

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE SEPTEMBER 21, 2005 PENSION BOARD MEETING

1. Call to Order

Chairman Walter Lanier called the meeting to order at 8:30 a.m. in Room 203-R of the Milwaukee County Courthouse.

2. Roll Call

Members Present:

Linda Bedford
Donald Cohen
Walter Lanier
John Martin
Marilyn Mayr
Michael Ostermeyer
John Parish
Dean Roepke
Thomas Weber

Members Excused:

None

Others Present:

Supervisor Roger Quindel
Charles McDowell, Director of Human Resources
Jerry Heer, Director of Department of Audits
William Domina, Corporation Counsel
Mark Grady, Principal Assistant Corporation Counsel
Gloria Morris, Retirement Coordinator
Gordon Mueller, ERS Fiscal Officer
Jack Hohrein, ERS Manager
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Brad Blalock, Mercer Investment Consulting
Patrick Race, Mercer Investment Consulting
Wayne Morgan, Virchow, Krause & Co. LLP
Darlene Middleman, Virchow, Krause & Co. LLP
Cliff Van Beek, Retiree
Ken Loeffel, Retiree
Michael Howden, Retiree
Florence Ignarski, Retiree
Virginia Schumann, Retiree
Justice Louis Ceci, ERS member
Brenda McCormack, ERS member

Mr. McCormack
Dr. Theodore Bonner, Medical Board

3. Approval of Minutes of August 17, 2005 Meeting

The Board reviewed the minutes of the August 17, 2005 Pension Board meeting. The Chairman noted that the last sentence of the third paragraph of section 5 should be corrected to read as follows: "He agreed with the Chairman that the Pension Board had acted with appropriate due diligence and within its reasonable discretion in adopting the 8.0% rate." The Chairman also noted that the first sentence of the second paragraph of section 9 should be revised to read as follows: "Upon returning to open session, the Board unanimously agreed to enter into a contract with Vitech for computer technology services at a cost not to exceed \$8,010,097 and to authorize the Chairman to sign the contract, subject to review by Corporation Counsel."

The Board unanimously approved the minutes of the August 17, 2005 Pension Board meeting, as amended to reflect the corrections noted above. Motion by Mr. Cohen, seconded by Mr. Martin.

4. Report of Retirement System Manager

A. Ratification of Retirements Granted

Mr. Hohrein 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 Ms. Bedford, seconded by Mr. Martin.

B. Informational Items

(i) Cash Liquidity Report.

Mr. Hohrein presented the Cash Liquidity Report and noted that \$23 million had been moved to the benefit payment reserve and that \$10 million had been transferred from Capital Guardian for liquidity needs. In response to a question from Mr. Martin, Mr. Hohrein stated that retirement appointments had decreased, but may increase as the end of the year approaches, due to the change in interest rate. Dr. Roepke requested clarification regarding the interest rate. Mr. Hohrein responded that the 2006 back DROP interest rate

will be reduced slightly from 8.5% to 8.0% and, therefore, some ERS members may retire in 2005 to get a larger back DROP payment.

(ii) Report on Waivers.

Mr. Hohrein reported that James Villa, Mark Stein, David Wilson and Roderic McWilliams had submitted waiver forms for the .5% multiplier, back DROP and 25% bonus benefit enhancements. Dr. Roepke requested that additional information be included in the report, such as each member's place of employment. The Chairman requested that the signed waiver forms be attached to the cover sheet distributed to the Board. Mr. McDowell described each member's job and indicated that the information would be included in the future.

The Board unanimously agreed to accept the waivers presented. Motion by Dr. Roepke, seconded by Mr. Cohen.

5. Litigation Update

The Chairman stated that the Board may enter closed session to confer with the Board's legal counsel 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 enter closed session to discuss the status of possible claims against third parties. Motion by Dr. Roepke, seconded by Mr. Cohen.

Mr. Ostermeyer and Mr. Huff recused themselves from the presentation.

6. Disability Applications

The Chairman stated that the Board may enter closed session to discuss an individual's disability retirement application, which may entail discussion of medical records of the applicant. The Board unanimously agreed to enter closed session to discuss the accidental disability application of Donald Gregoire and the ordinary disability applications of Fannie Stewart and Sandra Buzy. Motion by Dr. Roepke, seconded by Mr. Martin. Dr. Bonner remained in the meeting to consult with the Board regarding the Medical Board's report.

Upon returning to open session, the Board took the following action:

A. Donald Gregoire – Accidental

A motion by Ms. Mayr, seconded by Dr. Roepke, to lay over Mr. Gregoire's application until functional testing could be completed failed 4-5, with Mr. Ostermeyer, Dr. Roepke, Ms. Mayr and Mr. Parish voting to lay over and Ms. Bedford, Mr. Martin, Mr. Cohen, Mr. Weber and the Chairman dissenting.

A motion by Ms. Bedford, seconded by Mr. Martin, to adopt the recommendation of the Medical Board to grant Mr. Gregoire's disability application passed 6-3, with Ms. Bedford, Mr. Martin, Mr. Cohen, Mr. Parish, Mr. Weber and the Chairman voting to grant the application and Mr. Ostermeyer, Dr. Roepke and Ms. Mayr dissenting.

B. Fannie Stewart – Ordinary

The Board unanimously agreed to grant Ms. Stewart's disability application. Motion by Dr. Roepke, seconded by Mr. Parish.

C. Sandra Buzy – Ordinary

The Board unanimously agreed to deny Ms. Buzy's disability application. Motion by Mr. Cohen, seconded by Mr. Martin.

7. Appeals and Claims

A. Justice Louis Ceci – Military Credits

The Chairman stated that the Board may enter closed session to confer with the Board's legal counsel regarding strategy to be adopted with respect to litigation in which it is or is likely to become involved. The Board unanimously agreed to enter closed session to discuss Justice Louis Ceci's request for military service credit. Motion by Mr. Martin, seconded by Dr. Roepke.

Upon returning to open session, the Board continued to discuss Justice Ceci's request. The Chairman noted that the Board should address the statute of limitations of his claim and requested that Justice Ceci provide his arguments regarding that issue. The Board also discussed coordination between State and County military service credit.

Ms. Bedford made a motion, seconded by Dr. Roepke, to deny Justice Ceci's claim for military service credit.

In response to a question, Mr. Grady indicated to the Board that a motion to lay over takes precedence over a motion to take action.

A motion by Mr. Ostermeyer, seconded by Mr. Martin, to lay over Justice Ceci's request for military service credit passed 5-4, with Mr. Ostermeyer, Mr. Martin, Dr. Roepke, Mr. Parish and the Chairman voting to lay over and Ms. Bedford, Mr. Cohen, Ms. Mayr and Mr. Weber dissenting.

B. Brenda McCormack -- Accidental Disability Eligibility

The Chairman introduced Ms. McCormack's request to be able to apply for an accidental disability pension. Mr. Grady clarified that she filed an application for a disability pension in April 2005 and that Mr. Hohrein had rejected her application in June 2005. He noted that there was no dispute over her inability to perform her job or that an accident disabled her, but there was a dispute over her eligibility to apply for a disability pension.

The Chairman stated that the Board may enter closed session to confer with the Board's legal counsel regarding strategy to be adopted with respect to litigation in which it is or is likely to become involved. The Board unanimously agreed to enter closed session to discuss Brenda McCormack's eligibility to apply for an accidental disability pension. Motion by Dr. Roepke, seconded by Mr. Parish.

Upon returning to open session, the Chairman noted that the County had made a job offer to Ms. McCormack. Mr. Grady stated that her record contains a denial of her disability application by the ERS staff.

The Board unanimously agreed to deny Ms. McCormack's request to apply for a disability pension. Motion by Mr. Cohen, seconded by Dr. Roepke.

Mr. Grady indicated that the next step is review by the hearing examiner.

8. Investments, Mercer Consulting

A Asset/Liability Allocations

Mr. Blalock and Mr. Race presented the asset/liability modeling results. They presented information regarding alternative allocations, including increasing equity, increasing international equity and real estate and increasing alternatives and international equity.

The representatives from Mercer advised against rushing into real estate investments. They indicated that it is not a good tactical time to enter the real estate market. They recommended moving from a 15% international equity allocation to a 20% international equity allocation if the Board wanted to be more aggressive but retain the current allocation between fixed income and equity investments. Mr. Blalock suggested that portfolio structure be discussed at the next meeting. The Chairman requested that materials with more text be provided to the Board for review. He also stated that the Board could allocate more time on the agenda for this discussion. The Chairman stated that Mr. Blalock and Mr. Race would present portfolio structure discussions and their two recommended alternatives at the October meeting. Mr. Blalock also recommended moving assets from Wells Fargo to Chase. The Board discussed the suggestion.

The Board unanimously agreed to transfer \$113 million from Wells Fargo to Chase. Motion by Mr. Martin, seconded by Dr. Roepke.

B. Flash Report

Mr. Race presented the flash report for August 2005. He noted that ERS had an aggregate market value of approximately \$1.51 billion on August 31, 2005 and that ERS gained 0.7% in August, leading the Composite Market Index by 40 basis points. He stated that due diligence meetings with EARNEST Partners and Reinhart & Mahoney had been postponed in order to concentrate on asset/liability issues. Mr. Race explained that Mercer Investment Consulting recommends that the cash needed for September be taken from the international equity asset class, which will involve taking \$10 million from GMO.

The Board unanimously agreed to take \$10 million from GMO for ERS's liquidity needs. Motion by Ms. Mayr, seconded by Mr. Parish.

The Chairman requested that Mr. Race bring the liquidity model to the October meeting.

Mr. Race also discussed investment manager performance. He noted that Hotchkis & Wiley had lost most of their prior outperformance in August 2005, that Capital Guardian was beginning to gain ground and that GMO continues to perform well. He also stated that Reinhart & Mahoney had a slow start in May, but had made up for it in June and July and was performing well in August.

9. Proposed Ordinance – Rule of 75 (File No. 5-543) – Supervisor Roger Quindel

Supervisor Quindel presented his proposed Ordinance amendment that would change the “Rule of 75” for nonrepresented County employees to the “Rule of 85.” He explained that the change would apply to new hires only and that the purposes of the change are uniformity and reduction of the financial strain on ERS.

Mr. Grady explained that this presentation is the referral to the Board contemplated by the Ordinance section regarding Ordinance amendments and that the Board has 30 days to comment on the proposed amendment.

The Board unanimously agreed to acknowledge receipt of the proposed Ordinance amendment without comment. Motion by Mr. Martin, seconded by Dr. Roepke.

10. Annual Audit Review and Findings – Virchow Krause & Company

Representatives of Virchow Krause addressed the Board regarding the annual audit. They noted that they had interviewed Gordon Mueller and Bob Shupe. They stated that they would have expanded the audit and talked with the Board if they had found anything with which they were uncomfortable. The representatives explained that there were no adjustments necessary for 2004 and only one timing adjustment for 2003. They pointed out that they did not perform an internal control audit and they only study internal control enough to conduct the audit.

The representatives also gave a presentation to the Board addressing the investment portfolio, planning for personnel turnover, cash management

planning, reconciliation review and financial statement disclosures. They summarized their report by noting that it had been a clean audit, management was cooperative and ERS was facing a potential lack of institutional knowledge but that a plan is being implemented to address the issue.

11. RFP Best Practices for ERS Service Providers – New Ordinance for RFPs

The Board discussed Requests For Proposals (“RFPs”) for service providers. The Chairman stated that the Board had been discussing reviewing contracts and issuing RFPs for over a year. He noted that the process had been stalled by the lack of a full Board and inadequate staffing in the Retirement Office but that the new Ordinance regarding RFPs helped define the process. The Chairman explained the process for beginning the RFP process for service providers and stated that the actuary should be the first RFP.

The Board unanimously agreed to initiate an RFP for actuarial services. Motion by Mr. Cohen, seconded by Mr. Martin.

The Board agreed 8-0-1, with Mr. Ostermeyer abstaining, to terminate its contract with Mercer Human Resource Consulting, effective January 1, 2006. Motion by Mr. Cohen, seconded by Mr. Martin.

The Chairman noted that Mercer Human Resource Consulting is free to submit a proposal once the RFP has been issued.

The Board also discussed the application of the Ordinance’s requirement to bid out service providers every five years. The Chairman opined that this requirement is prospective only. Mr. Grady recommended moving on with the RFP process in an organized fashion.

12. Closed Session

The Chairman stated that the Board may enter closed session for deliberating or negotiating the purchase of public properties, the investing of public funds or conducting other specified business, whenever the discussion will directly and substantially affect negotiations with a third party. The Chairman also noted that the Board may enter closed session to confer with legal counsel 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 enter closed session to address items 13, 14 and 15. Motion by Mr. Cohen, seconded by Mr. Martin.

13. Update on Cliff Van Beek Indemnification Request

The Board discussed in closed session the indemnification request of Cliff Van Beek.

14. IT Vendor Status Update

The Board remained in closed session to discuss the status of the IT vendor contract.

15. Litigation Update, continued

The Board remained in closed session to continue an earlier discussion of pending litigation.

16. Administrative Matters

The Board returned to open session for the remainder of the meeting.

A. Continuing Education/Board Retreats/Training and Professional Organizations

The Board discussed authorizing Anh To and Bob Shupe to attend a Vitech client conference. Mr. Ostermeyer questioned whether the cost of travel and tuition in addition to the Vitech expenses would add value. Members and staff noted that the conference would provide an opportunity to discuss issues with others who have the Vitech system.

The Board agreed 8-1, with Mr. Ostermeyer dissenting, to approve attendance at the conference for Ms. To and Mr. Shupe. Motion by Mr. Cohen, seconded by Ms. Bedford.

B. Future Board Topics

Dr. Roepke requested that the Board discuss administrative expenses, such as costs related to Maximus and legal deductibles, at a future meeting. The Chairman stated that Gordon Mueller would attend the October meeting to discuss and answer questions raised by the Board.

17. Adjournment

The meeting adjourned at 2:45 p.m.

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