

Employees' Retirement System of the County of Milwaukee
Minutes of the November 2, 2006 Investment Committee Meeting

1. Call to Order

Chairman John Martin called the meeting to order at 2:45 p.m. in the third floor conference room of the City Campus Building at 2711 West Wells Street, Milwaukee, Wisconsin.

2. Roll Call

Members Present

John Martin, Chairman
Linda Bedford
Dean Roepke
Marilyn Mayr

Members Excused

Michael Ostermeyer

Others Present

John Parish, Trustee
Mark Grady, Corporation Counsel
Erica Buckingham, Reinhart Boerner
Jack Hohrein, ERS Manager
Brad Blalock, Mercer Consulting – via telephone conference
Kristin Finney-Cook, Mercer Consulting – via telephone conference

3. Pension Obligation Bonds (POB)

Mr. Blalock reviewed the articles on Pension Obligation Bonds. He reported that use of such bonds was a good option for more fully funded plans and that issuing POBs in the amount proposed would be on the outside of Mercer's level of comfort, given the fund's current total asset value. The risk occurs with front loading the contributions rather than using a dollar-weighted average. Mr. Roepke questioned whether or not a partial POB issue would be of concern. Mr. Grady reported that the County was just studying the use of POBs at this time and State law would have to change in order to issue 30 year POBs. Mr. Roepke questioned whether or not the mix of the assets should change. Mr. Blalock reported that he felt the Board should invest based on what is best for the Fund and generally within our current investment mix regardless of the source of the contributions.

4. Pension Protection Act (PPA)

Mr. Blalock reported that the PPA required "mark to market value" accounting for assets and the new law had big changes for underfunded plans. He stated that more changes would be coming in the future for government plans and the PPA was mainly for corporate plans. He stated that 18% per year funding would be required for retirement plans and that the law required automatic enrollment with the option to elect not to participate, for defined contribution style plans.

5. Infrastructure Bonds

Mr. Blalock reported on the structure and functions of how these investments operate. The government entity leases an asset for an up front payment. The investment would have characteristics of real estate, fixed income and private equity. He stated that larger pension funds would tend to use these types of investments and these types of investments would have less risk than ERS's current private equity investments but more risk than equity investments. Specific examples would include the Chicago Skyway lease that generated over \$1 billion, and the potential lease of the Chicago Midway Airport.

6. Future Topics

The Committee discussed the number of managers currently used and whether an analysis should be done to determine if any cost savings could be made on manager fees. Mr. Roepke stated that he had learned that more managers reduces risk and increases value.

Mr. Hohrein reported that County Board Chairman Lee Holloway had introduced an amendment to the budget to form a new Benefits Division within the Department of Administrative Services. Mr. Roepke stated the Pension Board should review best practices when considering this proposal and invite the County Executive or Supervisors to a future Pension Board meeting and the Board should discuss budgetary issues.

The Committee briefly discussed timberland investments as a possible addition to the ERS portfolio in the future. Mercer agreed to forward some information concerning this type of investment as soon as a new report is completed.

The Committee decided to include future discussion on private equity and economically targeted investments. The Committee decided to cancel the January 4th investment meeting.

7. Adjournment

The meeting was adjourned at 5:05 p.m.

Submitted by
Jack L. Hohrein
Pension Board Secretary