

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE APRIL 20, 2005 PENSION BOARD MEETING

Acting Chairperson Linda Bedford 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
John Martin
Marilyn Mayr
Michael Ostermeyer
John Parish
Dean Roepke

Members Excused:

Walter Lanier

Others Present:

Charles McDowell, Director of Human Resources
Mark Grady, Principal Assistant Corporation Counsel
Gloria Morris, Retirement Coordinator
Ann To, Milwaukee County
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Patrick Race, William M. Mercer, Inc.
Kristin Finney, William M. Mercer, Inc.
Cliff VanBeek, Retiree
Michael Howden, Retiree
Ken Loeffel, Retiree
Kathy George, Maximus
Ray Eldridge, Maximus
William Krantz, Boston Partners
William Supple, Boston Partners
Mark Donovan, Boston Partners

2. Approval of Minutes of March 16, 2005 Meeting

The Board unanimously approved the minutes of the March 16, 2005 Pension Board meeting. Motion by Mr. Martin, seconded by Mr. Cohen.

3. Reports and Requests from Retirement System Staff

A. Ratification of Retirements Granted

Ms. Morris presented the schedule of Retirements Granted for the prior month's retirements and asked the Board to review them.

The Board unanimously approved the schedule of Retirements Granted. Motion by Mr. Martin, seconded by Mr. Cohen.

B. Director of Human Resources, Charles McDowell – Update on Staffing of ERS

Mr. McDowell reported that Jack Hohrein had been selected as the new ERS manager. Mr. McDowell explained that Mr. Hohrein is scheduled to begin his employment on May 2, 2005. In response to Ms. Mayr's question, Mr. McDowell reported that a background check had been performed by him. Ms. Mayr also asked whether the Board's subcommittee had a report to present on the selection. Dr. Roepke responded that there is no report. He indicated that the subcommittee had reviewed the resumes of the final three candidates for the ERS manager position, but had not discussed the candidates with Mr. McDowell. Dr. Roepke and Mr. VanBeek expressed their dissatisfaction with the selection process. Mr. Grady noted that selection of the ERS manager is within the authority of the Department of Human Resources.

Mr. Grady stated that the Board can appoint Mr. Hohrein or someone else as Pension Board secretary. Ms. Mayr inquired as to the status of the report on the relationship between the Board and the Department of Human Resources and asked whether the Board's relationship with the ERS manager could be addressed as well. Mr. Grady responded that the Chairman had asked Mr. Huff to put off the report until the May meeting.

4. Maximus Technology Update

Ms. George reported that the RFP was released on April 7, 2005. She stated that Maximus is working with ERS staff to determine criteria for evaluation and developing prototypes to test. Ms. George described the schedule of events involved in completing the RFP, which is attached to these minutes as Exhibit 1. Ms. Bedford noted that Pension Board members can attend the meeting to review the proposals on May 18.

Attendees will include Mr. McDowell, Dr. Karen Jackson, Ms. Morris, Gordon Mueller and Bob Schupe. Ms. Mayr asked whether scoring papers will be retained and made public. Mr. Ostermeyer indicated that the County, as custodian of the records, should retain scoring documents even if Maximus does not do so.

Ms. George indicated that Maximus plans to recommend for consideration the top three proposals, although she noted that it could range from two to five proposals, depending on the quality of the proposals. Ms. To inquired as to the possibility of holding a special Board meeting for presentation of the RFP finalists. Mr. Grady recommended deferring to the Chairman on whether to schedule an additional meeting. The Board members indicated a preference that a special meeting not be held.

Mr. McDowell requested that ERS work in tandem with the Department of Human Resources in completing the RFP process. Ms. Mayr asked that the Board members be provided with materials in advance of meetings.

The Board also discussed the possibility of sending its meeting agendas and non-confidential documents to interested parties in advance of its meetings.

5. Option 7 Benefit Request

Ms. Bedford stated that the Pension Board may enter closed session 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 the nature of the business to be considered at such closed session. By roll call vote, the Board agreed 6-1, with Ms. Mayr dissenting, to enter closed session to discuss Items 5 and 6.

During closed session, the Board discussed the application of the standards set forth in Rule 1035 to Option 7 benefit requests and litigation which could result.

Upon returning to open session after considering Items 5 and 6, the Board unanimously agreed to lay over Mr. Scharlaue's Option 7 benefit request until the May meeting to gather information and to allow him to offer proof that he is in compliance with the standards in Rule 1035. Motion by Dr. Roepke, seconded by Ms. Mayr.

The Board asked Ms. Morris to send a letter and a copy of the Rule to Mr. Scharlaue.

6. Litigation Update

During closed session, Mr. Grady reported on the status of the *Zeiger*, *Vernon*, *Oldenburg* and *District Council 48* cases. Mr. Huff reported on the status of the *Bilda I* appeal.

Upon returning to open session, the Board unanimously agreed to appoint Corporation Counsel to represent the Board in the *Oldenburg* case if it has the right under its insurance policy to select counsel. Motion by Mr. Ostermeyer, seconded by Mr. Martin.

7. Administrative Matters – Continuing Education

Ms. Mayr requested that the rules regarding travel be provided to new members and asked whether anything in the rules should be modified. Ms. Bedford requested that the rules be provided to all members. Mr. Martin opined that the Board's education policy and travel policy should be addressed in the context of the County Ethics requirements. Ms. Bedford agreed, especially in light of the new quarterly reporting requirement.

Dr. Roepke reported that he had attended the International Foundation of Employee Benefit Plans' new trustees institute. He encouraged new Board members to attend the conference in June. Mr. Cohen supported the recommendations.

8. Investments, William M. Mercer

A. Manager Presentations – Boston Partners

Mr. Krantz, Mr. Supple and Mr. Donovan made a presentation to the Board on behalf of Boston Partners. Mr. Krantz announced that he is retiring after 36 years at Boston Partners. He also noted that he had worked with ERS since 1988. The team discussed Boston Partners' organization. They noted that Boston Partners is part of Robeco Investment Management, along with Sage Capital and Weiss, Peck & Grier. The team also described Boston Partners' equity investment philosophy, which includes looking for undervalued stocks, identifying value through the use of both quantitative and qualitative information and building a diversified portfolio with a bottom-up focus on price and profitability with minimal risk.

The team reported that Boston Partners has performed well in difficult economic times. For example, it realized positive returns in the most recent bear market and preserved capital. The team also addressed Boston Partners' large cap value equity management approaches with respect to style, research, risk and holdings. The representatives reported that decisions to buy or sell are made across all client portfolios and based on stock selection rather than sector selection. They also described the performance review for 2004 and the outlook for 2005. Ms. Bedford asked why up to 35% of portfolio is invested in the financial services sector. The team responded that the financial services sector is a big part of the US economy and such investments currently fit the investment strategy of Boston Partners.

B. Investment Performance—Flash Report

Mr. Race and Ms. Finney presented the flash report, which was distributed earlier. They indicated that Mercer will not make fundamental changes to the asset allocation while the asset/liability study is pending. Mercer stated that it intended to take \$5M from Ariel, \$2.5M from EARNEST and \$2.5M from Hotchkis & Wiley to satisfy cash flow needs. A question was raised regarding the March Pension Board meeting minutes, which indicate that \$2.5M will be taken from Artisan, rather than EARNEST. Mr. Race indicated that he will investigate the potential discrepancy and requested that he receive a copy of the minutes in the future. He also explained that Mercer updates with Mr. Mueller at the Retirement Office just before cash is withdrawn from a manager and sends a confirmation letter only to the Chairman. [After the meeting, Mr. Race confirmed by e-mail that the cash disbursement would be made as described in the minutes of the March Pension Board meeting.]

Mr. Race and Ms. Finney indicated that they will address the asset/liability modeling at the May Pension Board meeting. They described the process. They noted that after a complete asset/liability study, Mercer will prepare sector weightings and then will evaluate international managers. They stated a concern that Capital Guardian may not fit into the allocation. Mr. Martin pointed out a Pension & Investments report indicating that the State of Wisconsin Investment Board had dropped Capital Guardian.

Mr. Race explained that selection of investment managers is important, but that asset allocations are even more important in the

long term. Therefore, making allocation decisions may be the Pension Board's most important investment job. Dr. Roepke asked Ms. Riley whether the Pension Board should have an independent consultant assist in making the asset allocations. She responded that Mercer fills the role as the Pension Board's consultant in these matters. Mr. Race suggested that the Board allow 1 1/2 hours for discussion of the asset/liability modeling at the May meeting. Mr. Ostermeyer pointed out that the Chairman may want to spend more time on this important topic.

Dr. Roepke requested that Mercer educate the Board regarding the risk tolerance of a mature public fund such as ERS. Ms. Finney stated that she will send relevant information to the Board in advance of a discussion of the asset liability study.

The Board also addressed the performance of various investment managers. Mr. Race and Ms. Finney discussed Mercer's concerns about Ariel. Specifically, they indicated that Mercer rated the Ariel small cap strategy a "B" currently because Ariel has a huge portfolio of small cap investments. Mercer is concerned that small cap managers may affect the small cap market in target investments by investing too much in any one issue. However, Mr. Race and Ms. Finney noted that Ariel's performance has held up. Mr. Race also stated that Ariel and Westfield are scheduled to make presentations to the Pension Board at the July meeting.

Ms. Riley reported that she sent an investment manager contract to JP Morgan 3 to 4 weeks ago and has not yet received a response.

9. Adjournment

The meeting adjourned at 12:00 noon. Motion by Mr. Cohen, seconded by Mr. Martin.

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

EXHIBIT 1

RFP PROCUREMENT TIME TABLE

Activity	Scheduled Date
RFP Available to Prospective Vendors	4/7/05
Review Criteria and Evaluation Process with ERS Evaluation Team <ul style="list-style-type: none"> ▪ Note: This review can happen anytime between RFP issuance and receipt of proposals 	4/8/05 to 5/16/05
Mandatory Pre-Proposal Vendors' Conference	4/26/05
Closing Date for Submission of Questions	4/28/05
ERS' Response to Vendors' Question	5/3/05
Closing Date for Receipt of Proposals	5/17/05
Proposals Opened	5/18/05
MAXIMUS Top 3 Recommendations	5/24/05
ERS Scoring and Evaluation	5/24/05 to 6/16/05
Oral Presentations and Prototype Demonstrations, Site Visits	6/7/05 to 6/13/05
Best and Final Offers Due	6/17/05
RFP Finalist Selection	6/23/05
RFP Finalist Presentation to Pension Board	6/29/05
Contract Award and Execution	7/15/05