would be able to attend either of those meetings.

In response to questions from the Chairman, Ms. Westphal confirmed that the Pension Board meeting would still begin at 8:30 a.m. Ms. Westphal also confirmed that both the Audit Committee and Investment Committee meetings would be scheduled one week later each month. The Investment Committee meeting would move to the second Monday of the month and the Audit Committee meeting would move to the second Thursday of the month.

In response to a question from Ms. Bedford, Ms. Ninneman confirmed that the Marcus Center can accommodate the date change and the venue for the Pension Board meetings would remain unchanged.

In response to a question from the Chairman, Ms. Westphal stated that the revised meeting schedule would be effective beginning July 2016.

After further discussion regarding the proposed date change for the November and December 2016 Pension Board meetings, the Board agreed to retain the originally scheduled dates of November 16, 2016 and December 21, 2016 to avoid potential attendance issues due to the holidays.

The Chairman also noted the Board members should communicate via e-mail before its meetings to ensure a quorum will be present.

The Pension Board voted 7-0-1, with Ms. Funck abstaining, to approve the revised 2016 Pension Board and Committee meeting schedule, with the exception of the November 2016 and December 2016 Pension Board meetings, which shall remain scheduled for the third Wednesday of the month and the corresponding Committee meetings those months. Motion by Mr. Leonard, seconded by Mr. Harper.

The Audit Committee then discussed the date and agenda for the 2016 Annual Pension Board meeting. The date for the Annual meeting has been changed to April 27, 2016 and will begin at 9:30 a.m. in the Grand Ballroom of the Italian Community Center. Prior to the Annual meeting, the Pension Board will hold an abbreviated business meeting from 8:00 a.m. to 9:30 p.m. in a separate conference room at the Italian Community Center.

The Audit Committee continued with a discussion of optional member contributions. The Audit Committee discussed how ERS should manage unvested member contribution accounts of seasonal employees. The Audit Committee determined that it needed additional guidance from counsel and asked Mr. Huff to review the matter and provide additional analysis at a future meeting.

The Audit Committee concluded with a discussion of administrative errors. Ms. Westphal referred the Pension Board to the March 3, 2016 Audit Committee meeting minutes for details of the discussion and the Board members had no additional questions.

Ms. Braun then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f) with regard to item 7 for considering the financial, medical, social or personal histories of the listed persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of those persons, and may adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g) with regard to items 7 through 10 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 agreed by roll call vote 7-0-1, with Ms. Funck abstaining, to enter into closed session to discuss agenda items 7 through 10. Motion by Ms. Braun, seconded by Ms. Bedford.

7. <u>Disability Retirement Application - Lisa Biro-Bauer</u>

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board voted 7-0-1, with Ms. Funck abstaining, to approve granting the accidental disability pension application based on the Medical Board's determination. Motion by Ms. Bedford, seconded by Ms. Westphal.

8. <u>Pending Litigation</u>

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

The Pension Board took no action on this item.

(b) *Trapp, et al v. Pension Board*

The Pension Board took no action on this item.

(c) *Mecouch v. ERS*

The Pension Board took no action on this item.

(d) *Walker v. ERS*

The Pension Board took no action on this item.

(e) *Baldwin v. ERS*

The Pension Board took no action on this item.

9. Actuarial Valuation Error

The Pension Board took no action on this item.

10. Report on Compliance Review

The Pension Board took no action on this item.

11. Reports of ERS Manager & Fiscal Officer

(a) Retirements Granted, February 2016

Ms. Ninneman presented the Retirements Granted Report for February 2016. Forty-five retirements from ERS were approved, with a total monthly payment amount of $70,161.09. Of those 45 ERS retirements, 32 were normal retirements, 12 were deferred and 1 was an accidental disability retirement. Twenty-three members retired under the Rule of 75. Twenty-two retirees chose the maximum option and 11 retirees chose Option 3. Twenty-seven of the retirees were District Council 48 members. Twenty retirees elected backDROPs in amounts totaling $2,853,502.70.

In response to a question from the Chairman regarding two retirees listed on the report as receiving the now eliminated Option 1 benefit, Ms. Ninneman stated those two individuals elected their benefits prior to the effective date to eliminate the Option 1 benefit.

(b) Retirement Plan Services Update

Ms. Ninneman reported that the retirement specialist position has been reclassified to "retirement analyst." The primary intent for the reclassification was to standardize the benefit analyst positions across the Retirement Office and benefits departments. The two vacant retirement analyst positions were then posted and the Retirement Office interviewed nine exceptional applicants last week. Offers will be extended to two of those candidates this week. It is hoped that the new hires can attend the new employee orientation session scheduled for March 28, 2016. A three-month training program is scheduled for the retirement analysts following the employee orientation.

(c) Fiscal Officer

Mr. Lausier first discussed the February 2016 Portfolio Activity and Cash Flow reports. Benefits for the month of February were funded through a withdrawal from J.P. Morgan fixed income for $15 million and the remaining amount was paid from funds available in the general cash account. Capital calls in February came from Siguler Guff for $2.24 million, Mesirow for $900,000 and Adams Street for $82,500. ERS also received a capital call in March from Adams Street Fund III for $1.75 million. The Pension Board recently approved Adams Street Fund III as a new private equity investment for a total of $40 million.

Ms. Lausier noted that she will meet with Mr. Caparelli from Marquette before the next Investment Committee meeting to discuss updates to the cash flow report and provide guidance related to capital calls that will likely occur throughout the remainder of 2016.

Ms. Lausier next discussed the Funds Approved Report. For the month of February, $19 million of the funds approved for the 2016 first quarter were transferred to cover payment of benefits and expenses. An additional $17 million is currently projected for payment of March benefits and expenses, which will bring the funds requested for the first quarter of 2016 to zero. An additional $50 million was approved by the Pension Board at its February meeting for 2016 second quarter funding.

Ms. Lausier concluded with a discussion of ERS's reimbursement to the County for 2015 expenses. Ms. Lausier explained to the members of the Board that throughout the year, the County will pay some expenses on ERS's behalf. ERS must now reimburse the County for such expenses. Ms. Lausier reported the 2015 total was $1,200,421.39 and requested Board approval for reimbursement to the County.

Mses. Braun and Westphal then questioned Ms. Lausier as to whether ERS may have received a surplus from the County for fringe allocations that could reduce the amount ERS must reimburse to the County.

Mses. Lausier and Ninneman responded by stating that they were currently unaware of any fringe allocation surplus.

After further discussion, it was determined that Mses. Lausier and Ninneman shall follow up with the Comptroller's Office regarding the surplus and provide any updates to the Board at its at April 2016 business meeting. Ms. Westphal suggested the Pension Board approve reimbursing the County the $1,200,421.39 today, while noting the amount is subject to change, pending clarification of a potential surplus related to fringe allocations.

The Pension Board voted 7-0-1, with Ms. Funck abstaining, to approve reimbursing the County $1,200,421.39, subject to clarification of a potential surplus related to fringe allocations, for 2015 County paid administrative expenses in accordance with Ordinance section 201.24(8.8). Motion by Ms. Westphal, seconded by Ms. Bedford.

In response to a question from the Chairman, Ms. Lausier confirmed sufficient funds are available for the remainder of the 2016 first quarter and noted the Board approved the 2016 second quarter funding request at its last meeting.

In response to a question from the Chairman, Ms. Lausier stated that Marquette will prepare the letters to request the funding withdrawals from fixed income and real estate discussed earlier today during the Board's investment policy discussion.

12. Administrative Matters

The Pension Board concluded with a discussion of additions and deletions to the Pension Board, Audit Committee and Investment Committee future topic lists and no changes were requested.

13. Adjournment

The meeting adjourned at 1:10 p.m.

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