

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE APRIL 18, 2007 PENSION BOARD MEETING

1. Call to Order

Chairman Dean Roepke called the meeting to order at 8:30 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
John Martin (Vice Chairman)
Marilyn Mayr
Michael Ostermeyer
John Parish
Dr. Sarah Peck
Dr. Dean Roepke (Chairman)
Thomas Weber

Members Excused:

None

Others Present:

William Domina, Corporation Counsel
Mark Grady, Principal Assistant Corporation Counsel
Dr. Karen Jackson, Human Resources Director
Gordon Mueller, Fiscal Officer
Vivian Aikin, ERS Administrative Specialist
Donald Campbell, ERS Project Manager
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Chris Trebatoski, Gonzalez, Saggio & Harlan LLP
Ken McNeil, Susman Godfrey L.L.P.
Terry Dennison, Mercer Investment Consulting
Kristin Finney-Cooke, Mercer Investment Consulting
Ken Roehner, Mellon Global Securities Services
Todd Rossignol, Mellon Global Securities Services
Jacques Bourget, Mellon Global Securities Services
Ken Loeffel, Retiree
Louis Metz, Retiree
Nancy Beck-Metz
Florence Ignarski, Retiree
Cliff VanBeek, Retiree
Steven Schultze, Milwaukee Journal Sentinel

3. Closed Session

The Chairman stated that, pursuant to Wisconsin Statute Section 19.85, the Board could enter closed session to confer with legal counsel, who is rendering oral or written advice regarding strategy to be adopted with respect to litigation in which it is involved. The Board unanimously agreed by roll call vote to go into closed session to further consider item 4.

4. Legal Update – Pending Litigation

The Board discussed the Mercer Human Resources Consulting lawsuit in closed session

5. Chairman's Report

(a) Anticipation of Actuarial Report and Call of Special Meeting

The Chairman described the expected actuarial report from Buck Consultants. He indicated that actuarial assumptions would be addressed at the May 16, 2007 meeting. Additionally, the Board will hold a special meeting to receive the actuarial report from the actuary before June 1, 2007. Mr. Grady noted that the Pension Board's report and contribution request should be submitted to the County Board Chairman in early to mid June.

(b) Annual Pension Board Meeting - 2008

The Chairman presented a letter from the Milwaukee Zoo Concessions and Catering Coordinator regarding perceived difficulties encountered at the annual Pension Board meeting. The Chairman also reported comments that he had received regarding changing the format of the annual meeting.

In response to a question from Mr. Martin, Mr. Grady and Mr. Huff indicated that there is no statutory or Ordinance requirements to hold the type of annual meeting that had been held in February. The Board discussed whether food should be provided at the meeting. Ms. Mayr compared the annual meeting to the annual shareholders' meeting of a corporation. She indicated that it is the only opportunity for retirees to learn about the status of the fund. She stated that the City of Milwaukee ERS sends out a newsletter regarding its retirement system. The Board discussed retirees' opportunities to review the annual report and attend regular Pension Board meetings. Dr. Jackson suggested pursuing use of a newsletter as an alternative to the annual meeting.

Mr. Loeffel suggested outlining and posting ground rules for the meeting more clearly. The Board also discussed crowd control at the annual meeting. Mr. Loeffel offered to include a notice in the REMCO newsletter regarding expectations for behavior. In response to a question from Mr. Ostermeyer, Mr. Mueller indicated that the cost of the annual meeting is generally \$3,000 to \$4,000.

The Board unanimously agreed to lay over the issue to a future meeting and to review the cost and other issues related to the annual meeting. Motion by Mr. Martin, seconded by Ms. Bedford.

(c) Director of Employee Benefits

The Chairman reported that Beth Thorson Aldana has been confirmed as the Director of Employee Benefits for Milwaukee County. In this role, Ms. Thorson Aldana will be responsible for health benefits and ERS and will report to Mr. Henken in the Department of Administrative Services.

6. Approval of Minutes of March 21, 2007 Meeting

The Board reviewed and approved the minutes of the March 21, 2007 Pension Board meeting, 7-0-2, with Ms. Bedford and Mr. Ostermeyer abstaining due to being absent from the meeting. Motion by Mr. Martin, seconded by Mr. Parish.

7. Report of Retirement Systems Manager

(a) Ratification of Retirements Granted

Mr. Hohrein presented the Retirements Granted report for the prior month's retirements and asked the Board to review them.

The Board unanimously accepted the Retirements Granted report. Motion by Mr. Martin, seconded by Mr. Weber.

(b) Report on Waivers

Mr. Hohrein reported that no waivers had been submitted this month.

(c) Allocation of Project Manager's Service Fees

The Board noted that Mr. Campbell's hours for the life and health module should be recorded separately from the hours he spends on retirement projects. Dr. Jackson indicated she would assure that he does so.

(d) ADR Update Report – Frankie Williams – Action Item

Mr. Hohrein reported that he had contacted Frankie Williams several times regarding her failure to submit earnings reports and asked whether the Board would approve suspension of her pension benefits until she complied with the request. He indicated that she had not claimed the certified letter he sent informing her that her pension may be suspended.

The Board discussed whether to send a notice via registered mail or personal service. Mr. Huff suggested that the Retirement Office could send Ms. Williams the IRS form to sign that would allow ERS to obtain her tax return.

Mr. Weber made a motion to lay the issue over to a future meeting, which was seconded by Ms. Bedford. The motion failed 2-6-1, with Mr. Martin, Ms. Mayr, Mr. Parish, Dr. Peck, Mr. Cohen and Mr. Ostermeyer dissenting and the Chairman abstaining.

Ms. Mayr moved to suspend Ms. Williams's benefit payment until she submits her earnings report, seconded by Mr. Cohen. The motion was amended by Mr. Ostermeyer to provide that personal delivery of the letter requesting the form should be effected by someone other than the Retirement Office and that Ms. Williams's benefits should be suspended if the signed form is not received within a reasonable time period. The motion passed 8-1, with Mr. Weber dissenting.

8. Report on Task Force on Pension Funding

Mr. Cohen reported regarding the Task Force on Pension Funding. He indicated that he had attended the first meeting, but not the most recent. He stated that the Task Force is trying to meet every three weeks. The Chairman reported that Mr. Hohrein plans to attend the meetings as well. Mr. Van Beek raised a question regarding the \$100,000 appropriation for the purchase of pension fund analysis services. The Chairman explained that the appropriation was not made out of ERS funds.

Mr. Grady stated that a County Board resolution had been passed regarding the Task Force. In response to a question from Ms. Mayr, Mr. Grady explained that the ERS Ordinances did not require Pension Board approval of the resolution. The Board discussed the funding percentages cited in the recitals of the resolution. Dr. Roepke repeated an earlier comment on the need to work with County government regarding education on ERS.

9. Investments

(a) Mercer Report

Kristin Finney-Cooke presented the Flash report for March 2007. She noted that ERS had an aggregate market value of approximately \$1.6 billion at the end of March, representing a 0.6% gain during March, trailing the reference index by 0.3%.

Ms. Finney-Cooke also reviewed market performance for March 2007. She explained that the large cap domestic equity market gained 1.0% during the month and small cap equities increased 1.1%. She indicated that value outperformed growth in both the large cap and small cap arenas. She stated that the international equity markets gained 2.6% and emerging market equities advanced 4.0%. She also explained that the investment grade fixed income market held steady during March and high yield issues slightly outpaced the broad market, gaining 0.2%.

Ms. Finney-Cooke next reported on ERS's portfolio performance. She noted that most performers were slightly behind their benchmarks, but that Artisan was slightly ahead and GMO and Westfield were in line with the benchmarks. The Board discussed the effect of market turbulence, consumer debt, risk and value premiums on performance.

Finally, Ms. Finney-Cooke discussed ERS's asset allocation. She noted that ERS was underweight in core fixed income at the end of March, relative to ERS's investment policy. She explained that Mercer recommends that ERS source the \$5 million needed for benefit payments at the end of April from the mid cap segment of the plan, including \$2 million each from EARNEST Partners and Hotchkis & Wiley and \$1 million from Artisan.

(b) Investment Committee Report

Mr. Martin described the minutes of the April 5, 2007 Investment Committee meeting. He explained that Mercer had presented information on eight manager prospects to replace Capital Guardian. The Committee considered BGI, AQR, Baring and Fidelity as finalists. After conducting a performance review, the Committee dropped Fidelity as a finalist and recommended AQR, Baring and BGI as finalists, in that order. Ms. Finney-Cooke indicated that AQR would require \$100 million for a separate account arrangement. She reported that AQR is revising its commingled account to address many of the issues raised previously by the Board. If those issues could not be resolved, ERS could utilize a separate account.

The Board discussed the finalists and dropped BGI from the list due to uncertainty over capacity. The Board decided to proceed with due diligence visits of AQR and Baring in a U.S. location.

10. Audit Committee Report

(a) Audit Committee Meeting Minutes.

Mr. Parish presented the minutes of the March 29, 2007 Budget, Audit and Compliance Committee meeting. He noted that the Committee had discussed the Request For Proposal ("RFP") for Investment Custodial Services. The Committee Chairman stated that Mr. Hohrein and Mr. Mueller would prepare the first draft of the RFP. Mr. Mueller provided the Committee with a handout of services and pricing for custodians.

(b) Educational Session on Investment Custodian Services – Mellon

Ken Roehner, Todd Rossignol and Jacques Bourget from Mellon Global Securities Services presented to the Board on Mellon's custodial services. They described Mellon's financial profile and performance. The custodian indicated that it has \$5.48 trillion under custody, administration or management. The representatives discussed the merger with The Bank of New York. They noted that Mellon will be the largest custodian in the business after the merger. The Mellon representatives also pointed out that Mellon has been ranked number one in service for several years.

Messrs. Roehner, Rossignol and Bourget described the key services of a global custodian and the products and services currently provided to ERS. They also explained how a typical transaction works and how technology is used in conducting transactions and communicating with clients.

The Mellon representatives discussed proxy voting and class action lawsuits. They explained that Mellon is responsible for filing claims in lawsuits, unless it is directed to opt out or act as lead plaintiff on behalf of a client. In response to a question from Dr. Peck, Mr. Bourget explained that clients can review how managers have voted proxies through web-based tools. Messrs. Roehner, Rossignol and Bourget also discussed training opportunities available for clients. In response to a question from Mr. Weber, Mr. Bourget explained how the Board can obtain access to the workbench tools. Mr. Weber indicated he is impressed with the responsiveness of the Mellon presenters.

11. Report of Fiscal Officer – Cash Flow – Liquidity

Mr. Mueller provided a handout regarding cash sources for second quarter 2007, which described the recommendation by Mercer. He noted corrections to the handout. He indicated that Mercer recommended taking \$1 million from Artisan Partners and \$2 million each from EARNEST Partners and Hotchkis & Wiley for April 2007 and \$5 million from the Loomis high yield account for May 2007. He noted that no cash was requested for June 2007 due to anticipated County contributions.

12. Implementation of New Technology Software

Mr. Campbell presented a report to the Board on the status of the Vitech implementation. He stated that the V3 detailed specification review is 20.5% complete. He noted that the Retirement Office was about to start reviewing pension documents, which make up the largest portion of the specification documents to be reviewed. He also explained that Corporation Counsel is reviewing certain documents before adding them to the system.

Mr. Campbell reviewed the Vitech project costs. He noted that ERS had locked in cost overruns over fixed costs at \$250,000 versus hundreds of thousands of dollars. Mr. Grady mentioned that he is reviewing whether the contract should be revised. Mr. Campbell explained that it will take several months to review the files in the records room before they are imaged.

The Board unanimously approved funding to review documents in the records room for imaging. Motion by Mr. Weber, seconded by Ms. Bedford.

Mr. Campbell also explained that 800 to 1,000 test scripts must be run and verified. He noted that Vitech will release new software every two months because it would be too time intensive to run the test scripts manually. He explained that a script could be built into the tool to test every single function performed by ERS and that the script would be set up and run by the systems administrator.

13. Vitech Implementation Oversight Committee report

Mr. Martin presented a report from the Vitech Oversight Committee, which includes Mr. Hohrein, Mr. Mueller, IMSD representatives and Mr. Martin, who represents the Pension Board's interests. Mr. Martin reported that the Oversight Committee is very focused and it understands well how Vitech interrelates with administration. He explained that the County has committed to paying for any health and life interface, including Mr. Campbell's time.

14. Disability Applications or Reexaminations

Mr. Hohrein reported that there were no disability applications or reexaminations.

15. Administrative Matters

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

The Chairman reported that an International Foundation of Employee Benefit Plans investment seminar would be held next week in West Virginia. The Board also discussed the Vitech User Conference. Mr. Hohrein recommended that Bob Shupe and Denise McCaskill attend this year's conference, on June 6-8, as primary computer system operators for ERS.

The Board unanimously approved the attendance of Mr. Shupe, Ms. McCaskill and any interested Board member at the Vitech User Conference and the attendance of any interested Board member at the International Foundation seminar. Motion by Mr. Martin, seconded by Ms. Bedford.

In response to a question from Ms. Mayr, Mr. Mueller and Dr. Jackson stated they believed the conference provides training without cost.

The Board also discussed a seminar on infrastructure investment education, in which Ms. Bedford and Dr. Peck were interested. Ms. Bedford indicated she could get additional information from Mercer on the seminar.

The Board agreed, 8-0-1, to approve attendance for Ms. Bedford and Dr. Peck at the infrastructure investment seminar, with Ms. Mayr abstaining. Motion by Mr. Martin, seconded by Mr. Weber.

(b) Future Board Topics

Ms. Mayr suggested that the Board review the meaning of "economically-targeted investments."

16. Closed Session.

The Chairman stated that, pursuant to Wisconsin Statute Section 19.85, the Board could enter closed session to confer with legal counsel, who is rendering oral or written advice regarding strategy to be adopted with respect to litigation in which it is or is likely to become involved. The Board unanimously agreed by roll call vote to go into closed session to further consider items 15 and 16.

17. Robert Winkler for Interest on Back DROP

The Board discussed Mr. Winkler's request for interest on his lump sum back DROP benefit in closed session.

18. Legal Update

The Board discussed proposed Ordinance amendments and also discussed pending litigation in closed session. Ms. Mayr left the meeting during closed session.

Upon returning to open session, the Board agreed 8-0 to submit the proposed Ordinance amendments to the County Board Chairman, along with a letter from Chairman Roepke and ultimately an actuarial cost determination, and to recommend that the County Board adopt the amendments. Motion by Mr. Weber, seconded by Ms. Bedford.

19. Adjournment

The meeting adjourned at 2:55 p.m.

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