

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**  
**MINUTES OF THE APRIL 19, 2006 PENSION BOARD MEETING**

1. Call to Order

Acting Chairman John Martin called the meeting to order at 8:40 a.m. in the Gordon Park Pavilion at 2828 North Humboldt Boulevard, Milwaukee, Wisconsin 53212.

2. Roll Call

Members Present:

Linda Bedford  
John Martin  
Marilyn Mayr  
Michael Ostermeyer (via telephone)  
John Parish  
Dean Roepke  
Thomas Weber

Members Excused:

Donald Cohen  
Walter Lanier

Others Present:

Jack Hohrein, ERS Manager and Pension Board Secretary  
Gordon Mueller, ERS Fiscal Officer  
Vivian Aikin, ERS Administrative Specialist  
Anh To, Milwaukee County  
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  
Charles McDonald, Mercer Investment Consulting  
Barrett Rodriguez, Vitech Systems  
Tom Bush, Attorney  
Keith Parkansky, IMSD  
Peter Thompson, Ariel Capital Management, Inc.  
James Smith, Ariel Capital Management, Inc.  
Melody Hobson, Ariel Capital Management, Inc.  
Cliff Van Beek, Retiree  
Ken Loeffel, Retiree  
Michael Howden, Retiree  
Florence Ignarski, Retiree  
Louis Metz, Retiree

3. Approval of Minutes of March 15, 2006 Meeting

**The Board reviewed and unanimously approved the minutes of the March 15, 2006 Pension Board meeting, as amended to indicate that Ms. Mayr did not volunteer at the March 15 meeting to serve on the Audit Committee. Motion by Dr. Roepke, seconded by Ms. Bedford.**

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 more retirements and almost \$250,000 in back DROP payments. Ms. Bedford pointed out that the schedule had traditionally shown the retirees' dates of birth. Mr. Hohrein will look into including the dates of birth in the future.

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

B. Report on Waivers

Mr. Hohrein reported that there were no waivers to present. Ms. Mayr asked whether Mr. Hohrein had received a waiver of benefits from a new top level County employee. Mr. Martin indicated that the Board simply accepts waivers and does not seek them. Ms. Mayr disagreed, stating her opinion that the Board has a responsibility to ensure that ERS funds are not used to pay benefits to those who are not entitled to receive them.

C. Report on Communications and Ethics Statements

Mr. Hohrein reminded the Board that ethics statements are due at the end of April. He indicated that Board members should have received the most recent forms to complete.

Mr. Hohrein next provided additional information regarding the ERS website. He reported that the website will soon be updated to include OBRA information and responses to frequently-asked questions regarding the ERS pre-retirement election form.

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

A. Cash Liquidity Report

Mr. Mueller presented the cash flow report. He reported that there was no change to the cash needs for ERS. Mr. Mueller estimated that ERS may need \$5 million in June, \$10 million in July and \$10 million in August. He stated that he will communicate with Mercer regarding the liquidity plan. Mr. Martin indicated that the Board can review ERS's liquidity needs at the next meeting. The Board discussed how best to achieve liquidity.

B. 2005 Pension Administrative Expenses Paid to the County

Mr. Mueller presented information regarding the 2005 administrative expenses. Ms. Mayr inquired whether detailed backup information had been received on all items and whether ERS received an actual bill from every applicable County department. The Board agreed that this step should be completed. Mr. Martin pointed out that the Audit Committee could address this issue.

The Board also discussed charges related to retirement plaques and authority to fund them. Mr. Parish indicated that the 2006 ERS budget includes plaque expenses. Mr. Martin suggested that Mr. Hohrein ask the Department of Human Resources about future plans for the plaques and report back to the Board at the next meeting.

**The Board unanimously approved the final 2005 administrative expenses paid from the funds of ERS to the County. Motion by Mr. Parish, seconded by Ms. Bedford.**

6. Implementation of New Technology Software – Vitech Systems

Barrett Rodriguez of Vitech Systems distributed a report to the Board on the status of the V3 System implementation. He indicated that the Infrastructure phase is 70% complete and was slightly behind schedule, so that the projected completion date had been pushed back by 10 days. In response to a question from Dr. Roepke, Mr. Rodriguez stated that the web address would be provided to Board members when it was available. He also clarified that Vitech was working as a partner with ERS to complete the project and was not seeking cost increases at this time. Ms. Mayr requested that the Board be notified of any significant problems as soon as they arise.

Mr. Rodriguez related Vitech's concerns with accomplishing goals on schedule and concerns about enough ERS staff time to complete steps of the process. The Board discussed the possibility of hiring a project manager to assist in the software implementation. In response to the Board's inquiry, Mr. Rodriguez stated that overtime for ERS staff members would be the best solution to address Vitech's concerns and that a project manager would be the next best solution.

The Board discussed issues relating to authorization of overtime and authority over ERS expenses. Mr. Ostermeyer opined that lack of personnel and overtime would be a poor reason to delay the project. In response to a question from Dr. Roepke, Ms. To agreed that this is a critical time in the implementation and that all steps must be completed in a timely manner. She also indicated that the proper parties needed to be available.

Mr. Rodriguez concluded his presentation with a report on the status of the next phases of the project. He stated that the Discovery phase is 90% complete and the Solutions Design phase had begun and is 5% complete.

**The Board unanimously approved authorization of prudent overtime pay for necessary ERS staff to completed scheduled phases of Vitech's software implementation on schedule. The Board also requested that Corporation Counsel assist in the process of approving prudent overtime to expedite projects. Motion by Dr. Roepke, seconded by Ms. Bedford.**

**The Board unanimously agreed to request that Corporation Counsel provide a written opinion regarding the authority of the Pension Board, in the performance of its duties, to authorize expenditure of ERS funds for expenses deemed necessary. The Board asked that Corporation Counsel seek assistance from outside counsel on this issue, if it so desired. Motion by Ms. Mayr, seconded by Dr. Roepke.**

7. Discussion of MCERS Press Release Information

Mr. Huff presented a press release regarding ERS accomplishments for 2005. The Board discussed adding the press release to the ERS website and sending it to retirees as a mailing. Ms. Mayr and Mr. Loeffel requested that the Board be mindful of the fact that many retirees do not have computers or internet access.

**The Board unanimously authorized the release of the press release, with changes recommended by the Board, to the press sources listed, the County Executive and the County Board Chairman and authorized Mr. Hohrein to send the first page of the press release, with elimination of the reference to the**

**outline, to retirees with benefits checks and direct deposit statements. Motion by Ms. Mayr, seconded by Mr. Parish.**

8. 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. For example, the Board may elect to enter closed session to discuss an individual's disability retirement application, which may entail discussion of, among other things, medical records of the applicant.

The Board unanimously agreed by roll call vote to enter closed session to consider Item 9. Motion by Ms. Bedford, seconded by Mr. Weber.

9. Disability Applications

Upon returning to open session after considering Item 9, the Board took the following action:

A. Sandra Buzy – Ordinary – Reconsideration Request Under Rule 1012

**The Board, pursuant to Rule 1012, unanimously agreed to waive the 12-month waiting period from the first denial of her disability application until submission of another application, if the applicant withdraws the appeal on her original application. The Board noted that the applicant must satisfy all other rules that apply to disability pension applications, including the requirement that she be employed by the County at the time of the disability application. Motion by Dr. Roepke, seconded by Mr. Parish.**

B. Bruce Weber – Ordinary

**The Board unanimously agreed to deny Mr. Weber's ordinary disability application, based on the medical board's recommendation. Motion by Dr. Roepke, seconded by Ms. Bedford.**

C. Kimberly Alberti – Accidental

**The Board unanimously agreed to lay over Ms. Alberti's accidental disability application to the May meeting, to allow the Board to consult**

**with Corporation Counsel about the application. Motion by Dr. Roepke, seconded by Mr. Parish.**

10. Investments

A. Ariel Report

Peter Thompson, James Smith and Mellody Hobson addressed the Board on behalf of Ariel Capital Management, Inc. They described the organization of the firm and its investment process. Ms. Hobson reviewed the current portfolio structure and performance. She reminded the Board that Ariel is a conservative, risk-averse manager that focuses on consistent industries. She described Ariel as a manager that performs well in flat and declining markets, but not in bull markets. She indicated that Ariel's approach successfully protected against down markets.

Mr. Blalock asked the Ariel representatives to describe what had helped and hurt the portfolio over the last three years. Mr. Thompson responded that the portfolio had been negatively affected by Ariel's avoidance of investments in the oil industry, which had done very well, and by its investments in newspapers, which had suffered because of the popularity of electronic media. The Board discussed concerns regarding portfolio diversification and sale of stocks. The Board then excused the Ariel representatives from the meeting.

B. Mercer Report

Ms. Finney-Cooke presented the flash report for March 2006. She reported that the fund had an aggregate market value of approximately \$1.6 billion at the end of March and had gained 1.4% during the month. She informed the Board that Artisan's strategy had been downgraded from an A to a B+ rating in March, but that Mercer remained confident in Artisan's ability to outperform its benchmark. Mr. Race reported that Mercer was reviewing its A rating of Westfield Capital Management due to turnover issues and would keep the Board informed of any changes.

C. Investment Committee Report

Mr. Martin presented the minutes of the April 6, 2006 Investment Committee meeting. Mr. Blalock reported that the Investment Committee had addressed Ariel's underperformance and conducted due diligence on whether to retain Ariel as a manager. The Board discussed the following concerns with Ariel that had been raised by the Investment Committee:

- (i) Mercer has rated Ariel as a B level manager;
- (ii) Ariel may have taken on too much capital;
- (iii) Ariel is holding large positions in only 40 different stocks;
- (iv) The portfolio had no investments in commodity or consumer stocks;
- (v) Ariel's style is approaching mid-cap core, rather than small-cap value.

Mr. Weber expressed dissatisfaction with Ariel's investment strategy, particularly its avoidance of investments in oil and its investments in media. He indicated that managers should focus on current trends, rather than remaining with investments that are losing value. Other Board members agreed that Ariel should be replaced.

The Board discussed the process of finding a manager to replace Ariel. Mr. Martin stated that the Investment Committee had asked for a list of potential alternative, interim managers, which he distributed to Board members. Mr. Blalock recommended that the Board search for a replacement as soon as possible because small cap managers may close strategies to new investments.

**The Board voted 6-1, with Ms. Bedford dissenting, to accept the recommendation of the Investment Committee, which had accepted the recommendation of Mercer, that the investment contract with Ariel be terminated as soon as possible. Motion by Ms. Mayr, seconded by Dr. Roepke.**

**The Board unanimously agreed to temporarily move the assets held by Ariel to a Mellon index fund and to refer to the Investment Committee the responsibility to select a replacement manager for Ariel with an expectation that an initial recommendation will be made to the Board within 60 days of April 19, if possible. Motion by Ms. Mayr, seconded by Dr. Roepke.**

D. Investment Policy

Ms. Finney-Cooke presented the latest Statement of Investment Policy, which had been revised to include changes made by the Investment Committee. She confirmed that several changes suggested by Mr. Ostermeyer had been made. In response to a question from Ms. Mayr, Mr. Blalock stated that the Board could consider reviewing investment managers' benchmarks more frequently, such as once every two years.

**The Board unanimously accepted the investment policy statement recommended by the Investment Committee. Motion by Mr. Weber, seconded by Mr. Parish.**

11. Administrative Matters – Continuing Education/Board Retreats/Training & Professional Organizations

**The Board unanimously authorized Board members to attend the Advanced Investment Topics seminar presented by the International Foundation of Employee Benefit Plans and the Wharton School on September 25-28, 2006. Motion by Dr. Roepke, seconded by Ms. Bedford.**

**The Board unanimously authorized Board members to attend the new trustee seminar sponsored by the International Foundation of Employee Benefit Plans in Chicago, June 25-29, 2006. Motion by Ms. Mayr, seconded by Dr. Roepke.**

12. Adjournment

The meeting adjourned at 12:26 p.m.

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