

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF
MILWAUKEE**

MINUTES OF THE JANUARY 16, 2008 PENSION BOARD MEETING

1. Call to Order

Chairman Dean Roepke called the meeting to order at 8:40 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present:

Linda Bedford
Donald Cohen
Jeffrey Mawicke
Marilyn Mayr
John Parish
Dr. Sarah Peck
Dr. Dean Roepke (Chairman)
Thomas Weber (Vice Chairman)

Others Present:

David Arena, Director of Employee Benefits, Department of Administrative Services
William Domina, Corporation Counsel
Gerald J. Schroeder, Interim ERS Manager
Vivian Aikin, ERS Administrative Specialist
Bess Frank, Ad Hoc Oversight Committee
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Kristin Finney-Cooke, Mercer Investment Consulting
Heather Witte, Westfield Capital Management
Ethan Meyers, Westfield Capital Management
Steve Schultze, *Milwaukee Journal Sentinel* Reporter
Ken Loeffel, Retiree
Esther Hussey, Retiree
Gloria Yelezyn, Retiree
Nancy Beck-Metz, Retiree
Louis Metz, Retiree

Yvonne Mahoney, Retiree
Jack Hohrein

3. Chairman's Report

(a) Introduction of Jeffrey Mawicke

The Chairman welcomed Mr. Mawicke to the Pension Board. Mr. Mawicke introduced himself, discussing his background and his practice as an attorney. The Chairman noted that Mr. Mawicke was not yet sworn in as a Pension Board member and is therefore not allowed to vote at this meeting.

(b) Introduction of Gerald Schroeder

The Chairman introduced Mr. Schroeder as the interim ERS manager. Mr. Schroeder stated that he has over 30 years of experience with employee benefits, 4 of which he served as the manager of the City of Milwaukee's pension system. He indicated that he had been employed with the County of Milwaukee prior to his employment with the City. In response to a question from Ms. Mayr, Mr. Schroeder noted that he is in vested deferred status in the City's, County's and State's pension plans.

Mr. Arena stated that he is pleased to have Mr. Schroeder as the interim ERS manager and expressed his hope that Mr. Schroeder will be a candidate for the permanent ERS manager position. Mr. Arena indicated that Mr. Schroeder has excellent references from the City of Milwaukee. Mr. Arena noted that he has already seen the results of Mr. Schroeder's contributions. In response to a question from Ms. Mayr, Mr. Arena answered that Mr. Schroeder is working as an independent contractor.

(c) Annual Meeting Update

The Chairman reported that the Pension Board's annual meeting will take place on February 20, 2008 at the Marcus Center. Mr. Loeffl indicated that he received the annual meeting information from the Retirement Office and stated that an annual meeting notice was published in the REMCO newsletter. He also noted that the Retirement Office mailed out the annual meeting information to all of the retirees.

Ms. Hussey inquired about the change of location of the annual meeting. The Chairman stated that the Pension Board was trying to find the best place to hold the meeting. He noted that there are good bus connections to downtown and that plenty of parking is available. He invited people to make comments and suggestions on the facility after the annual meeting takes place. He stated that at the request of Ms. Mayr, the Retirement Office looked at the County's senior centers as a possible meeting location, but they were booked on the date of the annual meeting. Ms. Mayr pointed out that the annual meeting historically takes place at the Zoofari Center but it was booked on the day of the meeting. She suggested that the Retirement Office book the meeting location farther in advance. The Chairman requested that Mr. Schroeder look into booking the Zoofari Center for the 2009 annual meeting, which will tentatively take place on February 18, 2009, the third Wednesday of February.

4. Minutes from December 19, 2007 Pension Board Meeting

The Pension Board reviewed and unanimously approved the minutes of the December 19, 2007 Pension Board meeting. Motion by Mr. Cohen, seconded by Ms. Bedford.

5. Reports of Employee Benefits Director and Interim ERS Manager

(a) Retirements Granted

Mr. Schroeder presented the Retirements Granted Report for the prior month's retirements. He stated that nine retirements had been granted in December, and only one retiree elected a back DROP.

(b) ERS Fiduciary Liability Insurance

Mr. Arena reported on the status of the renewal of the Pension Board's fiduciary liability insurance for 2008. He indicated that the Pension Board has the same level of insurance coverage and deductible amounts as it had in 2007. He stated that the Pension Board has three levels of coverage, consisting of \$10 million policies with AIG, Chubb Insurance and Axis Insurance Company. He pointed out that AIG is the primary insurer, Chubb provides the second layer of insurance and Axis provides the top layer of coverage. He noted that the insurance premiums for 2008 had decreased from 2007.

(c) Employee Member Elections Update

Mr. Schroeder discussed the status and timeline for the upcoming employee Pension Board member elections. He reported that there is only one candidate for the one-year term election and that there are two candidates for the three-year term election. He indicated that there will be eight voting locations throughout the County, in addition to the mobile voting station.

6. Investments

(a) Investment Manager Report – Westfield Capital Management

Ms. Witte and Mr. Meyers distributed a report on Westfield Capital Management's ("Westfield Capital") management of ERS's small cap equity strategy and presented it to the Pension Board on behalf of Westfield Capital. Ms. Witte stated that Westfield Capital is located in Boston, manages over \$13 billion in assets and has 56 employees. Ms. Witte discussed the composition of Westfield Capital's investment committee.

Mr. Meyers described Westfield Capital's investment selection process. He indicated that Westfield Capital utilizes a team approach to investment selection in contrast to one portfolio manager selecting the portfolio's investments. He noted that the firm's principals have an average of 17 years of experience. He pointed out that the firm continually shares investment information. He explained that the firm's philosophy is to select securities of high quality, growth oriented companies. He stated that the firm looks for superior management teams and that the firm is heavily research-oriented. He explained how the firm's disciplined investing approach and attention to valuation leads to making better investment decisions.

Ms. Bedford stated that the quantitative investment managers did not perform well during the stock market downturn. She asked how Westfield Capital performed compared to the quantitative managers. Mr. Meyers replied by stating that the stock market's volatility allowed Westfield Capital to take advantage of opportunities the market created with respect to the buying and selling of specific securities.

Dr. Peck asked Mr. Meyers if Westfield Capital has a macroeconomist on staff. Mr. Meyers answered that the firm's

chairman essentially serves the role of the firm's in-house macroeconomist. He noted that the firm uses outside research services for various purposes, such as ISI for economic forecasts. He reported that ISI has been accurate in forecasting economic trends for Westfield Capital.

The Chairman stated that Westfield Capital has outperformed its benchmark. He asked Mr. Meyers whether the current benchmark is the best benchmark for Westfield Capital. Mr. Meyers indicated that he believes the current benchmark is the proper benchmark. Mr. Meyers explained how the market has performed over the past several years, including the performance of small cap growth stocks. He noted that Westfield Capital stuck to its disciplined approach of investing in high quality stocks, which resulted in great performance in 2007. He stated that Westfield Capital's 2007 performance helped raise its longer term numbers.

Mr. Meyers reviewed the ERS portfolio's relative sector weightings. He pointed out that health care and technology have the highest weightings. He opined that the health care sector has good valuation and growth potential. Ms. Bedford asked how the next U.S. President's health care reform will affect Westfield Capital. Mr. Meyers stated that health care reform is on the top of the firm's list of items to watch. He explained how Westfield Capital conducts weekly and special meetings to discuss emerging topics, such as health care reform. In response to the Chairman's question regarding the portfolio's overweighting in technology, Mr. Meyers stated that he is confident of his firm's weightings. He stated that while technology stocks are very volatile, not all technology stocks in the portfolio are pure technology stocks. He pointed out that there are some cheap technology stocks that have moved past the technology bubble. He noted that some technology stocks have great growth potential, especially in the international area.

In response to Dr. Peck's question, Mr. Meyers discussed Westfield Capital's process of evaluating the management of companies. He indicated that his firm looks at the track records of senior management of the companies. He also noted that the process of evaluating a company's management team varies by investment analyst.

Mr. Meyers stated that Westfield Capital will not change its process based on market fluctuations and will stay disciplined in its current approach. He indicated that Westfield Capital is trying to follow the

Pension Board's policy of utilizing minority, women-owned and Milwaukee-based brokerage firms, consistent with its duty to achieve the best execution on trades. The Chairman asked Ms. Finney-Cooke to provide Westfield Capital with an updated list of women and minority-owned brokerage firms.

The Pension Board excused Mr. Meyers and Ms. Witte from the meeting.

(b) Mercer Report

Ms. Finney-Cooke presented Mercer's Flash Report for December 2007. She stated that ERS had a market value of just under \$1.60 billion at the end of December and that ERS's aggregate market value decreased by 0.5% during December, which outperformed the reference index by 20 basis points.

Ms. Finney-Cooke noted that growth outperformed value in both the large and small cap equity markets. She pointed out that international equities dropped 2.2%, while emerging markets gained 0.4%. She indicated that Baring Asset Management was off to a good start after becoming an investment manager for ERS's international equity strategy in November. She reported that EARNEST Partners outperformed its benchmark. She reviewed the underperformance of Reinhart Partners and Artisan Partners against their benchmarks and noted that there is no reason for concern. She also stated the AQR and Westfield Capital Management both beat their benchmarks. She indicated that Hotchkis & Wiley was terminated in mid-December and the money was temporarily invested in Russell Mid Cap Value iShares while Mercer is assisting the Pension Board in looking for a replacement investment manager for Hotchkis & Wiley.

Ms. Finney-Cooke stated that Mercer and Ms. Riley are finalizing the revisions to the amendment to the ING Investment Manager Agreement, which changes the investment guidelines to allow ING to manage investments in global real estate securities instead of only domestic real estate securities. The Chairman asked Ms. Riley to discuss the ING contract. Ms. Riley stated that ERS currently has a contract with ING. She reported that ING initially sent an entirely new contract, but then ING sent an amendment to the original contract. Ms. Riley pointed out the changes from the initial contract, which included revised investment guidelines and a new fee structure. Ms. Finney-Cooke indicated that she asked for a flat fee

structure and noted that the new fee was about five basis points higher than under the current contract. She stated that the fee increase is not significant. She indicated that international investment managers charge more and that the new fee is easier to compute. The Chairman noted that ERS is "dropping the performance fee, but not ERS's expectations for performance." Ms. Finney-Cooke pointed out that ING could have asked for an additional 20 basis points for managing international real estate securities than it could for managing solely domestic real estate securities.

The Pension Board unanimously approved the amendment to the ING Investment Management Agreement, revising the investment guidelines to allow ING to manage investments in international real estate securities and altering the fee structure. Motion by Mr. Weber, seconded by Mr. Cohen.

In response to a question from the Chairman regarding the annual meeting, Ms. Finney-Cooke stated that she and Mr. Dennison will be providing a review of ERS's 2007 performance, a market commentary and an overview of the 2008 market trends.

The Pension Board excused Ms. Finney-Cooke from the meeting.

(c) Investment Committee Report

Dr. Peck reported on the January 3, 2008 Investment Committee meeting. Dr. Peck stated that Ms. Finney-Cooke and Mr. Silvestri provided the Investment Committee with a book generated by Mercer that analyzed four possible candidates to replace Hotchkis & Wiley as ERS's U.S. equity mid cap value investment manager. Dr. Peck reported that all of the candidates were rated either A or A- and that the Investment Committee chose WEDGE Capital Management and Artisan Partners as candidates for due diligence visits.

Dr. Peck indicated that the Investment Committee is looking further into the practice of securities lending. She stated that Mr. Dennison is looking at the financial implications of securities lending on ERS. The Chairman indicated that he had asked Ms. Riley to look into the wording of the securities lending agreement with the investment custodian.

Dr. Peck stated that the Artisan Partners U.S. equity mid cap value investment team located in Atlanta is different than the Artisan Partners investment team that currently serves as ERS's mid cap growth equity manager. Dr. Peck pointed out that WEDGE Capital Management is located in Charlotte.

The Pension Board unanimously approved due diligence visits for interested Pension Board members to WEDGE Capital Management and Artisan Partners as potential candidates for ERS's U.S. equity mid cap value investment manager. Motion by Ms. Beford, seconded by Mr. Parish.

In response to Ms. Mayr's suggestion, Dr. Peck agreed to add the topic of examination of divestment of investments in Sudan to a future Investment Committee meeting agenda.

7. V3 Status Report and Resource Request

The Chairman stated that Mr. Campbell would be present at the next Pension Board meeting to speak regarding the status of the implementation of the V3 project. He indicated that Mr. Campbell's V3 Status Report was included in the meeting materials.

8. Vitech Implementation Oversight Committee Report

Mr. Parish stated that the Vitech Implementation Oversight Committee has not met since the December Pension Board meeting. Mr. Parish noted that there was a meeting with Vitech regarding the status of the V3 project's implementation. He indicated that some issues were ironed out regarding Vitech's responsibility on the implementation of the V3 project. The Chairman explained the background and history of the V3 project to Mr. Mawicke. The Chairman pointed out that ERS is scheduled to have V3 functional by the end of 2008. Mr. Arena stated that the system will be externally hosted by Vitech.

9. Report of the Task Force on Pension Funding

Mr. Cohen reported that the Task Force on Pension Funding has not met since the last Pension Board meeting. Ms. Mayr stated that on January 3, 2008, state legislation was introduced that would allow Milwaukee County to issue pension obligation bonds. She pointed out that the State Assembly passed this legislation on January 8. She indicated that the State Senate will vote on the legislation in early February. She noted that the Governor has indicated that he will sign the legislation.

Ms. Mayr expressed concern about achieving the anticipated rate of return when using pension obligation bonds. The Chairman asked Ms. Riley to educate the Pension Board on the issues surrounding, and the mechanics involved with, pension obligation bonds. Mr. Metz stated that there has been no advertisement for public comment on pension obligation bonds, nor has the public been invited to comment on pension obligation bonds. He expressed his concern over the long-term nature of the bonds. Mr. Loeffel indicated that he received his information regarding the status of the legislation on pension obligation bonds on the website of the Wisconsin State Legislature.

Mr. Domina indicated that Ms. Riley will provide a report to the Pension Board on the implications of and issues related to pension obligation bonds. The Chairman stated that the Pension Board is not a lobbying organization and that the ERS members and retirees should make their views known.

10. Audit Committee Report

Mr. Parish, the Chairman of the Audit Committee, stated that the Audit Committee has not met since the last Pension Board meeting. He and Mr. Weber reported that the investment custodian RFP was sent out to seven recipients. Mr. Huff indicated that he had contacted Mr. Wally Morics, the City of Milwaukee Comptroller and member of the City of Milwaukee's Employees' Retirement System, at the request of Mr. Parish. Mr. Huff stated that Mr. Morics has agreed to serve on the investment custodian RFP evaluation panel.

11. Buck Contract Amendment – Fees

Mr. Domina reported on the Buck contract amendment and discussed the regular COLA adjustment fee increase. He indicated that Mr. Grady will provide the Pension Board with more information on the Buck contract amendment. The Chairman stated that the Buck contract amendment will be discussed at the next Pension Board meeting.

12. Administrative Matters

(a) Continuing Education/Board Retreats/Training and Professional Organizations

The Chairman reported that the International Foundation of Employee Benefit Plans will be hosting an Investments Institute that will take place in San Francisco from April 14-16, 2008.

The Pension Board unanimously approved the attendance of any Pension Board member at the International Foundation of Employee Benefits Plan's Investments Institute. Motion by Dr. Peck, seconded by Ms. Bedford.

(b) November Pension Board Meeting Date Change

The Chairman noted that the proposed November Pension Board meeting date on November 19, 2008⁷ conflicts with the International Foundation of Employee Benefit Plan's annual conference. He indicated that the meeting date could be rescheduled to November 12, 2008.

The Pension Board unanimously approved rescheduling the November Pension Board meeting from November 19, 2008 to November 12, 2008. Motion by Mr. Cohen, seconded by Ms. Bedford.

13. Future Topics

Ms. Mayr suggested adding legislation relating to Darfur to the future topics list.

The Vice Chairman moved that the Pension Board adjourn into closed session for the purpose of receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation and for considering the financial, medical, social or personal histories or disciplinary data of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories or data.

The Board voted 6-0-1 by roll call vote, with Ms. Mayr abstaining, to enter into closed session to discuss items 14, 15, 16, 17 and 18. Motion by Mr. Weber, seconded by Ms. Bedford.

14. Ernest Herre Appeal of Denied Buy In

The Pension Board discussed Mr. Herre's buy in appeal in closed session.

Upon returning to open session, the Pension Board acknowledged receipt of the following information from legal counsel. The Employees' Retirement System of the County of Milwaukee is governed by the Milwaukee County General Ordinances and the applicable Rules. ERS Rule 207 contains the time periods during which a member is allowed to complete a buy in of service credit for "optional time" and receive service credit. Rule 207 also

requires that a member must be an active employee to apply for a buy in. Ordinance section 201.24(12.4)(1)(b) limits the amount a member can contribute to his or her membership account to 25% of his or her annual County compensation. The Milwaukee County Pension Board sunset the buy in program effective December 31, 2006. No buy in applications are accepted after that time.

Ernest Herre claims that he inquired about service credit on August 25, 2003 and that he sent a subsequent letter request on July 29, 2007. The Retirement Office denied his request in a letter dated September 20, 2007.

Ernest Herre has appealed the initial denial of his buy in request. The Pension Board reviewed all of the facts and circumstances of Mr. Herre's appeal of his denied buy in request.

In open session, the Pension Board voted 6-0-1, with Ms. Mayr recusing herself, to deny the buy in appeal of Ernest Herre on the basis that allowing such a buy in would now violate and/or would have in 2007 violated (a) Rule 207 by allowing a retired member to make buy in payments; and (b) the 25% of compensation limitation contained in Ordinance section 201.24(12.4)(1)(b). Motion by Mr. Cohen, seconded by Dr. Peck.

15. Gregory Otto Appeal of Denied Buy In

The Pension Board discussed Mr. Otto's appeal in closed session.

Upon returning to open session, the Pension Board acknowledged receipt of the following information from legal counsel, in addition to the background legal counsel presented with respect to Mr. Herre's buy in appeal. The Ordinances do not allow ERS to accept payments from a member's account in the County's 457 deferred compensation plan ("457 Plan") or a member's individual retirement account ("IRA"). The Milwaukee County Pension Board also has adopted procedures to govern the administration of members' in process buy ins with previously accepted 457 Plan payments.

In December 2005 and August 2006, Gregory Otto made requests to purchase service credit for time worked as a seasonal worker between July 9, 1971 and August 4, 1978 for the Milwaukee County Parks System. The Retirement Office denied Mr. Otto's request in a letter dated August 28, 2007. Gregory Otto has appealed the initial denial of his buy in request. The Pension Board reviewed all of the facts and circumstances of Mr. Otto's appeal of his denied buy in request.

In open session, the Pension Board unanimously agreed to deny the buy in appeal of Gregory Otto, and return, to the extent permissible by applicable law, Mr. Otto's initial buy in payment of \$7,200.76, on the basis that allowing such a buy in would now violate and/or would have in 2007 violated (a) Rule 207 by allowing a retired member to make buy in payments after his pension commencement date; (b) the 25% of compensation limitation contained in Ordinance section 201.24(12.4)(1)(b); and (c) the prohibition against accepting 457 Plan payments or IRA payments. Motion by Mr. Cohen, seconded by Mr. Parish.

16. Pending Litigation

The Board discussed the following pending litigation in closed session:

- (a) Milwaukee County, et al. v. Mercer Human Resource Consulting
- (b) Hanson v. ERS

17. Report on Special Investigation

The Board discussed the report on special investigation in closed session.

18. Report on Compliance Review

The Board discussed the report on compliance review in closed session.

19. Adjournment

The meeting adjourned at 11:45 a.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board