

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**  
**MINUTES OF THE FEBRUARY 15, 2006**  
**ANNUAL PENSION BOARD MEETING**

1. Call to Order

Chairman Walter Lanier called the meeting to order at 9:30 a.m. in the Zoofari Conference Center at 9715 Bluemound Road, Milwaukee, WI 53226.

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

3. Chairman's Report – Walter Lanier, Chairman, Pension Board of ERS

The Chairman began his report by recognizing the ERS retirees who regularly attend Board meetings, the hardworking ERS staff and the members of the Pension Board. He noted that the Pension Board is methodical and deliberate in administering ERS, does not hesitate to express opinions and is serious about achieving great accomplishments for ERS.

He then described the roles and duties of the Pension Board. He noted that the Pension Board invests the assets of ERS, pays benefits in accordance with Milwaukee County Ordinances and recommends an annual ERS contribution amount to the County. He explained that the Pension Board does not design benefits, increase benefits, or determine how much money the County will actually contribute to ERS.

Next, the Chairman addressed ERS performance for 2005. He stated that ERS earned approximately 9.6% in 2005, which compares favorably with the State and City pension systems, which earned about 8.5%. He also noted that ERS had approximately \$130 million in gross investment

earnings and paid about \$148 million in pension benefits. The Chairman reported that ERS was in the top three of public funds in the Mercer Investment Consulting universe with more than \$1 billion in assets for the last three years and in the top two of those funds for the last five years.

The Chairman described recent Pension Board accomplishments. He stated that the Pension Board had recently issued a Request for Proposal for a new actuarial consultant as part of its best practices initiative to review service provider contracts every five years. He also noted that the Pension Board has established an Investment Committee and a Budget Committee and will soon form an Audit Committee.

4. Investment Consultant's Remarks – Brad Blalock and Patrick Race, Mercer Investment Consulting

Mr. Blalock addressed the meeting on behalf of Mercer Investment Consulting. He discussed capital market returns for 2005, as well as the preceding three and five year periods. He noted that the equity and fixed income markets had positive returns in 2005, along with international equity, emerging markets and international small cap investments. He stated that ERS's investments in international investments and real estate investment trusts ("REITs") had helped the performance of ERS's portfolio. He also described ERS's asset allocation and policy.

Mr. Blalock next described improvements that the Pension Board made in 2005. First, the Pension Board commissioned an asset liability study and a portfolio structuring analysis and made changes in accordance with the results. In addition, three U.S. mid cap equity managers, EARNEST Partners, Hotchkis & Wiley and Reinhart & Mahoney, were selected and funded to replace U.S. Bancorp.

Mr. Blalock also summarized the investment performance for ERS for 2005, noting that ERS had outperformed the composite market index for the one, two, three and five year periods. He reported that, despite above-market returns, assets decreased slightly during 2005 to \$1.513 billion from \$1.514 billion in 2004 because of benefit payments and expenses of approximately \$138 million. He stated that ERS gained approximately 9.6% and exceeded its benchmarks during 2005. He also noted that ERS ranked in the 36th percentile of the public funds universe and outperformed the composite market index benchmark by 2.4%. Historically, ERS has returned 7.8% annually over the last five years, which exceeds the index benchmark by 1.5% per year, and 9.41% annually over the last ten years, exceeding the benchmark by just over 1% per year.

A question was raised as to whether ERS would be able to sustain itself without County contributions. The Mercer representative responded that investment performance alone will not sustain ERS, especially in lower return markets. Therefore, County contributions are necessary.

5. Investment Market Background Discussion – William Supple and Joseph Feeney, Boston Partners

Messrs. Supple and Feeney addressed the meeting on behalf of Boston Partners. They described the structure of Robeco Investment Management, of which Boston Partners is a part. They stated that the Boston Partners investment team consists of 12 portfolio managers who meet weekly. Mr. Feeney described elements of Boston Partners' investment philosophy, including the value discipline, focused internal research and preservation of capital. He explained that Boston Partners buys stocks that have attractive value characteristics, strong business fundamentals and a catalyst for upward change. It sells stocks based on valuation, weakening business fundamentals or the reversal of a catalyst. He also discussed the quantitative and fundamental analysis approach. He described the strategy for controlling risk and maximizing diversification.

One attendee questioned whether ERS had too many investment managers that were duplicating services at excessive cost. Mr. Blalock responded that, in his opinion, the different managers provide a healthy diversification for the ERS portfolio with little overlap and that the fees were well below average. In response to another question regarding Reinhart & Mahoney, Mr. Blalock gave some background information on the new investment manager. The Chairman stated that the Investment Committee is also considering the specific issue of the number of managers and the amount of fees.

6. Benefits Roundtable – Mark Grady, Principal Assistant Corporation Counsel and Jack Hohrein, Retirement System Manager

Mr. Hohrein provided some information to attendees regarding ERS retirements, membership and benefits. There were 290 retirements in 2003, 747 retirements in 2004 and 186 retirements in 2005. The large number of retirements in 2004 was due to the pension enhancements providing maximum increased benefits.

In 2005, ERS had 13,808 active, inactive vested and retired members, which was an increase of 99 members since 2004. There were 7,297 retired members in 2005 and 7,300 retired members for 2004. ERS paid total benefits in the amount of \$148 million for 2005, \$161 million for 2004 and

\$111 million for 2003. Back DROP payments were lower in 2005 than 2004. Mr. Grady informed attendees that the back DROP benefit and Rule of 75 had been eliminated for most new hire employees, but that the County was still working to change benefits for District Council 48.

Mr. Hohrein reported that Pension Board member John Martin had been elected to a second three-year term on February 9, 2006.

Messrs. Grady, Hohrein, Lanier and Blalock answered questions from attendees. Questions raised by retirees included whether someone could be available next year to answer questions regarding retiree medical coverage. The panelists suggested that retirees interested in this information attend annual medical open enrollment meetings, because the Pension Board does not administer the retiree medical program. In response to another question, Messrs. Grady and Hohrein clarified that ERS is not paying back DROP benefits to new hires except for District Council 48 employees and that benefits for those employees are being negotiated. Messrs. Grady and Hohrein explained that back DROP benefits would continue to be paid to current employees. One attendee suggested that the Pension Ordinances be revised to be more readable. The Chairman responded that revision of the Ordinances would be up to the County Board. However, he noted that the Pension Board does control establishment and revision of the ERS Rules. Additional attendees addressed County contributions. Several attendees suggested that retirees attend the County Board's Finance Committee meetings to speak on contributions. In response to a question, Mr. Blalock responded that, according to Mercer's ten-year projection, the need for County contributions will continue to increase. In response to questions regarding the purpose and cost of outside legal counsel, Mr. Lanier explained that the Pension Board works with Corporation Counsel and outside law firms on issues within their areas of expertise. He also noted that the Audit and Budget Committees were studying legal fees paid by ERS. The meeting concluded with additional discussions regarding the impact of costs for retiree medical coverage on the ability of the County to make substantial contributions to ERS.

7. Adjournment

The meeting adjourned.

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