

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE MARCH 15, 2006 PENSION BOARD MEETING

1. Call to Order

Chairman Walter Lanier called the meeting to order at 8:30 a.m. in the Gordon Park Pavilion at 2828 North Humboldt Boulevard, Milwaukee, Wisconsin 53212.

2. Roll Call

Members Present:

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

Members Excused:

Marilyn Mayr

Others Present:

Chuck McDowell, Director of Human Resources
Jack Hohrein, ERS Manager and Pension Board Secretary
Mark Grady, Principal Assistant Corporation Counsel
Gordon Mueller, ERS Fiscal Officer
Vivian Aikin, ERS Administrative Specialist
Jerry Heer, Director of Audits
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Brad Blalock, Mercer Investment Consulting
Patrick Race, Mercer Investment Consulting
Kristin Finney-Cooke, Mercer Investment Consulting
Edmund Henschel, Virchow Krause
Wayne Morgan, Virchow Krause
Floyd Dukes, Artisan Partners
Andrew Stephens, Artisan Partners
Cliff Van Beek, Retiree
Ken Loeffel, Retiree
Michael Howden, Retiree
Virginia Schuman, Retiree
Nancy Beck-Metz, Retiree
Louis Metz, Retiree

3. Approval of Minutes of February 8, 2006 Meeting and February 15, 2006 Annual Meeting

The Board reviewed and unanimously approved the minutes of the February 8, 2006 Pension Board meeting. Motion by Mr. Cohen, seconded by Mr. Martin.

The Board reviewed and unanimously approved the minutes of the February 15, 2006 Annual Pension Board meeting. Motion by Mr. Martin, seconded by Dr. Roepke.

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 reported that there were no back DROP payments.

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

B. Report on Waivers

Mr. Hohrein presented a waiver of the back DROP benefit submitted by Maria Ledger, the Assistant Director in Care Management for the Department of Aging.

Mr. Hohrein reported that he had sent a new waiver form to be completed.

The Board unanimously agreed to accept Ms. Ledger's waiver until a new form is signed. Motion by Mr. Martin, seconded by Mr. Parish.

C. Implementation of New Technology Software

Mr. Hohrein presented a project status report on the implementation of the new technology software, including a timeline and description of project phases as requested by the Board at the February Board meeting. He reported that the V3 System should be online by April 11, 2007.

Mr. Hohrein described recently completed phases in the technology project, as well as those that are in progress. He also addressed key project issues, such as issues integrating information from the County's computer system with the new V3 System and time constraints due to the lack of overtime pay for ERS employees, which may have an impact on project deadlines. The Chairman asked if there was any concern with meeting deadlines at this point and Mr. Hohrein responded that it was too early in the process to be concerned.

Mr. Ostermeyer asked Mr. Hohrein to address the issue regarding overtime pay. He asked how the problem could be kept in check and noted that lack of overtime would be a poor reason for a cost overrun in the Vitech contract. Mr. Hohrein responded that some overtime has been approved and that some temporary employees are being used to make employees such as Bob Shupe more available to assist with the V3 System project. The Board discussed ways to provide the additional support to avoid paying more under the Vitech contract. Mr. McDowell stated that Vitech understands the structure of the Retirement Office and is working with ERS and its capabilities to complete the project.

Dr. Roepke asked about the accessibility of the ERS website and its pension calculator. Mr. McDowell responded that IMSD is changing servers, which will take a few weeks. Mr. Hohrein stated that he had talked to Vitech about providing a pension calculator on the internet.

5. Report of the Retirement System Fiscal Officer – Cash Liquidity Report

Mr. Mueller presented the cash flow report. He reported that ERS had adequate cash and that no cash would be needed until June, when approximately \$10 million would be needed. Mr. Mueller noted that earlier cash flow need estimates were holding up and he did not expect them to change. He reported that cash needs for January were very low, as usual.

Mr. Mueller also presented information on the direct payment of administrative expenses, which totaled approximately \$972,000 for 2005. In response to a question from the Chairman, Mr. Mueller stated that this information was usually available in March because it takes time for the County to finalize the amounts.

6. Review of Operational Audit and Discussion on Audit Committee

Messrs. Henschel and Morgan of Virchow Krause presented an update on the status of recommendations of the 2003 operational audit of ERS. They noted that the benchmark comparisons of administration costs and investment manager costs had shown that ERS's costs were among the lowest in its peer group. The Virchow Krause representatives distributed a comparison chart showing progress since the 2003 audit. They observed that several uncompleted items should remain top priorities, including cross training of ERS staff, creation of a policies and procedures manual for the Retirement Office and development of a "Frequently Asked Questions" document for County employees.

Mr. Heer addressed the relationship between Virchow Krause, the County and ERS. He discussed ways to have a more structured approach to the audit and to have the Pension Board more involved in the audit process. Mr. Morgan stated that the initial recommendations should be made to the Board or Audit Committee. He noted that the ERS field audit was scheduled for April 3-15 and that Virchow Krause would make a team available before April 3 to go over the scope of the audit.

The Board discussed ways to achieve the recommendations in the audit report. Dr. Roepke raised the issue of resolving issues related to disability retirements. He noted the audit item regarding the backlog of medical reexaminations for disability retirees. He requested that Mr. McDowell and Mr. Hohrein present a plan on how to address the issue.

The Chairman observed that the concerns regarding the audit structure, scope and format point to a need for an Audit Committee or audit committee function. He suggested that a committee could create deliverables and move forward in a methodical manner, address compliance issues and staff the policy and procedure initiatives. He stated that he would propose at the next Board meeting the formation of an Audit Committee that would meet quarterly. He reviewed an example of an audit committee charter with the Board and suggested that the Audit Committee could address the items in the charter. Mr. Heer offered to work with the Audit Committee to address the items. Ms. Mayr, Mr. Parish, Dr. Roepke and Mr. Weber volunteered to be on the Audit Committee. The Chairman suggested that the scope of the Audit Committee could be reviewed in a meeting with Mr. Heer.

7. Investments

A. Committee Report

Mr. Blalock reported that the Investment Committee had worked through the investment policy, the flash report and information regarding Artisan Partners at its last meeting.

B. Investment Policy

Ms. Finney-Cooke presented the investment policy. She noted that Mercer had been working with the Investment Committee to revise the policy and described the changes that had been made. Mr. Ostermeyer requested that additional revisions be made to include consistent benchmark comparisons and to indicate the Board's latitude to take certain actions regarding investments. Mr. Blalock stated that Mercer would make those changes and send the investment policy for final review by ERS's investment managers. He noted that he would bring manager feedback to the next Investment Committee meeting and come back to the Board for approval at the April Board meeting.

C. Mercer Report

Mr. Race presented the January flash report and discussed asset allocation. Mr. Grady observed that several investment categories were at the upper end of their target weighting. Mr. Race indicated that Mercer will start taking cash from the managers that are overweight in June.

Mr. Race next addressed investment performance. He stated that Reinhart & Mahoney had had a strong showing so far in 2006, with a 6.5% return. He stated that Ariel was on the watch list, because Mercer was concerned about how much money it could invest in the small cap equity strategy in its total portfolio. Mr. Race reviewed the due diligence schedule for the year and noted that Ariel is due to present to the Board at the April meeting. He indicated that questions regarding Ariel's performance could be raised at the April meeting.

D. Artisan Partners Report

Messrs. Dukes and Stephens presented to the Board on behalf of Artisan Partners. They provided an update regarding the firm, noting that five of seven strategies were closed. They also explained the firm's investment policy and explained that Artisan has used the same process since the beginning of the portfolio. They described Artisan's strategies with respect to security selection, capital allocation and diversification.

Messrs. Dukes and Stephens also provided a performance summary. They acknowledged that Artisan was not reaching its long-term goals right now. They reviewed sector allocation, noting that Artisan is currently underweight in basics, commodities and energy. They also discussed market trends that could affect performance, as well as developments in international markets.

8. Buck Consultants – Contract Approval

The Chairman reported that ERS has a new actuary, because the contract with Buck Consultants had been signed.

9. Pension Study Commission Request to Use Actuary for Cost Study Related to File 5-534

The Board reviewed the Pension Study Commission's request to use the ERS actuary. A question was raised regarding who would bear the cost of the actuarial review. Dr. Roepke and Mr. Martin opined that ERS should not be responsible for the cost.

In response to a question from Mr. Martin, Mr. Grady and Mr. Huff agreed that the Pension Study Commission is required to have an actuarial report before an Ordinance can be amended. Mr. Hohrein suggested that a separate contract with the County might be necessary. Mr. Grady explained that actuarial review has been handled by the Pension Board's actuary in the past.

The Chairman and Mr. Hohrein offered to draft a response to the Pension Study Commission regarding the precise nature of its request. The Chairman indicated that the Board might need an actuarial report from Buck Consultants before its presents its comments on the Ordinance amendment.

10. Future Agenda Items

Mr. Hohrein presented a brief report on disability retirement issues. He reported that a report including Ms. Mayr's audit and an action plan would be distributed in the near future or at the next meeting. He stated that he may bring additional issues to the Board for review in the future.

11. 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 12. Motion by Dr. Roepke, seconded by Mr. Martin.

12. Disability Applications

Upon returning to open session after considering Item 12, the Board took the following action:

A. Michele Heimark – Ordinary Disability Application

The Board unanimously agreed to accept the recommendation of the Medical Board and granted Ms. Heimark's ordinary disability application. Motion by Mr. Martin, seconded by Mr. Cohen.

B. Kevin Dinkle – Ordinary Disability Application

The Board unanimously agreed to accept the recommendation of the Medical Board and granted Mr. Dinkle's ordinary disability application. Motion by Dr. Roepke, seconded by Mr. Parish.

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 Item 14. Motion by Ms. Bedford, 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. Adjournment

The meeting adjourned from closed session at 11:45 a.m.

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