

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE MARCH 21, 2007 PENSION BOARD MEETING

1. Call to Order

Chairman Dean Roepke called the meeting to order at 8:41 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, WI 53202.

2. Roll Call

Members Present:

John Martin (Vice Chairman)
Marilyn Mayr
John Parish
Dr. Sarah Peck
Dr. Dean Roepke (Chairman)

Members Excused:

Linda Bedford
Donald Cohen
Michael Ostermeyer
Thomas Weber

Others Present:

Dr. Karen Jackson, Acting Human Resources Director
Mark Grady, Principal Assistant Corporation Counsel
Jack Hohrein, ERS Manager and Pension Board Secretary
Vivian Aikin, ERS Administrative Specialist
Veronica Britt, ERS Coordinator
James H. Martin, Fiscal & Management Analyst (DAS)
Gordon Mueller, Fiscal Officer
Gregory Storm, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Terry Dennison, Mercer Investment Consulting
Kristin Finney-Cooke, Mercer Investment Consulting
Floyd Dukes, Artisan Partners
Ken Loeffel, Retiree
Ms. Lewis-Metz, Retiree
Joe Sartza, Retiree
Cliff VanBeek, Retiree

3. Chairman's Report

(a) Position Paper on ERS Administration and Related Issues.

The Chairman reviewed a position paper which addressed six issues regarding the administration of ERS and the fiduciary responsibility of the Board. The Chairman stated that he, Dr. Peck and Mr. Martin met with Robert Henken regarding these items separately.

The Chairman noted that a Director of Employee Benefits will be appointed in the near future to assist with all County benefits issues. The Chairman also informed the Board that he and Mr. Martin had invited Supervisor Roger Quindel to meet with interested members of the Finance Committee, Pension Study Commission and Pension Board to discuss benefits issues.

The Chairman explained that a new County Board authorized committee, the Pension Task Force, was being developed and that Mr. Cohen is to be the Pension Board's representative on the Committee. Mr. Grady explained that the Pension Task Force was authorized by the County Board primarily to explore the use of pension funding bonds. In response to Dr. Peck's request, Mr. Grady indicated that he would provide the Board with a copy of the Pension Task Force Ordinance or resolution. Ms. Mayr requested that the Board receive regular reports from Mr. Cohen on the Pension Task Force.

(b) Mercer Personnel Change – Brad Blalock

The Chairman explained that Mr. Blalock was leaving Mercer to become a public funds manager at Morgan Stanley. He reported that Mercer proposed to replace him with Mr. Dennison, who is a native of Milwaukee with over nineteen years of experience with Mercer.

(c) Vitech Implementation Oversight Committee

Mr. Martin reported that a Vitech Implementation Oversight Committee had been formed to monitor the Vitech implementation. He noted that a number of people attended the first meeting, including himself, Dr. Jackson, Donald Campbell, Ms. Britt, Mr. Henken, and Mr. Mueller. In response to a question from Ms. Mayr, Mr. Martin indicated that the Board would receive regular reports regarding the committee.

4. Approval of Minutes of February 14, 2007 and February 21, 2007 Meetings

The Board reviewed and unanimously approved the minutes of the February 14, 2007 Pension Board meeting and the February 21, 2007 Annual Pension Board meeting. Motion by Mr. Martin, seconded by Mr. Parish.

5. 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. He stated that no back DROP requests were made this month and that 72 people had retired in 2007.

Mr. Martin inquired regarding Mr. Nagel's pension from the City of Milwaukee's retirement plan. Mr. Hohrein explained that Mr. Nagel received more than \$60,000 in overpayments from the City. He noted that when Mr. Nagel begins to receive his County pension, he will repay the City.

In response to a question from the Chairman, Mr. Hohrein indicated that the report includes Mr. McCann's retirement. Mr. Grady reminded the Board that it had declined to accept Mr. McCann's month-to-month waiver and noted that Mr. McCann was free to return money to the County as a charitable contribution.

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

(b) Report on Waivers

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

(c) Recommendation on Allocation of Administrative Expenses

Mr. Hohrein distributed a report on his recommendation regarding the allocation of administrative expenses back to ERS. He explained that he typically presents most expenses to the Board for its determination as to payments. Mr. Hohrein commented that he would like guidance from the Board regarding how to address small dollar amounts of expenses to be allocated to ERS. The Chairman

indicated that the matter will be referred to the Audit and Compliance Committee.

(d) ADR Update Report

Mr. Hohrein presented an update on the accidental disability retirement earnings reports. He noted two individuals whose files remained open. However, he stated that those individuals will likely have their files closed with no additional action needed.

Mr. Hohrein also noted that three retirees, Coleen Babich, Richard Schmit and Barbara Adamski, had been referred to Corporation Counsel for negotiation.

6. Investments

(a) Investment Manager Report – Artisan Partners

Mr. Dukes made a presentation regarding Artisan Partners ("Artisan"). He distributed an investment review report to the Board. Mr. Dukes explained that Artisan manages approximately \$50 billion in assets. He noted that \$10.8 billion is in mid-cap growth investments, which are closed to new searches. He noted that there have been no significant changes in management except that Roderick Brower joined the team in September 2006.

Mr. Dukes stated that Artisan's investment philosophy remains investing through an established, repeatable process of security selection, capital allocation and broad diversification.

Dr. Peck noted that Artisan's portfolio sometimes veers from the benchmark sector allocation, and she inquired why Artisan overweights or underweights a certain sector. Mr. Dukes explained that Artisan invests in a "bottom up" manner, valuing the quality of the underlying security rather than an industry or a sector. He stated that the portfolio is significantly overweight in technology investments right now because of the specific security selection. He indicated, however, that the portfolio will never be overweighted in a particular industry to the point that allocation doubles the benchmark for the industry.

Mr. Dukes explained that Artisan believes in its technology based investments. He stated that these companies and this sector had experienced double digit growth in productivity that is not reflected in the stock prices, while still acknowledging 2006 was a tough year

for technology investments. On the whole, Artisan is comfortable with its exposure to technology investments.

Mr. Dukes next discussed the overall composition of the portfolio. He stated that technology exposure has hovered between 20-25%, while the index was currently at 13.8%. He explained that the portfolio has generally stayed solid and that value has outperformed growth recent years.

Mr. Dukes also reported on specific performance. He noted that McDermott and Precision Castparts continued to benefit from strong pricing and order backlog. In addition, he stated that Bunge and Amazon traded higher on positive earnings reports and improved outlooks. Finally, he commented that underperformers reflect the market's general weakness in electronics and technology and outperformers denote exposure to energy infrastructure, telecommunications and data services.

Mr. Blalock asked Mr. Dukes to comment regarding assets in mid cap. Mr. Dukes noted that the asset base was down from \$10.8 billion to \$10.4 billion and that Artisan had lost some client assets, but Artisan is not reopening the strategy.

(b) Mercer Flash Report

Ms. Finney-Cooke distributed the flash report for February 2007. She indicated that ERS had an aggregate market value of approximately \$1.6 billion at the end of February, representing a 0.3% increase during February, matching the Reference Index.

Ms. Finney-Cooke also reviewed market performance for February 2007. She explained that the large cap domestic equity market declined 1.7% during the month, while small cap equity was down 0.8% in January. In addition, value outperformed growth in the large cap arena while growth outperformed value in the small cap arena. She noted that international investment grade fixed income gained 1.5% during the month and high yield issues slightly trailed the broad market, gaining 1.4%.

Ms. Finney-Cooke next reported on ERS's asset allocation. She noted that ERS was underweight in core fixed income at the end of February, relative to ERS's investment policy.

She noted that an international equity manager search for a replacement for Capital Guardian will be presented at the next Investment Committee meeting.

In response to a question from Dr. Peck regarding Artisan's approach, Ms. Finney-Cooke explained that in a "bottom up" strategy, the manager will not look to macroeconomic analysis because that analysis would be counter to the overall fund investment strategy.

Mr. Grady asked whether the Board should be concerned with Artisan's performance. Overall, the Mercer representatives determined that Artisan's performance was not a cause for concern and stated that Artisan has a good process. Mr. Blalock noted that Artisan may have grown its mid-cap value portfolio too large, which could have affected recent performance.

The Chairman asked for a qualitative analysis of mid-cap managers. Mr. Blalock stated that Artisan had done well at the lower asset numbers and then started to struggle when assets grew. He noted that all mid-cap managers are struggling, except for Reinhart, and that Hotchkiss just lost a major analyst.

(c) Investment Committee Report

Mr. Martin distributed the minutes of the March 1, 2007 Investment Committee meeting. He noted that the committee had received Chairman Holloway's letter regarding investment in Midwest Airlines. The Investment Committee had agreed to place the letter on file and noted that the Pension Board relies on professional investment manager firms to select securities for inclusion or exclusion from the ERS portfolio based on adequacy of potential returns and the generation of income with which to pay benefits.

The Investment Committee had received a document entitled "Supplement to GMO Trust Prospectus" from June 30, 2006 regarding the GMO Global Balanced Asset Allocation Fund. Mr. Martin observed that the Mercer representatives had informed the committee that GMO did not manage fixed income investments for ERS and Mr. Hohrein would contact GMO to clarify the purpose of the notice.

Mr. Martin explained that Mr. Paul Carbone, of Baird Capital Partners, presented an educational report to the Investment

Committee on private equity investments and reviewed the information presented.

Finally, Mr. Martin informed the Board that the Investment Committee discussed possible replacement candidates for Capital Guardian. The committee reviewed performance and other aspects of each candidate.

7. Pension Board Retreat – Scheduling and Agenda Topics

Ms. Aikin distributed an update on the planning for the Board retreat in August and made a presentation to the Board. She noted that the proposed date for the retreat was Friday, August 24, 2007 and that two sites were available for the event. Ms. Aikin explained that both sites, the American Club and the Grand Geneva Resort, were approximately one hour from Milwaukee and were comparable in terms of cost.

Ms. Mayr informed the Board that REMCO members requested that the Board retreat be held in Milwaukee County. Mr. Martin commented that the retreat will only be educational in its nature. The Chairman indicated that even though the retreat would be educational only, the open meetings laws require that the meeting be open to the public. Mr. Grady agreed, stating that the Board can note that the retreat is informational only, but that the public is welcome to attend. The Board discussed alternatives to the two locations presented.

The Board unanimously voted to negate the recommendation of the two locations for the Board retreat and agreed to table discussion of the retreat to a future meeting. Motion by Mr. Martin, seconded by Dr. Peck.

8. Report of Fiscal Officer

(a) Cash Flow – Liquidity

Mr. Mueller presented the cash flow report. He informed the Board that \$2 million would be paid out in lump sum payments this month. He stated that ERS would need a total of \$5 million over the months of April and May instead of May and June, as previously requested. He explained that March is a heavy cash flow month because many people retire in December and then use sick time and vacation time to accumulate service until March when they begin their pension. The Board discussed reviewing cash flow needs with Mercer.

The Board noted that Mellon holds the liquid assets for ERS's monthly liquidity needs. The Board discussed the amount that should be available at all times and whether specifics regarding that amount should be included in the request for proposal. Mr. Mueller explained that ERS does not have a liquidity need until mid-April as \$5 million was already moved from Loomis Sayles for March liquidity needs.

The Board unanimously agreed to withdraw \$10 million for the April, May and June liquidity needs from an asset fund to be determined by Mercer. Motion by Ms. Mayr, seconded by Mr. Parish.

Mr. Loeffel noted that to put more stability to the process, the Board may wish to ask Mr. Mueller for an expectation of ERS's cash needs at the May meeting to give Mercer more time to locate funds. Mr. Loeffel also suggested that the Board determine what is needed in the two month reserve and the Board discussed this issue.

(b) Reimbursement of County Paid Administrative Expenses

Mr. Mueller distributed a schedule regarding reimbursement of ERS administrative expenses paid by the County. He noted that the majority of the expenses were for salaries, wages and benefits and Corporation Counsel. Mr. Mueller recommended that the Board pay the expenses in a lump sum.

In response to a question from the Chairman, Mr. Mueller explained that each county division is now responsible for paying for its retiring employees' retirement plaques.

The Board unanimously agreed to make a lump sum payment to the County for the administrative expenses paid by the County in 2006. Motion by Mr. Martin, seconded by Dr. Peck.

9. Legal Update

Mr. Grady noted that the *Hanson v. ERS* case was added to the legal update. He stated that Reinhart Boerner Van Deuren s.c. is representing the Board and Corporation Counsel is representing the County. In response to a question from Ms. Mayr, Mr. Grady indicated that Reinhart Boerner Van Deuren s.c. is investigating whether there is any connection between the *Hanson* case and the Baldwin situation.

10. Disability Applications or Reexaminations

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

11. Discussion on Chapter 58

Mr. Grady explained that Milwaukee County Ordinance Chapter 58 created ERS in 1973 as a separate department. He noted that, sometime around 2000, Chapter 58 was amended to its current form. He stated that the County Board of Directors will soon make another change to reflect the recent County budget and the reporting obligations of the newly created Employee Benefits Director, the DAS Director and the ERS manager.

The Chairman suggested discussing the changes. He noted that best practices indicate that someone in Mr. Hohrein's position should report to the Board to allow for the best satisfaction of the Board's fiduciary responsibilities. He suggested that the County should return Chapter 58 to its prior language, in which the ERS Manager is a County employee, but he is directly responsible first to the Board, not to the County.

The Chairman passed the gavel to the Vice Chairman.

The Board unanimously agreed to have a representative of the Board make a request to the County Board Chairman that Chapter 58 be returned to its original version. Motion by Dr. Roepke, seconded by Dr. Peck.

The Vice Chairman returned the gavel to the Chairman.

12. Implementation of New Technology Software

Mr. Campbell's report regarding the V3 project status was distributed. In response to a question from Mr. Loeffel, the Chairman indicated that the report was public record. Mr. Hohrein reported to the Board that Mr. Campbell asked to be excused from this Board meeting because of his intent to prepare the Vitech life/health module for the County. The Chairman granted this request.

Mr. Hohrein informed the Board that two Vitech invoices include a reference to a life/health timeline. He explained that Mr. Campbell informed him that minimal time was spent on the life/health module. Mr. Grady and Mr. Hohrein recommended Mr. Campbell separately account for his time on a going forward basis. Mr. Martin agreed that this approach is practical and consistent with Mr. Grady's advisory

memorandum regarding the cost of administrative expenses. Mr. Martin further commented that Mr. Campbell needs to document his time to clarify when he is working for the Board and when he is working for the County.

The Board discussed for whom Mr. Campbell works and whether it would be beneficial for him to have a second contract with the County for his life/health work. It was noted that the County will determine its plan for Vitech and Mr. Campbell regarding the health/life work next month.

Mr. Hohrein stated that he would draft a letter for Mr. Grady's review indicating that the Board will pay the two invoices, but notifying Mr. Campbell that future bills should be divided between the Board and the County.

13. Administrative Matters

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

The Chairman presented a request from Mr. Hohrein to attend a seminar presented by the Trustees and Administrators Institute on June 11-13, 2007 in Las Vegas, Nevada.

The Board unanimously approved Mr. Hohrein's attendance at the Las Vegas seminar. Motion by Mr. Martin, seconded by Dr. Peck.

(b) Future Board Topics

The Board discussed the following possible future topics:

- Update on Ordinance Amendments
- Custodial RFP Update
- Educational Topics
- Search for Capital Guardian Replacement

14. Adjournment

The meeting adjourned at 1 p.m.

Submitted by Gregory A. Storm, sitting for Steven D. Huff,
Assistant Secretary to the Pension Board