

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**  
**MINUTES OF THE MAY 16, 2007 PENSION BOARD MEETING**

1. Call to Order

Chairman Dean Roepke called the meeting to order at 8:45 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present:

Linda Bedford  
Donald Cohen  
John Martin (Vice Chairman)  
Marilyn Mayr  
John Parish  
Dr. Sarah Peck  
Dr. Dean Roepke (Chairman)  
Thomas Weber

Member Excused:

Michael Ostermeyer

Others Present:

William Domina, Corporation Counsel  
Mark Grady, Principal Assistant Corporation Counsel  
Jack Hohrein, ERS Manager and Pension Board Secretary  
Dr. Karen Jackson, Human Resources Director  
Scott Manske, Milwaukee County Controller  
Vivian Aikin, ERS Administrative Specialist  
Veronica Britt, ERS Coordinator  
Donald Campbell, ERS Project Manager  
Anna Kees, Corporation Counsel Intern  
Steven Huff, Reinhart Boerner Van Deuren s.c.  
Leigh Riley, Foley & Lardner LLP  
Chris Trebatoski, Weiss Berzowski Brady LLP  
Ken McNeil, Susman Godfrey L.L.P.  
Terry Dennison, Mercer Investment Consulting  
Kristin Finney-Cooke, Mercer Investment Consulting  
Kim Nicholl, Buck Consultants  
Matt Strom, Buck Consultants  
Lynn Hill, Buck Consultants  
William Supple, Boston Partners  
David Pyle, Boston Partners  
Peter Lepkowski, ERS Member  
Janine Uecke, Retiree

Shirley Nash, ERS Member  
Randy Nash  
Emma Nash  
Ken Loeffel, Retiree  
Esther Hussey, Retiree  
Gloria Yelezgn, Retiree  
Florence Ignarski, Retiree  
Steven Schultze, Milwaukee Journal Sentinel

3. Chairman's Report

(a) Call of Special Actuarial Meeting – May 29, 2007 at 8:30 a.m.

The Chairman announced that the special meeting to receive the actuarial report from the actuary would be held on May 29, 2007 at 8:30 a.m. The Pension Board's report and contribution request should be submitted to the County Executive in time for the County Board's June session.

(b) Due Diligence for Prospective Investment Manager

The Chairman reported that due diligence trips were scheduled for AQR and Baring for May 31 and June 1. He announced that all Board members are welcome to attend.

(c) Terry Dennison Appointment

The Chairman congratulated Mr. Dennison on his appointment to U.S. Director of Consulting for Mercer Investment Consulting.

4. Approval of Minutes of April 18, 2007 Meeting

**The Board reviewed and unanimously approved the minutes of the April 18, 2007 Pension Board meeting, with the correction to page 9 distributed at the meeting. Motion by Mr. Martin, seconded by Mr. Parish.**

5. Report of Retirement Systems Manager

(a) Ratification of Retirements Granted

Mr. Hohrein presented the Retirements Granted report for the prior month's retirements and asked the Board to review them. He noted that back DROP payments in the amount of \$1.5 million had been made.

**The Board unanimously accepted the Retirements Granted report. Motion by Mr. Martin, seconded by Mr. Cohen.**

(b) Report on Waivers

Mr. Hohrein reported that Corey Hoze, who had replaced Rob Henken as the Director of the Department of Health and Human Services, had signed all waivers. Ms. Mayr pointed out that he had signed waivers in his previous position. In response to a question, Mr. Grady indicated that the waiver waiving the greatest rights will apply if the waivers are not identical.

**The Board unanimously agreed to accept the waivers. Motion by Mr. Martin, seconded by Mr. Parish.**

(c) Report on Donna Brown-Wells Disability Appeal

Mr. Grady reported on Ms. Brown-Wells's accidental disability retirement appeal. He presented Judge Buckley's decision affirming the denial of her disability pension. He noted that under Ordinance section 201.24(4.9)(11), she has 20 days from May 1 to file a petition with ERS to request a review by the Board. He noted that if she has not filed by then, the matter should be considered closed.

6. Report on Task Force on Pension Funding

Mr. Cohen reported regarding the Task Force on Pension Funding. He noted that the Task Force focused on information gathering regarding the City and State pension funds at its meeting on Friday, May 4, 2007. He stated that the Task Force also discussed the proposed statutory authority for pension obligation bonds and reviewed the state of Michigan's transfer to a defined contribution model. He indicated that the next meeting is to be held on June 1, 2007.

In response to a question from Ms. Mayr, Mr. Cohen stated that written materials from the Task Force consist of power point presentations from the City and State to show different ideas regarding funding methods. In response to a question from Ms. Bedford regarding the expected outcome of the review, Mr. Cohen indicated that the Task Force heard the presentations to explore effective measures with respect to funding status and mechanisms. Mr. Hohrein stated that County Supervisor Michael Mayo, who is Chairman of the Task Force, asked for a presentation regarding fiduciary responsibilities at the meeting to be held after the June 1, 2007 meeting.

## 7. Investments

### (a) Boston Partners Report

Messrs. Supple and Pyle distributed a report and presented to the Board on behalf of Boston Partners. Mr. Supple gave an overview of the company, which is part of Robeco Investment Management. He noted that Boston Partners was founded in 1995 and has \$12.6 billion under management. He reviewed the firm profile, described institutional clients and reviewed the type of assets under management.

Mr. Supple next discussed trading activity and indicated that Boston Partners is largely on track with minority, Milwaukee and commission recapture firms. He noted the difficulty in working with commission recapture firms due to reductions in the cost per share of conducting trades through other brokers.

In response to a question from Dr. Roepke, Mr. Supple reviewed the alpha extension large cap value product. Mr. Martin requested that Mr. Supple send something in writing to the Investment Committee regarding its products. Ms. Finney-Cooke mentioned that Mercer could present an educational session as well. Mr. Supple also reviewed the equity investment team of portfolio managers, research analysts and trading experts.

Mr. Supple presented to the Board the portfolio summary through March 31, 2007. He noted that the assets at inception on August 3, 1995 were approximately \$35 million. Also, the fund return since inception was 12.4% after fees, resulting in total assets of \$126.5 million. Mr. Supple also noted that the ERS portfolio performance was favorable compared to its benchmarks.

Mr. Pyle reviewed with the Board Boston Partners' philosophy to protect the fund's principal in adverse markets in order to maximize the power of compounding. He reviewed information regarding the ERS portfolio showing that Boston Partners was successful in meeting this goal.

Mr. Pyle also presented a performance summary for ERS. He noted that the large cap value portfolio had returned 19.8% for 2006, placing ERS in the second quartile of Mercer's US Equity Large Cap Value Universe. He noted that the portfolio has returned 0.7% through first quarter 2007. Mr. Pyle attributed the fund's success to Boston Partners' focus on buying

companies with higher than average profitability characteristics. He indicated that Boston Partners concentrates on measures such as return on equity and operating return on operating assets rather than focusing exclusively on measures such as price-to-earnings and price-to-book.

Mr. Pyle also reviewed Boston Partners' equity investment philosophy, including value discipline, focused internal research and risk averse investing. He noted that Boston Partners uses several methods to select stocks. He indicated that Boston Partners seeks stocks that exhibit attractive value characteristics, strong business fundamentals and catalyst for change. He stated that it sells stocks based on valuation, weakening business fundamentals or reversal of a catalyst. He stated that it is important to avoid overpriced, comfortable companies as well as inexpensive, dismal companies. In response to a question from Dr. Peck, Mr. Pyle described examples of business characteristics that would be considered catalysts for change. Mr. Pyle also described the quantitative analysis and fundamental analysis in Boston Partners' stock selection process.

In response to a question regarding market predictions from Mr. Martin, Mr. Pyle discussed concerns regarding the economy slowing due to housing and unemployment. He anticipated that long-term returns should reach 10%, but returns could be reduced if the housing sector goes down or unemployment rises. In response to a question from Mr. Weber, Mr. Pyle stated that transportation appears to be a strong sector but concerns with infrastructure have led Boston Partners to avoid some investments in the short term.

(b) Mercer Report

Mr. Dennison and Ms. Finney-Cooke presented to the Board on behalf of Mercer Investment Consulting. Mr. Dennison reported that Mercer has asked Ms. Finney-Cooke to be the Segment Leader for Public Funds. He distributed two articles with information about Ms. Finney-Cooke and her achievements.

Ms. Finney-Cooke reviewed with the Board Mercer's report on the first quarter of 2007. She reported on the market environment for the first quarter and noted that the economy had slowed, due do weakness in the housing sector and rising energy prices. She indicated that job growth was stronger than expected and the unemployment rate fell to 4.4%. She indicated that the market was affected by a decrease in consumer confidence, due to concerns about high gasoline prices and stock market volatility. She stated that the federal short-term interest rate target

remained unchanged at 5.25% and described inflation as slightly elevated, making a rate cut in the near future unlikely. She also discussed ten-year Treasury yields. In response to a question from Dr. Peck, Mr. Dennison discussed the yield spread and decreases in the ten-year Treasury yields.

Ms. Finney-Cooke reviewed the domestic equity market performance. She indicated that the S&P 500 Index had risen only 0.6% while the Russell 1000 Index gained 1.2%. She stated that small cap stocks outperformed large cap stocks and trailed mid cap stocks. Ms. Finney-Cooke also described the fixed income market performance, noting that the investment grade bond market saw its highest monthly return in over two years in February.

Ms. Finney-Cooke next discussed ERS asset allocation. She reviewed the overweight asset classes and noted that Mercer would continue to adjust and rebalance through cash flows, as needed. In response to a question from Ms. Bedford, Mr. Dennison reviewed the differences between recent asset class performance.

Ms. Finney-Cooke next reviewed the ERS performance summary. She noted that the total fund assets were approximately \$1.6 billion and that ERS tends to be more conservative than other funds. She reviewed performance of the portfolio managers. She also reported to the Board that Hotchkis & Wiley had asked to invest in more foreign securities than 10%. She anticipates receiving a memorandum from Hotchkis & Wiley explaining its reasoning and suggested that the Investment Committee review the request. Ms. Finney-Cooke also addressed Capital Guardian's lagging performance and indicated that Mercer and the Board were working together to replace it with another fund.

(c) Investment Committee Report

Mr. Martin presented the minutes of the May 3, 2007 Investment Committee meeting. He noted that the Committee had conducted a final review of replacement candidates AQR and Baring for the international manager position. He stated that due diligence trips were scheduled for May 31 and June 1.

Mr. Martin reported that the Committee had reviewed a list of reports that were currently available from each investment manager. The Committee had requested that all Board members be notified of the available reports and the opportunity to receive copies in an electronic format if they so desired. Mr. Martin also stated that the Committee had reviewed investment return on cash liquidity reserves. Mr. Mueller had reported that

ERS is receiving gains on sales of short term securities as well as interest earned. He indicated that last year the return was \$1.3 million.

Ms. Mayr raised a question regarding committee membership. Mr. Grady informed the Board that it may either limit committees to four members or notice their meetings as Pension Board meetings. The Board agreed that it prefers not to limit membership of committees.

8. Vitech Implementation Oversight Committee Report

Mr. Martin reported to the Board regarding the April 10, 2007 meeting of the Vitech Implementation Oversight Committee. He reported that the Committee is meeting monthly and reviewing in depth technical reports from Mr. Campbell. At the April meeting, Mr. Henken reported that the life and health administration will be a County expense and that Vitech will be the software supplier. Mr. Martin reported that the Vitech implementation was being delayed by the state of the Retirement Office files.

9. Implementation of New Technology Software

Mr. Campbell presented the V3 Summary Status Report to the Board. He reported that the records room folder resequencing was approximately 70% complete, the sorting of documents for imaging was approximately 8% complete, the review of detailed specification documents was 22.3% complete, the data mapping process was 18.7% complete and the documents/forms/letter development was 38.8% complete.

Mr. Campbell stated that the significant activities and the accomplishments of the last month included development of Microsoft access test management system, completion of automated testing tool evaluation, review of documents, letters and forms for modules, review of items for inclusion within the contract addendum with Vitech and the first round of data conversion testing. Mr. Campbell reviewed the project budget and noted that the total project expenditures to date were \$2,788,823.

The Board reviewed action items recommended by Mr. Campbell and the Vitech Implementation Oversight Committee, including the recommendation that certain individuals be authorized to travel to Vitech in New York for the purpose of touring their offices and data center, meeting the CIO and addressing any questions related to the implementation of V3. The Board discussed the Vitech user conference and suggested that the attendees take questions from the Retirement Office. Mr. Campbell will prepare questions and seek names of other contacts who are implementing the system. As recommended by the Committee, the Board took the following actions:

**The Board unanimously agreed to retain current record room staff to complete required work before bringing in IKON to begin backfile imaging. The Board noted that the estimated time frame for the project is 4-1/2 months, with an estimated cost of \$45,000. Motion by Mr. Cohen, seconded by Mr. Parish.**

**The Board unanimously agreed to move forward with plans to acquire IBM Rational Functional Tester, Rational Test Manager and Rational Manual Tester software to automate V3 testing activities at an estimated cost of \$25,000. Motion by Mr. Cohen, seconded by Mr. Martin.**

**The Board unanimously agreed to authorize the Chairman, Dr. Jackson, Mr. Campbell and Mr. Martin to travel to Vitech in New York to tour their offices and data center, meet the CIO and address any questions related to the implementation of V3. Motion by Mr. Martin, seconded by Ms. Bedford.**

10. Closed Session

The Chairman stated that the Board may enter closed session for the purpose of receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation or for considering the financial, medical, social or personal histories of specific persons, which, if discussed in public, would be likely to have a substantial adverse effect on the reputation of any person referred to in such histories or data with regards to agenda items 11 and 12. The Chairman also noted that, at the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may be necessary concerning these matters.

The Board agreed by roll call vote to enter closed session to consider items 11 and 12, with Ms. Mayr dissenting.

11. Appeals and Requests

(a) Peter Lepkowski – Denial of buy in request

The Board reviewed a request from Peter Lepkowski to buy in for periods of prior employment with the County. Mr. Lepkowski was an hourly employee who had applied to purchase service credit for optional employment through the buy in program in November of 1997 and followed up annually with the Retirement Office. The Board noted that Mr. Lepkowski was not eligible to buy in until January 1, 2007 and that the program was terminated on December 31, 2006. The Board also reviewed Mr. Lepkowski's service history.

The Board further discussed Mr. Lepkowski's request in closed session.

**Upon returning to open session, the Board unanimously agreed to deny Mr. Lepkowski's request to buy in for previous service because he was not eligible to participate in the buy in program and directed Mr. Hohrein to prepare a denial letter. Motion by Mr. Cohen, seconded by Mr. Weber.**

(b) Janine Uecke – Denial of post-retirement request for option change

The Board reviewed Ms. Uecke's request to change her pension option. She had selected a 50% survivorship benefit. Due to marital issues, she requested to change her pension to include a zero percent survivorship benefit. The Board noted that this change would increase her pension to approximately \$250 per month to approximately \$1,000 per month.

The Board further discussed Ms. Uecke's request in closed session.

**Upon returning to open session, the Board unanimously agreed to deny Ms. Uecke's request and directed Mr. Hohrein to prepare a denial letter. Motion by Dr. Peck, seconded by Ms. Bedford.**

12. Disability Applications or Reexaminations

The Board discussed Disability Applications or Reexaminations in closed session and took the following action upon returning to open session.

(a) Ronda Meeks

**The Board unanimously agreed to approve Ms. Meeks' application for an ordinary disability pension based on the recommendation of the Medical Board. Motion by Ms. Bedford, seconded by Mr. Parish.**

(b) Beatrice Crump

**The Board unanimously agreed to lay over Ms. Crump's application for an accidental disability pension pending the County's search for other suitable jobs and, if necessary, the Medical Board's evaluation of her ability to perform any such job identified. Motion by Mr. Martin, seconded by Mr. Cohen.**

(c) Shirley Nash – Appeal

**The Board unanimously agreed to deny Ms. Nash's current appeal, but agreed to allow an exception for good cause to permit reapplication on a different basis in less than 12 months. Motion by Mr. Cohen, seconded by Mr. Martin.**

13. Closed Session

The Chairman stated that the Board may enter closed session for the purpose of receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation with regards to agenda item 14. He noted that, at the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Board agreed by roll call vote to enter closed session to consider item 14, with Ms. Mayr dissenting.

14. Legal Update

The Board discussed pending litigation in closed session and then returned to open session.

15. Actuarial Experience Study – Buck Consultants

Ms. Nicholl, Mr. Strom and Ms. Hill reviewed the assumption experience review covering 2001 through 2005 with the Board. Ms. Nicholl explained that the review covered the analysis of key assumptions including salary, termination, retirement, back DROP utilization, disability, mortality and investment return. She noted that the review also took into account the impact of recommended tables and assumptions on the contribution.

Ms. Nicholl explained that the point of actuarial assumptions is to determine the employer contribution, check on the progress and security of promised benefits and measure net actuarial gain or loss. She explained that reviewing the five-year period beginning January 1, 2001 and ending December 31, 2005 permitted the Board to compare past experience with assumptions, determine trends and make judgments about the future. She stated that the last review was performed in 2003. Although the next one was not due until 2008, Buck had recommended an acceleration because assumptions appeared in need of modification.

Ms. Nicholl reviewed statistics regarding retirements for employees who are eligible for the back DROP benefit. She also reviewed rates of retirement and back DROP election experience. She noted that 72% of eligible employees elected the back DROP, with an average back DROP length of 4.5 years. Ms. Nicholl stated that the number of general employees not eligible for the back DROP is relatively small, but the number of ineligible employees will increase going forward and the number of eligible elected officials is small. Buck recommended adjusting rates to reflect approximately 90% of 2001-2005 experience and to reflect that 75% of eligible retirees will elect a back DROP, 75%

of those employees will choose the maximum available back DROP period and 25% of those will choose half the maximum period.

Ms. Nicholl reviewed retirement statistics for deputy sheriffs, who have an average age at retirement of 53.6. Buck recommended adjusting rates to reflect the actual pattern of retirements. Ms. Nicholl also reviewed disability retirements and recommended that the Board decrease rates after age 44 to reflect experience. She also compared statistics on ordinary and accidental disabilities.

The Buck representatives discussed termination experience for general employees and deputy sheriffs and recommended that the Board adjust the assumed rates to reflect experience. They also addressed termination rates for elected officials who have been in office for four or more years and recommended increasing current rates from 0.88% to 2% at all ages.

The Buck representatives next reviewed the mortality tables and recommended that the Board adopt the UP94 table projected to 2010, with males set back one year and females set back four years. They also recommended a change to 70% of the mortality table for death in active service for healthy retirees.

Next, the Buck representatives addressed setting economic assumptions. They reviewed the current assumptions of 8.0% for investment return, 4.5% for salary increase and 3.5% for payroll growth. They discussed the components of each economic assumption, including inflation, and how to select them. They indicated that the current inflation assumption of 3% falls within best-estimate range and is consistent with other public pension systems. They reviewed the investment return assumption and recommended that the Board retain the 8% investment return assumption. The Board discussed the importance of this assumption.

With respect to general salary increases, Buck recommended increasing rates below age 30 and decreasing rates above age 40. For elected official salary increases, Buck recommended a flat assumption of 0.5% above the assumed rate of inflation. The Buck representatives reviewed the salary increase assumption for deputy sheriffs and recommended increasing rates below age 40 and decreasing rates above age 45. They also addressed the payroll growth assumption and recommended that the Board continue to use 3.5% as the assumption.

Finally, the Buck representatives reported on the fiscal effects of assumption changes on the actuarial accrued liability and on annual contribution requirements. They stated that the actuarial accrued liability would decrease by \$28.2 million to \$1.88 billion and the 2007 budget contribution would decrease by \$5.7 million to \$53.3 million. In response to a question from Ms. Mayr regarding how these changes relate to the funding percentage of ERS, Ms. Nicholl explained that the funding ratio will increase because assets remain the same.

**The Board unanimously agreed to accept the assumptions recommended by Buck. Motion by Mr. Cohen, seconded by Ms. Mayr.**

16. Adjournment

The meeting adjourned at 2:09 p.m.

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