

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE FEBRUARY 8, 2006 PENSION BOARD MEETING

1. Call to Order

Chairman Walter Lanier called the meeting to order at 8:30 a.m. in Room 501 of the Wilson Park Senior Center at 2601 West Howard Avenue, Milwaukee, Wisconsin 53221.

2. Roll Call

Members Present:

Linda Bedford
Donald Cohen
Walter Lanier
John Martin
Marilyn Mayr
Michael Ostermeyer
John Parish
Dean Roepke
Thomas Weber

Members Excused:

None

Others Present:

Jack Hohrein, ERS Manager and Pension Board Secretary
Mark Grady, Principal Assistant Corporation Counsel
Vivian Aikin, ERS Administrative Specialist
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Chris Trebatoski, Gonzales, Saggio & Harlan LLP
Patrick Race, Mercer Investment Consulting
Kristin Finney-Cooke, Mercer Investment Consulting
Michael Jaje, EARNEST Partners
Wayne Taitt, EARNEST Partners
Matt D'Attilio, Reinhart & Mahoney
Scott Kuntz, Disability Retirement Applicant
Cliff Van Beek, Retiree
Ken Loeffel, Retiree
Michael Howden, Retiree
Virginia Schuman, Retiree

3. Approval of Minutes of January 18, 2006 Meeting

The Board reviewed and approved the minutes of the January 18, 2006 Pension Board meeting, 5-0. Motion by Mr. Martin, seconded by Dr. Roepke. Voting in favor were Mr. Cohen, Mr. Martin, Mr. Parish, Dr. Roepke and the Chairman.

Mr. Huff related comments made to him by Ms. Mayr that hearing examiners should not be members of ERS. Mr. Grady stated that at the last meeting the Board only approved the appointment of one examiner and that the Board could address such a policy at the March Pension Board meeting.

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.

The Board approved the schedule of Retirements Granted, 6-0. Motion by Mr. Martin, seconded by Mr. Parish. Voting in favor were Mr. Cohen, Mr. Martin, Mr. Parish, Dr. Roepke, Mr. Weber and the Chairman.

B. Informational Items - Report on Waivers

Mr. Hohrein presented waivers of the back DROP benefit, the 25% bonus, and the 0.5% service credit enhancement submitted by Jon Myhre.

The Board agreed to accept Mr. Myhre's waivers, 6-0. Motion by Mr. Cohen, seconded by Mr. Martin. Voting in favor were Mr. Cohen, Mr. Martin, Mr. Parish, Dr. Roepke, Mr. Weber and the Chairman

C. Pension Board Election Report

Mr. Hohrein reported that the Pension Board election would be held on February 9, 2006. He noted that Mr. Martin was the only candidate to submit nomination papers.

5. Continuing Education/Board Retreats/Training and Professional Organizations –Annual NAPPA Conference

The Board discussed Mr. Grady's request to attend the annual conference of the National Association of Public Pension Attorneys.

Mr. Huff related Ms. Mayr's opinion that Corporation Counsel should pay the conference fee. Mr. Grady stated that the NAPPA membership dues are paid by Corporation Counsel, but that the request was being made consistent with the Board's past approval of payment by ERS of the conference fee and expenses for the 2005 conference.

The Board approved the attendance of Mr. Grady and the Chairman, and any other interested Board member, at the Annual NAPPA Conference, 7-0. Motion by Dr. Roepke, seconded by Mr. Martin. Voting in favor were Mr. Cohen, Mr. Martin, Mr. Ostermeyer, Mr. Parish, Dr. Roepke, Mr. Weber and the Chairman.

6. Implementation of New Technology Software

The Board reviewed an outline regarding the status of the new technology software implementation. In response to a question from the Chairman, Mr. Hohrein noted that he and Anh To were monitoring the implementation process for ERS and that they had placed an ad for a full-time project manager. The Chairman requested that an implementation time line be presented at the next meeting. Mr. Van Beek asked whether retirees would be allowed to have multiple items deducted from their benefit checks. He indicated that he was previously assured that it would be included on the task list. Mr. Ostermeyer requested that the technical terms in the report be replaced with layman's language and that the report contain a description of the current status along the critical path time line and a forecast of the completion date.

7. Report of the Retirement System Fiscal Officer

Mr. Hohrein presented the cash flow report. He reported the Retirement Office had projected that no cash would be needed until June or July due to the County contributions that would be made in February through July 2006. Dr. Roepke inquired whether the County had verified that the payments would be received. Mr. Hohrein responded that the County had developed the payment schedule. The Chairman asked where the benefit payment reserve was reflected as policy. Mr. Hohrein responded that it may be an internal ERS policy rather than a Board policy. The Chairman

suggested asking Mr. Mueller to record ERS policy regarding the reserve in a written policy statement.

8. Investments - Mercer Report

Mr. Race and Ms. Finney-Cooke presented to the Board on behalf of Mercer Investment Consulting. Mr. Race indicated that the flash report for January was not ready but they presented the Fourth Quarter Performance Report for 2005. Mr. Race summarized the fourth quarter market environment and investment performance results contained in the report. He noted that ERS was valued at \$1.513 billion at the end of 2005, an increase of \$4.6 million since the end of the third quarter. He also stated that ERS gained 2.7% for the fourth quarter and approximately 9.5% for the year.

Mr. Race also addressed the performance of individual investment managers. He noted that Boston Partners and Westfield Capital Management had had strong years and that international equity was the best investment category. He also stated that the two managers presenting to the Board at this meeting, EARNEST Partners and Reinhart & Mahoney, had strong performance for the month of January and an acceptable first year. He reported that Artisan Partners had underperformed over longer periods of time and that representatives of this manager would attend the March meeting. He noted that the Investment Committee will do additional due diligence regarding Artisan Partners. The Chairman stated that Mercer should attend the March Investment Committee meeting. Ms. Riley inquired regarding the proposed content of Ariel's report at the April Pension Board meeting. Mr. Race responded that Ariel would be given the opportunity to explain its underperformance and that Mercer will supplement the presentation with a due diligence report in writing before the manager discussion. Ms. Finney-Cooke also indicated that Ariel will discuss its investment strategy. She emphasized the importance of evaluating performance over a market cycle.

In response to a question from Ms. Mayr, Mr. Race addressed the Pension Board's policy on addressing a manager's underperformance. He explained that the Board's strategy had been to provide guidelines for evaluations after three, five and seven years. Dr. Roepke added that the Board does not want to hobble managers and will investigate each instance of underperformance separately. The Board discussed the prior presentation by Hotchkis and Wiley and whether its representatives had adequately explained underperformance.

Mr. Race next discussed ERS performance compared to similar retirement funds. He indicated that ERS had positive investment returns without substantial risk exposure. He noted that ERS ranked third in its peer group for the last three years and second in its peer group for the last five years.

The Board discussed international investments. Mr. Howden asked whether there was a report showing the breakdown of domestic versus foreign investments for ERS. Mr. Race responded that approximately 18% of ERS assets was invested in foreign stocks and that there is a substantial U.S. bias in the portfolio. He stated that U.S. investors are more domestically biased than overseas investment managers.

The Board addressed providing reports to ERS members. The Chairman indicated that requests for the larger reports could be made through Mr. Hohrein.

The Board next discussed the schedule for investment committee meetings, which are usually held the first Thursday of the month at 2:30 p.m. at the City Campus at 28th and Wells Streets. The Chairman explained that notice of the meetings is posted at the Courthouse and will ultimately be put on the website as well.

9. Closed Session

The Chairman stated that the Board could enter closed session 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.

The Board unanimously agreed by roll call vote to enter closed session to consider Item 10. Motion by Dr. Roepke, seconded by Mr. Weber.

10. Disability Applications – Scott Kultz, Accidental

Upon returning to open session after considering Item 10, the Board took the following action:

The Chairman noted that the Medical Board had concluded that, to a reasonable degree of medical certainty, Mr. Kultz does not qualify for an accidental disability pension.

The Board unanimously agreed to accept the recommendation of the Medical Board and deny Mr. Kuhtz's disability application. Motion by Dr. Roepke, seconded by Ms. Mayr.

11. Investments – Manager Reports

A. EARNEST Partners

Michael Jaje and Wayne Taitt presented a report to the Board on behalf of EARNEST Partners. Mr. Jaje and Mr. Taitt explained EARNEST Partner's investment strategies and noted that they were in compliance with the Board's investment guidelines. They reviewed market performance for 2005, noting that mid cap stocks were a positive sector. However, they noted that inflation is a concern due to increased energy prices.

Mr. Jaje and Mr. Taitt described the performance of the ERS portfolio for 2005. They reported asset growth of \$4,745,563 since the portfolio's inception. They also described EARNEST Partners' investment process, which includes an initial screen, risk control and fundamental research. Mr. Martin asked about the decision-making process for selling stocks. They responded that the stocks are examined continually and reviewed every week, or more often if necessary. Mr. Grady asked why the energy weighting had been decreased. The EARNEST representatives responded that those investments had been reduced so that the portfolio could be invested in the best 60 stocks. In response to a question from Ms. Bedford, Mr. Jaje and Mr. Taitt confirmed that EARNEST Partners had a team of 11 people.

Mr. Jaje and Mr. Taitt distributed information regarding proxy policies and votes.

B. Reinhart & Mahoney

Matt D'Attilio presented a report to the Board on behalf of Reinhart & Mahoney. He reported that the ERS portfolio had excellent performance during 2005. Mr. D'Attilio also discussed the performance of small and mid cap equities. He described Reinhart & Mahoney's investment process in detail, noting the strategies that worked in 2005 and reporting which sectors were targeted for 2006. He also explained that it can be difficult for a mid cap manager to make money if the portfolio is too large, due to the high visibility of purchases and sales.

12. Administrative Matters – Annual Pension Board Meeting

Ms. Mayr called the Board's attention to the fact that the announcements regarding the Annual Meeting did not mention lunch. The Chairman stated that, if lunch is provided in 2007, it should be described as included on the 2007 notice. Mr. Hohrein noted that the announcements had been printed before the lunch plans were finalized. The Board discussed the possibility of asking vendors to sponsor the Annual Meeting and the possible ethics issues. The Board also discussed a press release regarding ERS performance for 2005, informational handouts for the Annual Meeting and ways to provide information to retirees.

13. 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 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 or 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 unanimously agreed by roll call vote to enter closed session to consider Items 14 and 15. Motion by Dr. Roepke, seconded by Mr. Parish. Messrs. Ostermeyer and Huff recused themselves from the meeting.

14. Legal Update

The Board addressed this item in closed session.

15. RFP for Actuarial Services

The Board discussed this item in closed session. After the Board returned to open session, Mr. Ostermeyer and Mr. Huff rejoined the meeting.

The Board unanimously agreed to select Buck Consultants as ERS's Actuarial Consultant subject to additional due diligence of staff and negotiation of a contract by counsel. Motion by Mr. Martin, seconded by Dr. Roepke.

16. Adjournment

The meeting adjourned at 1:30 p.m.

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