

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE DECEMBER 21, 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:

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

Members Excused:

Linda Bedford

Others Present:

William Domina, Corporation Counsel
Mark Grady, Principal Assistant Corporation Counsel
Jack Hohrein, ERS Manager and Pension Board Secretary
Gordon Mueller, ERS Fiscal Officer
Vivian Aikin, ERS Administrative Specialist
John Rath, County Risk Manager
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Patrick Race, Mercer Investment Consulting
Kristin Finney-Cooke, Mercer Investment Consulting
Anh To, ERS Administrative Specialist
Cliff Van Beek, Retiree
Ken Loeffel, Retiree
Robert Kraus, Disability applicant
Gil Pagan, Disability applicant

3. Approval of Minutes of November 9, 2005 Meeting

The Board reviewed and approved the minutes of the November 9, 2005 Pension Board meeting, 8-0-1, with Mr. Ostermeyer abstaining because he did not attend the meeting. Motion by Mr. Martin, seconded by Ms. Mayr.

4. Fiduciary Insurance Proposals – John Rath

Mr. Rath presented a report on the RFP for an insurance broker to assist in the 2006 renewal of fiduciary liability insurance for ERS. He reported that ERS had received proposals from three brokers: AON, Gallagher/Schroeder and Mortenson, Matzeck & Meldrum ("Mortenson"). An evaluation team consisting of Mr. Hohrein, Judy Litscher (Milwaukee County Risk Management Coordinator) and Mr. Rath reviewed the responses. The evaluation criteria used were organization, service, coverage, premium and DBE utilization.

The evaluation team interviewed AON and Gallagher/Schroeder, but did not interview Mortenson because of the high cost of Mortenson's proposed premium. Mr. Rath stated that the evaluation team recommended that the Board renew its fiduciary liability coverage through AON because its proposal was complete and cost-effective and the AON team was highly professional and knowledgeable. Mr. Rath reported that the Board would save approximately \$113,000 in premium costs by accepting AON's proposal to enter into policies with AIG, Chubb and Axis. In response to a question from the Chairman, Mr. Rath stated that Gallagher/Schroeder did not complete the third layer of coverage and that the interview was unimpressive.

The Board unanimously agreed to approve the evaluation team's recommendation to accept AON's proposal with a \$150,000 deductible and to direct Mr. Hohrein to sign the insurance binder on behalf of the Board. Motion by Mr. Martin, seconded by Mr. Cohen.

5. 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. Cohen.

B. Informational Items

(i) Cash Liquidity Report

Mr. Mueller presented a report on cash needs for ERS. He reported that the ERS cash reserve would be depleted by the end of January but that there may be no anticipated liquidity needs through May 2006 because of anticipated contributions by the County.

(ii) Report on Waivers

There were no waivers presented.

C. 2006 Pension Board Meeting Schedule

The Board reviewed the proposed meeting schedule for 2006 and discussed the Board's Annual Meeting.

The Board unanimously agreed to accept the proposed 2006 meeting schedule. Motion by Dr. Roepke, seconded by Mr. Martin.

D. Distribution of the Buy In Sunset Notice

Mr. Hohrein reported that the buy in sunset notice had been sent out with the December 15 paychecks or deposit notices. He stated that the notice had also been published in the Milwaukee Journal Sentinel and the Daily Reporter.

6. Budget Committee Report – ERS 2006 Annual Budget

The Chairman reported on the December 1, 2005 Budget Committee meeting. The meeting was attended by the Chairman, Mr. Martin and Ms. Mayr. Mr. Parish was excused from the meeting. The Chairman noted that there were no substantive changes to the budget except a reduction in the fiduciary liability insurance cost. Mr. Hohrein reported that Vitech has requested a 2005 payment of \$1 million, which will be paid in the second week of January, and that \$1 million should be moved to the 2006 budget. Mr. Mueller indicated that the 2006 budget would be increased by \$1,050,000 to reflect the payment.

The Board unanimously agreed to approve the 2006 budget, with the change noted above. Motion by Mr. Martin, seconded by Mr. Parish.

The Chairman reported that the Budget Committee would continue to evaluate best practices with respect to legal fees. He also presented the Budget Committee's minutes for approval by the Board.

The Board unanimously agreed to approve the minutes of the December 1, 2005 Budget Committee meeting. Motion by Mr. Weber, seconded by Mr. Cohen.

7. Investment Committee Report

The Chairman reported on the December 5, 2005 Investment Committee meeting and noted that Mr. Ostermeyer had chaired the meeting. The meeting was attended by Mr. Ostermeyer, Dr. Roepke, Ms. Bedford and Mr. Martin. Mr. Lanier was excused from the meeting. At its meeting, the Committee discussed the Board's cash liquidity plan, ERS banking services and Mercer's proposed investment policy. The Chairman stated that the Committee will continue to study the following six items at the committee level:

- Whether ERS needs 21 investment managers and whether the managers are properly allocated between active and passive portfolios.
- Whether the introduction of the policy should replace a reference to funding benefits with an objective to "maximize fund returns based on a level of risk the Board finds acceptable."
- Revision of the policy to include that investments in local businesses and diversification priorities would be subject to ERS's obligations to maximize investment returns.
- Review of the total number of managers to compare risk with the savings on investment fees.
- Review of the performance of each manager with special focus on poor performance.
- More detailed analysis when a manager underperforms its benchmark in accordance with the policy.

The Board unanimously agreed to accept the minutes of the December 5, 2005 Investment Committee meeting. Motion by Mr. Weber, seconded by Mr. Cohen.

8. Investment – Mercer Investment Consulting

A. Investment Policy

Mr. Race presented information regarding the November 2005 draft ERS investment policy. He indicated that ERS pays a 30 basis point fee for active management and that the average fee is 40 basis points. He also suggested that fulfilling 19 strategies with 21 managers is difficult and may be too much for a board. The Chairman suggested having the Investment Committee work with Mercer on the six items detailed above.

B. Flash Report –November

Ms. Finney-Cooke presented the flash report for November 2005. She reported that the total fund had an aggregate market value of approximately \$1.5 billion at the end of November. She also reported that the Fund experienced a 2.6% gain during November, which led the reference index by 30 basis points.

Ms. Finney-Cooke discussed the market outlook as well. She indicated that domestic equity and international equity markets declined in October, but rebounded in November. Ms. Finney-Cooke reported that the investment-grade fixed income market declined in October and had slight improvement in November as well. In November, growth outperformed value in both the large cap and small cap areas.

Ms. Finney-Cooke also noted that the JP Morgan Investment Management account was funded from the Wells Capital Management account in the amount of approximately \$110 million. She indicated that this funding was completed on November 1, 2005.

Ms. Finney-Cooke addressed manager performance and noted that some managers performed well. She indicated that Hotchkis & Wiley and Artisan were still lagging, but were narrowing the gap. She also reported that they are due to present to the Board at a future Board meeting. In response to a question from Mr. Grady, Mr. Race stated that Ariel's investment style still made sense and that it would be difficult to find a better manager as a replacement. He recommended that the Board continue to monitor Ariel's performance.

Mr. Ostermeyer stated that monitoring of investment managers was a topic discussed at the Investment Committee meeting. He noted that the Board's investment policy requires the Board to interview managers about underperformance and document the reasons for it when the manager has underperformed for three years. He also explained that the investment policy requires reduction in assets by 1/3 (or as the Board decides) when the manager has underperformed for five years. The Chairman agreed that the Board should deliberate and follow the process required by the investment policy.

Dr. Roepke noted that the entire small cap asset class had underperformed and asked whether the Board should back away from small cap investments. Mr. Race responded that he would be uncomfortable with such a strategy because ERS needs diversified exposure. The Board agreed to schedule Ariel for a presentation at the January meeting.

9. Proposal from Milberg Weiss

The Chairman present a proposal received from Ruby Menon and Bruce Gamble of Milberg Weiss. Their proposal is to monitor the ERS investment portfolio in connection with potential class action claims related to securities fraud and to provide fiduciary training and other educational services. The Board discussed the fee structure of the proposal and the class action process in general. The Board also discussed how hiring legal counsel fit into the RFP requirements.

Dr. Roepke made a motion, seconded by Mr. Martin, to accept the proposal subject to review by ERS staff.

The Board continued to discuss the proposal and whether the services offered would be beneficial to the Board. Mr. Ostermeyer expressed reservations about the services.

Dr. Roepke withdrew his motion and no further action was taken on the proposal at the meeting.

10. Referral of File 5-534 – Loss of Pension for Fault or Delinquency

The Board reviewed a report from the Committee on Personnel regarding Ordinance section 201.24(4.5), which provides that an ERS member is not eligible to receive a pension if his or her employment is terminated due to fault or delinquency (a so-called "bad boy clause") and File No. 5-534, which is a proposal to amend the Ordinances to provide for additional

procedures to determine whether a person is terminated for fault or delinquency and should accordingly lose his or her pension rights.

In response to a question from the Chairman, Mr. Grady stated that the County Board is required to refer the file to the Pension Board for review. Mr. Grady also explained that the proposal relates to administration of a section of the Ordinances.

The Board discussed the Supreme Court decision that prompted the proposal and the process for discharging County employees for fault or delinquency. The Board also considered whether the bad boy clause should be eliminated and determined that it would provide its comments on the proposal at a later date.

11. RFP for Actuarial Services

Mr. Hohrein and Mr. Huff presented information on the current status of the RFP for actuarial services, including a proposed timeline for completion of the RFP process and a list of the nine firms to which the RFP was sent. The Board discussed the following actions:

- appointing a committee or panel to review the RFP responses,
- reviewing the timeline to determine how responses will be evaluated and how finalists will be chosen and
- determining the number of finalists and the process for interviewing them.

The Board noted corrections to the RFP that would be sent to the firms that had received the RFP. The Board discussed scheduling a meeting once responses have been received. Mr. Grady suggested that the Board delegate authority to Mr. Hohrein to address questions, in consultation with counsel and the Chairman. The Board agreed that Mr. Hohrein will notify the Board members of the responses received and form an ad hoc committee to further address the RFP at that time.

12. Closed Session

The Chairman stated that the Board could enter closed session for deliberations concerning a case, which is a controversy among parties that are adverse to one another, that was the subject of a judicial or quasi-judicial trial or hearing before the Board, for considering financial, medical, social or personal information, of which the Board has actual knowledge and which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of the person mentioned, 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 and for conferring with the Board's legal counsel, who is rendering oral or written advice concerning strategy to be adopted with respect to litigation in which it is or is likely to become involved.

The Board agreed by roll call vote to enter closed session to consider items 13, 14 and 15. Motion by Mr. Cohen, seconded by Mr. Parish.

13. Disability Applications

Upon returning to open session after considering items 13, 14 and 15, the Board took the following action:

A. Robert Kraus – Accidental

The Board unanimously agreed to grant Robert Kraus's accidental disability application. Motion by Dr. Roepke, seconded by Mr. Martin.

B. Gil Pagan – Accidental

Dr. Roepke moved to lay over Mr. Pagan's accidental disability application for further study. The motion, seconded by Ms. Mayr, failed 3-4-1, with Ms. Mayr, Dr. Roepke and Mr. Parish voting to approve, Mr. Weber, Mr. Ostermeyer, Mr. Cohen and Mr. Martin dissenting and the Chairman abstaining.

The Board then agreed to approve Mr. Pagan's application, 5-2-1, with Mr. Weber, Mr. Parish, Mr. Cohen, Mr. Martin and Mr. Ostermeyer voting to approve, Ms. Mayr and Dr. Roepke dissenting and the Chairman abstaining.

C. Bonny Parsons – Ordinary

At her request, Ms. Parson's ordinary disability application was laid over until the Board's January 2006 meeting.

D. Rebecca Loehe – Ordinary

The Board unanimously agreed to approve Ms. Loehe's ordinary disability application. Motion by Dr. Cohen, seconded by Mr. Parish.

14. Legal Update

The Board discussed pending litigation in closed session.

15. IT Vendor Status Update

The Board discussed this item in closed session.

16. Administrative Matters

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

At the request of Dr. Roepke and Mr. Parish, the Board discussed the educational value of the CAPPP and Benefits Conferences for Public Employees.

The Board unanimously approved attendance at these conferences for any members who wish to attend. Motion by Mr. Martin, seconded by Mr. Cohen.

B. Future Board Meetings

The Board discussed the possibility of changing meeting locations due to the planned demolition of the annex parking lot.

17. Closed Session

The Chairman stated that the Board could enter closed session to confer with the Board's legal counsel, who is rendering oral or written advice concerning strategy to be adopted with respect to litigation in which it is or is likely to become involved.

The Board agreed by roll call vote to enter closed session to consider Item 18. Motion by Mr. Martin, seconded by Mr. Cohen.

18. Investigation and Prosecution of Possible Claims

Mr. Ostermeyer and Mr. Huff recused themselves from the meeting. The Board discussed this item in closed session.

19. Adjournment

The meeting adjourned from closed session at 1:15 p.m.

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