

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE NOVEMBER 9, 2005 PENSION BOARD MEETING

1. Call to Order

Chairman Walter Lanier called the meeting to order at 8:40 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
John Parish
Dean Roepke
Thomas Weber

Members Excused:

Michael Ostermeyer

Others Present:

Mark Grady, Principal Assistant Corporation Counsel
Gordon Mueller, ERS Fiscal Officer
Jack Hohrein, ERS Manager and Pension Board Secretary
Vivian Aikin, ERS Administrative Specialist
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Brad Blalock, Mercer Investment Consulting
Kristin Finney-Cooke, Mercer Investment Consulting
Bruce Gamble, Milberg Weiss Bershad & Schulman LLP
Ruby Menon, Milberg Weiss Bershad & Schulman LLP
Cliff Van Beek, Retiree
Ken Loeffel, Retiree

3. Approval of Minutes of October 19, 2005 Meeting

The Board reviewed and unanimously approved the minutes of the October 19, 2005 Pension Board meeting. Motion by Ms. Mayr, seconded by Dr. Roepke.

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 Mr. Martin, seconded by Mr. Parish.

B. Informational Items

(i) Cash Liquidity Report

Mr. Mueller presented a report on cash needs for ERS. He reported that ERS would require \$5 million by the end of November and \$10 million by the end of December to meet cash flow needs.

Mr. Mueller also distributed a long-term liquidity report and noted that ERS would likely require \$60 million through September 2006 and \$75-85 million for all of 2006. In response to a question from Dr. Roepke, Mr. Mueller stated that ERS required \$25 million for the last quarter of 2005. In response to a question from the Chairman, Mr. Mueller also reported ERS cash flow amounts for 2004 and 2005.

Mr. Mueller noted that ERS had better cash flow in the first part of the year because of County contributions. Dr. Roepke inquired regarding the amount of the County contribution. Mr. Mueller responded that, in 2004, the County Board had budgeted \$35,370,000 for the 2006 contribution and that ERS has always received the budgeted amount.

(ii) Report on Waivers

There were no waivers presented.

C. Request for Approval of Moving Costs

The Board addressed Mr. Hohrein's request for reimbursement of his moving costs of \$11,900. The Board had laid over this request at the October meeting. Mr. Grady reported that he had informed Mr. Hohrein and Mr. McDowell of his opinion that the County

Board must approve the moving expenses. He indicated that Mr. McDowell had not yet prepared a written request to the County Board.

D. ERS 2006 Annual Budget

The Chairman noted that the Board was beginning the review process for the ERS 2006 annual budget. Mr. Mueller stated that the Pension Office would like to have the budget approved in December. He indicated that the County's cross-charges could change in the final County budget.

The Board noted that IMSD is planning to hire an ERS project manager. The project manager would be a full-time ERS employee until the end of 2006 when the conversion from the Genesys computer system should be complete. At that time, the project manager would return to employment with IMSD. Mr. Mueller also stated that the budget included a 3% salary increase for nonrepresented Pension Office employees. Ms. Riley asked whether the cost of hiring a consultant to conduct RFPs should be included in the budget. The Chairman indicated that he believes the Board has the capacity to conduct RFPs using its current advisors. Ms. Mayr opined that the cost could still be included in the budget.

The Board also discussed legal fees and the impact of litigation on the cost of legal services. Ms. Mayr asked for a more detailed analysis of legal fee projections for 2006. The Chairman suggested discussing legal fees and services in connection with the Board's review of service providers and indicated that he would ask Mr. Mueller, Ms. Riley and Mr. Huff for additional information. In response to a question from Ms. Mayr, Mr. Grady stated that it would be premature to anticipate any recovery from lawsuits.

Mr. Mueller asked if the Board had any questions, comments or concerns about the 2006 budget. The Chairman noted that Board members could submit any questions or comments after the meeting and that they should be directed to Mr. Mueller.

5. Disability Applications

There were no disability applications.

6. Investments – Mercer Investment Consulting

A. Long-Term Liquidity Report

Mr. Blalock presented the liquidity report. He reported that it would be better to present quarterly cash flow requirements, rather than monthly. Mr. Martin distributed a report regarding cash flow forecasting and procedure operations. He suggested approving cash flow amounts several months into the future so that the Board need not address liquidity every month. Dr. Roepke suggested including the liquidity policy in the investment policy. The Board discussed the draft investment policy in detail and gave general approval of the concepts in the investment policy statement.

B. Quarterly Report

Mr. Blalock presented the quarterly report for the third quarter of 2005. He described the market environment for the third quarter, including the effects of Hurricanes Katrina and Rita, a slight rise in unemployment, decreased consumer confidence and strong retail and real estate sales. Mr. Blalock explained that the Federal Reserve had raised the short-term interest rate 25 basis points in both August and September due to increased concerns about inflation. He also discussed the performance of the domestic equities market, fixed income market, international equities market and other asset classes.

Mr. Blalock next addressed asset allocation for ERS and reviewed the current asset allocation versus the allocation policy. He also compared the current and prior asset allocation.

Mr. Blalock also reviewed the investment manager performance for the third quarter. He indicated that:

- Artisan Partners is currently on the watch list;
- Ariel had had substantial tracking error due to large swings based on the strategy it follows, but was doing well over all; and
- Loomis Sayles had experienced a tough quarter but returns remained positive.

7. Correspondence from County Executive and AFSCME District Council 48

The Chairman reported that the Board had received a letter from Richard Abelson, Executive Director of Milwaukee District Council 48, requesting that the Board retain the 8.5% assumed rate of return. The Board

determined that there was no need to address this request substantively because of prior discussions. The Chairman stated that he would send a response to Mr. Abelson and may send a copy to local presidents as well. Mr. Loeffel noted that the agenda did not refer to the content of the letter and suggested that the Board may want to do so in future agendas.

8. Discussion on Audit Committee

The Chairman reported that he had spoken with Mr. Hohrein and Mr. Huff regarding the establishment of Board committees, such as an audit committee, to enhance best practices and governance. Mr. Hohrein stated that Jerry Heer had called him to voice his concerns about the cost and the independence of Virchow Krause if the Board gets too involved with the audit. The Chairman responded that Mr. Heer should call him to discuss the issue.

9. Administrative Matters

A. Continuing Education/Board Retreats/Training and Professional Organizations – International Foundation Annual Conference – John Parish

The Board noted that Mr. Parish would request 2006 approvals for Board education. Dr. Roepke reported on a new International Foundation of Employee Benefit Plans program known as CAPP (Certificate of Achievement in Public Plan Policy) that would take place in Chicago in July 2006.

B. Future Board Topics

Dr. Roepke reported that he had requested Ms. Mayr's 1988 report on the County's audit of disability retirements to determine if all of her suggestions had been enacted. Ms. Mayr clarified that there had been an original audit in 1988 and a follow-up report in 1991. She stated that she had given Mr. Hohrein the 1991 follow-up report and could help locate a copy of the 1988 report to distribute to the Board.

10. Discussion on Quarterly Ethics Reports

The Board discussed filing a complaint with the County Board objecting to the requirement that Pension Board members submit quarterly reports to the Ethics Board, when all others are required to report less frequently. Dr.

Roepke made a motion that the Chairman send a letter to the County Board regarding the objection, seconded by Ms. Bedford. The Board further discussed the fact that the Pension Board is the only Board in the County required to report quarterly. The Chairman suggested including this issue in the next report to the County Board regarding ERS. Accordingly, Dr. Roepke withdrew his motion.

11. Presentation on Best Practices – Bruce Gamble and Ruby Menon

The Chairman introduced Mr. Gamble and Ms. Menon, who gave a presentation regarding best practices for public sector pension plans. The presentation included background information on public pension plans and discussion of laws applicable to private and public plans. Mr. Gamble and Ms. Menon also addressed the role of fiduciaries, the role of administrators, duties of fiduciaries, communication with members, selection of service providers, reliance on professional advice, relationships with local government, limitation of liability, due diligence and procedures.

The Board discussed the role of the ERS manager. The Chairman noted that the Director of Human Resources currently hires the manager. Mr. Van Beek stated that this structure was discussed often during his tenure on the Board and pointed out that the process had been changed in 2002 to give the Director of Human Resources the authority to hire the manager. Mr. Van Beek suggested that the County Board revisit this issue.

The Board also discussed its role with respect to insufficient County contributions to ERS. In response to a question from Ms. Mayr, Ms. Menon stated that the Board had an obligation to bring a lawsuit to compel the necessary contribution after all other options have been exhausted. Mr. Gamble added that the decision to bring a lawsuit also depends on the language in the Ordinances.

Ms. Menon and Mr. Gamble also spoke about their firm's ability to assist with monitoring and filing claims in class actions. Ms. Riley stated that Mellon monitors class actions, but that the Board does not receive reports.

In light of the presentation, the Chairman asked how the Board should respond to the AFSCME District Council 48 letter regarding contributions. Mr. Martin responded that it would be helpful to describe the process that the Board used to set the assumed rate of return.

12. IT Vendor Status Update

The Chairman stated that the Board may enter closed session for deliberating or negotiating the purchasing 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 Board unanimously agreed to enter closed session to discuss the status of the IT vendor contract. Motion by Dr. Roepke, seconded by Mr. Parish.

13. Adjournment

The meeting adjourned at 1:00 p.m.

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