EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE JANUARY 18, 2006 PENSION BOARD MEETING

1. Call to Order

Chairman Walter Lanier called the meeting to order at 8:40 a.m. in Room 203-R of the Milwaukee County Courthouse.

2. Roll Call

Members Present:
Linda Bedford
Walter Lanier
John Martin
Marilyn Mayr
Michael Ostermeyer
John Parish
Dean Roepke
Thomas Weber

Members Excused:
Donald Cohen

Others Present:
Jack Hohrein, ERS Manager and Pension Board Secretary
Mark Grady, Principal Assistant Corporation Counsel
Gordon Mueller, ERS Fiscal Officer
Vivian Aikin, ERS Administrative Specialist
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Brad Blalock, Mercer Investment Consulting
Kristin Finney-Cooke, Mercer Investment Consulting
Rick Ceschin, County Board Research Analyst
Jim Miles, Hotchkis and Wiley Capital Management
Cliff Van Beek, Retiree
Ken Loeffel, Retiree

3. Approval of Minutes of December 21, 2005 Meeting

The Board reviewed and unanimously approved the minutes of the December 21, 2005 Pension Board meeting. Motion by Mr. Martin, seconded by Dr. Roepke.

Ms. Mayr noted that the thoroughness of the minutes was helpful to the Board in determining the status of issues. The Chairman agreed and stated for the record that the Board appreciates the quality of the minutes.

4. Report of Retirement System Manager

A. Ratification of Retirements Granted

Mr. Hohrein presented the schedule of Retirements Granted for the prior month's retirements and asked the Board to review them.

He noted that there had been one back DROP payment of approximately $273,000. In response to a question from Dr. Roepke, Mr. Hohrein explained that other benefit enhancements were reflected in the monthly benefit amount. The Board discussed ways to measure the cost of the enhancements.

The Board unanimously approved the schedule of Retirements Granted. Motion by Mr. Martin, seconded by Mr. Parish.

B. Informational Items

(i) Report on Waivers

There were no waivers presented. The Board discussed the County Executive's request that certain County employees submit waivers of the benefit enhancements. The Chairman, Mr. Lanier, noted that it is not the Board's responsibility to ensure that waivers are submitted. Ms. Mayr agreed, but suggested that receipt of waivers should be monitored to the extent possible in order to protect the assets of ERS.

C. 2006 Pension Board Meeting Schedule

The Board discussed locations for the Board's monthly meetings and the Annual Meeting. Mr. Hohrein reported that the February 8, 2006 meeting would be held at Wilson Park at 8:30 a.m. and the February 15, 2006 Annual Meeting would be held at the Zoofari Center at 9:30 a.m.

Board members suggested alternate locations for monthly meetings, including other County-owned buildings and County parks. The Chairman requested that any additional suggestions be forwarded to Mr. Hohrein.

In response to a question from Mr. Loeffel, Mr. Hohrein stated that the announcement regarding the time of the Annual Meeting will be sent out with the next pay stub or deposit notice.

D. Implementation of New Pension System

Mr. Hohrein asked how much information the Board would like on the progress of implementation of the Vitech pension administration system. The Board agreed with Mr. Ostermeyer that Anh To should prepare a written report to the Board and be available to attend a meeting if the Board had questions about the written report.

5. Appointment of Hearing Examiners under Section 201.24(4.9)(11)

Mr. Grady presented information to the Board regarding the appointment of additional hearing examiners for reviewing disability appeals. He explained that the Board's usual hearing examiner, retired Wisconsin Supreme Court Justice Louis Ceci, would not be available to conduct the hearing of Brenda McCormack as scheduled. Accordingly, Mr. Grady recommended that the Board approve additional potential hearing examiners. At Ms. Mayr's suggestions, the Board discussed the propriety of appointing retired judges who are members of ERS. Board members disagreed on whether retired judges who are ERS members would have a conflict of interest in hearing appeals, but the Chairman pointed out that the matter need not be settled at the current meeting.

The Board unanimously agreed to accept Mr. Grady's recommendation to approve retired Waukesha County Circuit Court Judge John Buckley as a hearing examiner for ERS. Motion by Ms. Mayr, seconded by Mr. Martin.

6. Report of the Retirement System Fiscal Officer

Mr. Mueller presented the cash flow report. He noted that there was little change from the December report except that the County contribution schedule will change so that the contribution is made over five months, rather than four months. Mr. Mueller advised the Board that this change will not affect ERS's projected cash flow needs and that there would still be a need for $10 million in June.

7. Administrative Matters

A. Continuing Education/Board Retreats/Training and Professional Organizations

(i) Annual International Foundation of Employee Benefit Plans ("IFEBP") Conference

The Board unanimously approved the attendance of any Board member at the IFEBP Annual Conference. Motion by Ms. Bedford, seconded by Mr. Weber.

(ii) Annual Government Finance Officers Association ("GFOA") Conference

The Board unanimously approved Mr. Mueller's attendance at the GFOA Annual Conference. Motion by Mr. Martin, seconded by Ms. Bedford.

B. Future Board Topics

The Chairman reported that he is assembling a list of future topics. He also addressed status of the committees and stated that the Budget Committee and Audit Committee should meet at least quarterly. Mr. Martin suggested, and the Chairman agreed, that a Governance Committee should be established.

C. Discussion of Annual Board Meeting

The Board discussed the format of the Annual Meeting.

The Board unanimously agreed to provide a luncheon after the business portion of the meeting. Motion by Dr. Roepke, seconded by Mr. Weber.

8. Closed Session

The Chairman stated that the Board could enter closed session for deliberations concerning a case, which is a controversy among parties that are adverse to one another, that was the subject of a judicial or quasi-judicial trial or hearing before the Board, for considering financial, medical, social or personal information, of which the Board has actual knowledge and which, if discussed in public, would be likely to have a

substantial adverse effect upon the reputation of the person mentioned, for deliberating or negotiating the purchasing of public properties, the investing of public funds, or conducting other specified business, whenever the discussion will directly and substantially affect negotiations with a third party and for conferring with the Board's legal counsel, who is rendering oral or written advice concerning strategy to be adopted with respect to litigation in which it is or is likely to become involved.

The Board agreed by roll call vote to enter closed session to consider Items 9 and 10. Motion by Mr. Weber, seconded by Mr. Parish.

9. Disability Applications

Upon returning to open session after considering Items 9 and 10, the Board took the following action:

A. Ivan A. Menore - Accidental

Consistent with the recommendation of the Medical Board, the Board unanimously agreed to grant Ivan A. Menore's accidental disability application. Motion by Dr. Roepke, seconded by Ms. Bedford.

B. Bruce Fischer - Accidental

Consistent with the recommendation of the Medical Board, the Board unanimously agreed to deny Bruce Fischer's accidental disability application. Motion by Dr. Roepke, seconded by Ms. Bedford.

10. Litigation Update

The Board addressed this item in closed session.

11. Investments

A. Mercer Report

Ms. Finney-Cooke presented the flash report for December 2005. She reported that ERS had an aggregate market value of approximately $1.5 billion at the end of 2005. She also noted that ERS gained 1.7% in December and 9.5% for all of 2005.

Ms. Finney-Cooke addressed market performance and informed the Board that the domestic markets had remained relatively flat. She noted that value outperformed growth in the large cap arena, but growth outperformed value in the small cap arena. She reported that the international equity markets gained 4.7% and emerging markets equities increased 5.9%. She further reported that the investment-grade fixed income market gained 1.0% and high yield issues gained 0.9%.

Ms. Finney-Cooke next discussed manager presentations by ERS investment managers. She reported on and presented a proposed schedule for managers to report to the Board during 2006. She noted that the Board's Investment Committee has proposed that the full Board continue to conduct these due diligence meetings, but that the Investment Committee review additional research regarding managers whose performance will be reviewed. She indicated that Mercer's biggest concern with respect to performance is Ariel and that representatives from Ariel will attend the April Board meeting. At the Chairman's request, Ms. Finney-Cooke agreed that Mercer would follow the suggestion of the Investment Committee to include a seven-year history of performance against benchmarks in all quarterly and flash reports.

Ms. Finney-Cooke discussed the fund balance. She stated that the fund is currently overweight with respect to mid and small cap equity and high yield fixed income and is underweight with respect to core fixed income. At Mr. Martin's request, Mr. Blalock agreed that Mercer could segregate small from mid cap managers in allocation reports.

Ms. Finney-Cooke addressed Artisan's announcement regarding registration of its new mutual fund and Mercer's concerns regarding the announcement. She stated that the additional fund will not affect ERS's mid cap growth strategy but there is a concern for the firm as a whole. Mr. Blalock indicated that Mercer was concerned whether Artisan was focusing more on gathering assets than managing the assets. He pointed out that performance could suffer in such an event.

Mr. Martin commented that the fund has performed well. Mr. Blalock agreed and stated that the fund's performance is favorable compared to other public funds. He reported that the State of Wisconsin Investment Board ("SWIB") and the City of Milwaukee

ERS each gained approximately 8.5% in 2005 compared to ERS's return of approximately 9.5%.

B. Committee Report

The Chairman presented the minutes of the January 11, 2006 Investment Committee meeting. The meeting was attended by Committee members Ms. Bedford, Mr. Martin, Mr. Ostermeyer and Dr. Roepke. Mr. Lanier was excused from the meeting. Mr. Grady, Mr. Hohrein, Ms. Finney-Cooke and Mr. Race also attended the meeting.

The Chairman reported that the Investment Committee will propose the following:

- quarterly review of the cash liquidity plan
- language changes to the investment policy statement
- revision of the flash report review periods to implement the seven-year policy
- discussion of proxy voting by investment managers
- recommendations regarding underperforming managers

The Board discussed the minutes of the Investment Committee meeting. The Board noted that managers are currently told to vote to maximize funds' investment returns. Copies of how the proxies are voted are sent to Mr. Hohrein and to Mercer

Mr. Ostermeyer inquired regarding comparing the statement of investment policy to the need to rebalance funds and the timing of rebalancing. Mr. Blalock responded that the current report uses manager reported amounts because audited amounts are not yet available. He suggested that the fund can be rebalanced easily by withdrawing funds for benefit payments.

The Chairman stated that he would like the Board to review the Investment Committee's recommendations regarding the investment policy statement at the Board's February meeting, if possible. Mr. Ostermeyer requested that comments on the current investment policy statement be sent to Mr. Hohrein.

C. Hotchkis and Wiley Report

Jim Miles presented to the Board the report of Hotchkis and Wiley Capital Management, a mid cap value manager. Mr. Miles gave the Board an overview of Hotchkis and Wiley's organization and described its investment philosophy and process. He explained that Hotchkis and Wiley has a value approach and seeks to take advantage of opportunities in the market created by mispriced securities. He also addressed Hotchkis and Wiley's in-house fundamental research and its bottom-up stock selection, with an emphasis on tangible valuation support.

Mr. Miles next reviewed the characteristics of the ERS portfolio and its performance. He indicated that the ERS portfolio had a 1.9% return for fourth quarter 2005 and an 11.2% return since inception on March 1, 2005. He noted that the mid cap strategy, which ERS uses, is closed to new clients. In response to a question from Mr. Weber regarding selling declining stocks like Delphi, Mr. Miles explained that Hotchkis and Wiley would avoid keeping the stock at the same percentage of the portfolio as it loses value. He indicated that some of the stock may be sold, but that some could be retained because of the upside potential.

Mr. Miles was excused from the meeting and the Board discussed the presentation. Mr. Weber opined that the presentation was unacceptable. He pointed to a failure to admit mistakes with respect to the massive decline in the value of Delphi stock and Hotchkis and Wiley's failure to sell despite several opportunities. He stated that not adding money to mistakes is not a sufficient response. Mr. Blalock acknowledged that the manager had misread the Delphi situation. In response to a question from Ms. Mayr, Mr. Blalock explained that Hotchkis and Wiley was being monitored because the Board was reviewing all mid cap managers.

12. Closed Session

The Chairman stated that the Board could enter closed session for deliberating or negotiating the purchase of public properties, the investing of public funds, or conducting other specified business whenever the discussion will directly and substantially affect negotiations with a third party.

The Board agreed by roll call vote to enter closed session to consider Item 13. Motion by Ms. Bedford, seconded by Mr. Weber.

13. RFP for Actuarial Services

The Board addressed this item in closed session.

14. Adjournment

The meeting adjourned from closed session at 12:37 p.m.

Submitted by Steven D. Huff,
Assistant Secretary to the Pension Board