

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**  
**MINUTES OF THE JULY 20, 2005 PENSION BOARD MEETING**

1. Call to Order

Chairman Walter Lanier called the meeting to order at 8:30 a.m. in Room 203-R of the Milwaukee County Courthouse.

2. Roll Call

Members Present:

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

Members Excused:

Thomas Weber

Others Present:

Jack Hohrein, ERS Manager  
William Domina, Corporation Counsel  
Gloria Morris, ERS Retirement Coordinator  
Gordon Mueller, ERS Fiscal Officer  
Bob Shupe, ERS Retirement Administrative Specialist  
Anh To, Milwaukee County  
Steven Huff, Reinhart Boerner Van Deuren s.c.  
Brad Blalock, Mercer Investment Consulting  
Patrick Race, Mercer Investment Consulting  
Rick Ceschin, County Board Research Analyst  
Ray Eldridge, Maximus  
Ray Smith, Maximus  
Cliff Van Beek, Retiree  
Ken Loeffel, Retiree  
Mort Fearey II, Westfield Capital Management  
Peter Thompson, Ariel Capital Management, LLC  
James Smith, Arid Capital Management, LLC

3. Approval of Minutes of June 10, 2005 and June 15, 2005 Meetings

**The Board unanimously approved the minutes of the June 10, 2005 Special Pension Board meeting. Motion by Dr. Roepke, seconded by Mr. Martin.**

**The Board unanimously approved the minutes of the June 15, 2005 Pension Board meeting. Motion by Ms. Mayr, seconded by Mr. Cohen.**

4. Reports and Requests from Retirement System Staff

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

B. Report on Waivers and New Forms

Mr. Hohrein presented waiver forms submitted by George A. Torres, waiving the .5% multiplier, 25% bonus and back DROP benefits.

**The Board unanimously agreed to accept the waivers submitted by George A. Torres. Motion by Dr. Roepke, seconded by Mr. Cohen.**

Mr. Huff next reported on new waiver forms prepared by Reinhart Boerner Van Deuren. He noted that the waiver forms are substantively similar to those currently in use, but have been standardized so that they are consistent with each other. Mr. Hohrein observed that this consistency will aid the Pension Board in its review of waiver forms.

C. Informational Items

(i) Gordon C. Mueller, Fiscal Officer - Liquidity Request

Mr. Mueller presented the cash flow report. He noted that the Ariel Capital Management and Capital Guardian transfers had been completed. Dr. Roepke asked Mr. Blalock if the Board needed a liquidity plan and if the Board had ever planned liquidity for an entire year, rather than on a month-to-month basis. The Chairman responded that a year-long liquidity plan had never been adopted and suggested addressing the issue during discussion of the asset/liability study.

(ii) Report on 2005 Educational Costs

The Board reviewed a report on 2005 educational costs for Board members and examined the report line-by-line in detail. The Board also discussed registration and authorization procedures for conferences, potential transfer of reservations and the distinction between travel expenses and conference fees.

Ms. Mayr stated for the record that she did not authorize her enrollment in the International Foundation of Employee Benefit Plans (“IFEBP”) conference and had asked that she be removed from the attendance list. She also noted that she had personally gone to the IFEBP office to remove her name.

(iii) Revised ERS Annual Report

The Board discussed the revised ERS Annual Report. In response to a question by the Chairman, Mr. Mueller noted that the report is sent to active employees, retirees and deferred vested retirees. The Board also discussed the cover letter to the report. The Chairman indicated that he would like the Board to examine the report in detail and discuss it at a future meeting.

Mr. Mueller reported that the auditor’s statement would arrive the following week, the management letter had been issued and that Virchow Krause would present a report at the August Pension Board meeting. Mr. Ostermeyer pointed out the increase in investment and administrative expenses noted in the audit report and suggested that the Board consider investment expenses as part of the asset/liability study.

5. Maximus Technology Update and Recommendation of Vendor

Mr. Eldredge presented a report on the status of the search for a computer system vendor. Mr. Smith stated that the initial challenge of the project is to provide improved service for members in a cost-effective manner. He also noted the goal of having an automated system available to members 24 hours a day, seven days a week.

Mr. Eldredge acknowledged the efforts of the RFP development team, which consisted of project manager Anh To, ERS and Milwaukee County staff and Maximus. He also recognized the RFP evaluation team, which consisted of Anh To, Jack Hohrein, Gloria Morris, Bob Shupe, Bud Borja, Dr. Karen Jackson and Maximus.

Mr. Eldredge next described the development process for the RFP, which included interviewing staff, reviewing processes, developing business and technical requirements and reviewing the final document. He explained the steps in the RFP process as well. First, the RFP was published. Eleven vendors received the document and four vendors attended the pre-proposal conference. Maximus facilitated written questions and answers

for three vendors. Two vendors, Vitech Systems Group and Ceridian Corporation, submitted proposals. The next steps included a preliminary evaluation by Maximus, ranking and scoring by the ERS evaluation team, vendor oral and prototype presentations and a request for each vendor's best and final offer. Mr. Eldredge went on to say that, after the best and final offers were submitted, the ERS evaluation team ranked and scored the vendors again and Maximus checked vendor references and updated the final ranking and scoring. He indicated that the proposal scoring was based on the following criteria: qualifications (25%), project management approach (15%), project requirements (15%), proposed project work plan and schedule (10%) and cost (35%). The Board discussed the possibility of minority vendors acting as subcontractors.

Mr. Eldredge announced that Maximus recommended Vitech as the technology vendor, based on its score and ability to provide a comprehensive solution that will meet ERS's immediate and future needs. He also noted that Vitech provided comprehensive detail in its proposal and has long-standing, relevant experience with public pension plans. Mr. Eldredge stated that Vitech had proposed an integrated solution that moves ERS from its current manual, paper-based processes to a fully-automated, paperless system. He noted that Vitech had also demonstrated an understanding of implementing pension administration systems and provided clear and concise project time lines.

Mr. Eldredge compared Vitech's proposal to that of Ceridian. He noted that Ceridian had not submitted a satisfactory project plan although Maximus had given Ceridian two opportunities to clarify its timeline. He pointed out that this lack of clarity could have resulted in cost increases if items that were arguably not part of the initial proposal had to be added later.

In response to questions from Dr. Roepke, Mr. Eldredge confirmed that Vitech's proposed system can interface with the Social Security death index, allows web-based posting of Pension Board documents and is able to keep track of address changes.

Mr. Eldredge explained Maximus's position that Vitech would provide the greatest long-term investment value. He noted that Vitech provides hosted service and that it has the necessary equipment and keeps it updated. He also compared Vitech, which allows ERS to own the pension software, with Ceridian, which permits ERS to own only the data. Mr. Eldridge also stated that Vitech had the greatest understanding of ERS.

The Chairman stated that the Board could enter closed session to conduct specific business whenever the discussion will directly and substantially affect negotiations with a third party. The Board unanimously agreed to enter closed session. Motion by Mr. Martin, seconded by Mr. Cohen.

The Board returned to open session after discussion of contract negotiations.

6. Disability Application - Donald Gregoire, Accidental

The Chairman stated that the Board may enter closed session to discuss an individual's disability retirement application, which may entail discussion of medical records of the applicant. The Board unanimously agreed to enter closed session to discuss the accidental disability application of Donald Gregoire. Motion by Dr. Roepke, seconded by Mr. Cohen.

Upon returning to open session, the Board voted on Mr. Gregoire's application. A motion by Mr. Cohen, seconded by Mr. Martin, to approve the application failed, 2-4-2, with Mr. Cohen and Mr. Martin voting to approve, Ms. Bedford, Ms. Mayr, Mr. Parish and Dr. Roepke dissenting and Mr. Ostermeyer and the Chairman abstaining. A motion by Ms. Bedford, seconded by Dr. Roepke, to deny the application failed 4-4-0, with Ms. Bedford, Dr. Roepke, Ms. Mayr and Mr. Parish voting to deny and Mr. Cohen, Mr. Martin, Mr. Ostermeyer and the Chairman dissenting.

**The Board unanimously agreed to lay over Mr. Gregoire's accidental disability application until Mr. Grady could be available to participate in the discussion. Motion by Dr. Roepke, seconded by Mr. Parish,**

7. Investments, William M. Mercer

A. Manager Presentations

The Board returned to open session to hear presentations from Westfield Capital Management and Ariel Capital Management, LLC.

(i) Westfield Capital Management

Mr. Fearey presented a report to the Pension Board on behalf of Westfield Capital Management.

He first explained Westfield's organizational structure and noted that Westfield is an autonomous subsidiary of Boston Private Financial Holdings. He also pointed out that Westfield is based in Boston and has 37 employees. Mr. Fearey presented information on Westfield's investment professionals and noted that they are principals actively involved in the investment process, with an average of 15 years of investment experience.

Mr. Fearey next discussed Westfield's equity philosophy and its goal of investing in companies with consistent or accelerating earnings growth. He also explained its stock selection strategy, which seeks to identify companies with broad market opportunities, accelerated earnings growth and quality balance sheets, and its disciplined and flexible management process.

Mr. Fearey also presented information regarding the ERS portfolio. He

noted that the portfolio had outperformed the Russell 2000 Growth Index for the second quarter of 2005 and for the year to date. He also reviewed ERS's annualized performance and stated that the ERS portfolio had slightly lagged its benchmark at the one-year and three-year marks, but had outperformed the benchmark since its inception in 2001.

(ii) Ariel Capital Management, LLC

Mr. Thompson and Mr. Smith presented a report on behalf of Ariel Capital Management, LLC.

They explained Ariel's corporate organization and noted that Ariel's 95 employees own equity interests in the firm. They also discussed Ariel's investment philosophy, which uses a long-term approach to take advantage of buying opportunities. The representatives stated that this approach focuses on quality, expertise and value. Mr. Thompson and Mr. Smith also touched on the development of Ariel's initial stock universe, which is developed through extensive reading, computer screening, industry contacts and fundamental stock analysis.

Mr. Thompson and Mr. Smith next discussed the performance of the ERS portfolio. They noted that the portfolio had outperformed the Russell 2500 Growth Index and the Russell 2500 Index for the year to date, the last year, the last three years, the last five years and since inception in 1995. They also pointed out that the portfolio had outperformed the Standard & Poors 500 Index for most of the same periods, although it had slightly lagged that benchmark for the year to date and the last five years.

B. Flash Report

Mr. Race presented the flash report for June 2005. He noted that the ERS total fund had an aggregate market value of approximately \$1.47 billion at the end of the second quarter. He indicated that the fund returned 1.5% during June, leading the composite market index by 10 basis points. Mr. Race reported that the fund was in line with the broad asset allocation policy targets at the end of June. He informed the Board that funding for the new JP Morgan portfolio has been put on hold until the target fixed income allocations are established, which will be after the presentation of the asset/liability study. Mr. Race also noted that due diligence meetings have been scheduled for the rest of the year and that EARNEST Partners and Reinhart and Mahoney will be present at the Board meeting in September.

The Board next discussed the performance of specific managers. The Chairman requested that Mercer prepare a summary watch list as part of the report. Mr. Race reported that the three new managers, Reinhart and Mahoney, EARNEST Partners and Hotchkis & Wiley were performing well, although Hotchkis & Wiley had a slow start. The Board discussed risks related to the size of the Ariel allocation

and benefits of Ariel investments. Mr. Race and Mr. Blalock also addressed the manager changes at Westfield, which were planned to aggressively address underperformance.

Ms. Bedford raised a question regarding Israel bonds. Mr. Race responded that investment managers will address that issue after the August meeting when the asset/liability study has been completed.

Mr. Race also addressed the liquidity request for \$10 million by the end of July.

**The Board unanimously agreed to draw \$4 million from Artisan, \$4 million from Hotchkis & Wiley and \$2 million from Ariel for cash flow needs. Motion by Dr. Roepke, seconded by Mr. Parish.**

C. Adams Street Partnership Amendment

The Board addressed an amendment to the Adams Street Partnership Fund Program concerning Canadian investments and clarification of the five-year investment commitment period.

8. Litigation Update

The Chairman stated that the Pension Board may enter closed session to deliberate regarding a case in litigation. By unanimous roll call vote, the Board agreed to enter closed session to discuss pending litigation. Motion by Mr. Cohen, seconded by Mr. Martin.

During closed session, the Board discussed pending litigation. Mr. Ostermeyer and Mr. Huff recused themselves during part of the discussion.

9. Update on Cliff Van Beek Indemnification Request

The Board remained in closed session to discuss settlement negotiations with Mr. Van Beek.

10. Draft Amendment to Rule 207

The Board remained in closed session to discuss issues related to an amendment to the ERS Rules. Upon returning to open session, the Board discussed the draft amendment to Rule 207 and the draft notice of buy in sunset.

**The Board voted 5-0-3 to adopt the amendment to Rule 207, effective July 20, 2005 with a buy in sunset date of January 1, 2007, with Dr. Roepke, Ms. Mayr and Mr. Parish abstaining.**

11. Department of Labor LM- 10 and LM-30 Filing Requirements

Mr. Huff presented a report on the Department of Labor's LM- 10 and LM-30 filing requirements, which apply to labor organization officers, employees and employers. Mr. Huff indicated that, due to various exemptions, these requirements do not appear to apply to ERS or the Pension Board.

12. RFPs for ERS Service Provider Contracts

The Chairman led a discussion on the periodic review and Request for Proposals for all service providers, such as legal, actuarial, medical board, custodian, auditors, investment consultants and technology vendors. He noted that the review process would begin with the actuary, but that the Board intends to review all service providers. Ms. Bedford offered to assist in the process. The Board discussed the distinction between a Request for Proposal and a Request for Qualifications. The Board also reviewed the applicable fiduciary duties and the need to adopt a process or set of best practices for reviewing service providers.

**The Pension Board unanimously agreed that the Pension Board staff be directed to research and present information by the September meeting relating to best practices for periodically reviewing and seeking requests for proposal or requests for qualifications of all of the ERS service providers and that Reinhart and Corporation Counsel are to also provide comments. Motion by Mr. Cohen, seconded by Mr. Ostermeyer.**

13. Adjournment

**The meeting adjourned at 2:50 p.m.**

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