

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE JANUARY 19, 2005 PENSION BOARD MEETING

Chairman Walter Lanier called the meeting to order at 8:20 a.m. in Room 203-R of the Milwaukee County Courthouse.

1. Roll Call

Members Present:

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

Members Excused:

None

Others Present:

Charles McDowell, Director of Human Resources
Gloria Morris, Retirement Coordinator
Howard Felix, Interim Benefits Manager
Gordon Mueller, Fiscal Officer, Employees' Retirement System
An Too, Milwaukee County
Mark Grady, Principal Assistant Corporation Counsel
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner
Brad Blalock, William M. Mercer, Inc.
Patrick Race, William M. Mercer, Inc.
Kristin Finney, William M. Mercer, Inc.
Brian Price, Gonzales, Saggio & Harlan LLP
Michael Howden

2. Approval of Minutes of December 15, 2004 Meeting

The Board unanimously approved the minutes of the December 15, 2005 Pension Board meeting, as amended to indicate that the Board accepted, rather than approved, the benefit waivers of Richard M. O'Malley and Ed Eberle. Motion by Mr. VanBeek, seconded by Mr. Cohen.

3. Reports and Requests from Retirement System Staff

A. Retirements Granted

Ms. Morris presented the schedule of Retirements Granted for the prior month's retirements and asked that the Board ratify them. The Board requested additional information regarding retirement benefits for G. Allen Ruehle.

**The Board unanimously approved the retirements granted.
Motion by Mr. VanBeek, seconded by Mr. Martin.**

B. Fiscal Officer, Gordon Mueller 2005 Retirement System Budget

Mr. Mueller presented the cash flow report. The Board reviewed the report and discussed whether it should be examined more frequently. This item was laid over until Mercer's report later in the meeting.

C. An Too – Retirement System RFI and RFP

Ms. Too reported to the Board that she checked the references of Maximus. However, Mark Grady recommended that the Board not authorize execution of a contract with Maximus because the model contract provided by Maximus limits the liability of Maximus to the fees received by Maximus under the contract. The Board members were concerned about the limitation of liability, but recognized that similar limitations may be present in other contracts. The Chairman suggested that Ms. Too and Mr. Grady determine whether Maximus will waive the limitation of liability clause. Ms. Too asked that the Board consider selection of a fall back candidate in the event Maximus will not revise the contract. The Chairman and several other members agreed that they are not inclined to approve a second choice until it is determined whether Maximus will accept a revised limitation of liability provision.

4. Litigation Update*

The Chairman stated that the Pension Board may enter closed session to consider medical or personal histories related to disability retirement benefits or to confer with legal counsel with respect to litigation in which it is likely to become involved, provided that motions are made and carried by majority vote to convene in closed session and the Chairman announces

8. Investments, William M. Mercer

A. Investment Performance Flash Report

Mr. Race presented the Flash Report and indicated that, as of December 31, 2004, ERS assets again totaled more than \$1.5 billion. The total fund yield for ERS during 2004 was 14.0%, which is higher than the composite market index of 12.3%.

B. Manager Transition and Cash Requirements

The Board discussed ERS liquidity requirements and the transitions suggested by Mercer in its January 11, 2005 letter. In this letter, Mercer proposed that Artisan liquidate \$3.19 million for ERS benefit payments, leaving Artisan with a balance of \$48.77 million. Mercer also recommended splitting the U.S. Bancorp assets so that \$6.81 million would be returned to ERS for benefit payments, \$10 million would be sent to Reinhart & Mahoney, \$38.72 million would be sent to EARNEST Partners and the remainder, expected to be approximately \$48.72 million, would be sent to Hotchkis & Wiley. In answer to a question from Dr. Roepke, Mr. Mueller indicated that future draw-downs should not be required until April or even May because County contributions to ERS are anticipated.

The Board also discussed utilizing a transition manager to move funds more efficiently to new mid cap managers. Of the commission recapture agents currently retained by ERS, Mercer recommended that the Board use Lynch, Jones & Ryan, Inc. for the transition. Mercer also suggested reviewing the benefits of the commission recapture programs currently in place.

The Board unanimously approved the liquidity requests of \$10 million for January and February and the approach of taking amounts from three mid cap managers because mid cap is over weighted, as described in Mercer's January 11, 2005 letter. Motion by Mr. Martin, seconded by Mr. Cohen.

The Board unanimously agreed to use Lynch Jones & Ryan, Inc., an approved commission recapture firm, to transition funds from U.S. Bancorp to a new manager. This transition manager will sell from the old portfolio manager and buy for the

new portfolio manager using best execution. Motion by Mr. VanBeek, seconded by Ms. Bedford.

C. Fixed Income Allocation

The board discussed various fixed income and high yield fixed income managers. They compared the historical value added and fees of Baird and Bank One. They analyzed all options, including allocation of portions among Baird, Bank One, Mellon (in an index fund), Loomis Sayles (in a core and high yield fixed income account), NCM and Wells Fargo. The Board indicated that the concerns about Wells Fargo persist and that NCM has not achieved its benchmark after ten years as a manager and should no longer be retained. The Chairman sought consensus from the Board members. The Board determined that no funds would be allocated to NCM, Wells Fargo or Baird. All funds managed by Wells Fargo and NCM will be transferred to other managers. The Board members decided to table the question of whether to conduct due diligence trips to the fixed income managers.

The Board agreed 7-0-1 that one-third of the fixed income funds (core plus high yield) would be allocated to the Mellon Index Fund, one-third would be allocated to a combination of the Loomis Sayles high yield and Loomis Sayles core fixed income management and one-third would be allocated to Bank One, with Mr. Ostermeyer abstaining due to the requirements of Section 9.06 of the Ethics Code. Motion by Mr. Martin, second by Mr. Cohen.

D. Manager Presentations

The Board reviewed a due diligence schedule prepared by Mercer and decided that it is important to have presentations by Capital Guardian and Boston due to their performance relative to their benchmarks.

9. Pension Benefit Waivers

The Board unanimously accepted the benefit waivers of Karen Jackson and John Chianelli. Motion by Mr. Martin, seconded by Ms. Bedford.

10. Administrative Matters

A. Continuing Education

The Board voted 7-0-1 to approve the attendance of any voting member at the Emerging Managers Public Funds Summit in Phoenix, Arizona, March 13-16, 2005, with Ms. Mayr abstaining. Motion by Mr. VanBeek, seconded by Dr. Roepke.

B. Meeting Schedule

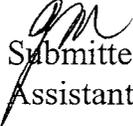
The Board agreed to reschedule the November meeting to November 9, 2005. Mr. Grady said he would look into whether the Board members appointed by the County Executive will be reappointed.

C. Role of Director of Human Resources

At the request of Mr. VanBeek, the Board requested that Mr. Huff report to the Board on the role served by the Director of Human Resources with respect to the Pension Board.

11. Adjournment

The meeting adjourned at 1:36 p.m. Motion by Mr. Martin, seconded by Mr. VanBeek.


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