EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
ANNUITY AND PENSION BOARD

Minutes of the Investment Committee Meeting
held June 11, 2008

The meeting was called to order at 9:05 a.m.

Committee Members Present:	John Barmore William C. Carey W. Martin Morics Michael J. Murphy, Chair Ron Walter
Committee Members Not Present:	Thomas Fischer (arrived later in meeting) Larry Holland (arrived later in meeting) Sebastian Raclaw
Retirement Staff Present:	Bernard J. Allen, Executive Director Martin Matson, Deputy Director Tom Rick, Chief Investment Officer David Silber, Pension Investment Analyst Bruce Thomas, Pension Investment Analyst Suzanne Fortier, Board Stenographer

Others Present: Doug Kryscio, and Patty Schneider, Mercer Investment Consulting; Beth Cleary, City Attorney's Office and Bob Peterman, Smith Barney.

Q1 2008 Performance Review. As a matter of information, Committee members received copies of the First Quarter 2008 Board Report submitted by Mercer Investment Consulting, and ERS' 1st Quarter Performance Report, dated June 11, 2008. Ms. Schneider talked about the economic environment, interest rates and inflation. Mr. Kryscio talked about the unemployment rates. He said Mercer expects to see the volatility continuing for the next six to eight months with some wild swings. The price of oil is not going to go under $100 a barrel any time soon, but he did not feel it would go near $200 a barrel any time soon either. Discussion ensued.

Mr. Rick handed out a one page report from the RV Kuhns study as of December 31, 2008, which gives ERS' projected benefit obligation compared to our assets, and ranks ERS as the #2 Plan. Mr. Rick reported that ERS' asset allocation as of March 31, 2008 was within guidelines, but slightly overweight to fixed income and real estate. The Fund value is down to $4.8 billion as the end of March, which is about a $390 million decrease during the first quarter. He talked about the total Fund performance which shows a return of -6.4, which underperformed the benchmark return of -5.3 for the first quarter. Over the three and five year time periods, ERS has done well against the benchmark while taking on slightly more risk than the benchmark. Mr. Rick said over the five year period ERS had a 13.1 percent return, with about 150 basis points in excess annualized return.

Mr. Silber reported that all domestic equity managers are plotting close to or within the expected styles. For the quarter, the domestic equity composite, as a whole, returned -10.3 percent and underperformed its benchmark by 80 basis points. He talked about the 5-year performance and statistics stating the alpha of -0.3 percent shows the domestic equity managers, in aggregate, have not generated an excess return adjusted for the level of risk they are taking; and the information ratio of 0.3 is less than the 0.5 ERS would like to see. Mr. Silber talked about the relative investment performance of the domestic equity managers as of March 31, 2008, with Earnest outperforming their benchmark by 3.3 percent during the quarter. Barclays slightly outperformed its benchmark by 0.2 percent.

Mr. Silber reported on the international equity composite stating it had a return of -10.0 percent during the quarter, underperforming the benchmark by 1.1 percent. Similar to the US markets there were very few safe havens internationally as both developed and emerging markets struggled during the quarter. One slight offset in the decline was the US dollar continued to depreciate versus most major currencies during the quarter and this helped soften the blow. He stated that for longer time periods the international equity composite has outperformed its benchmark, and the three and five year numbers are still very good on both an absolute and relative return basis. The international equity 5-year performance and statistics chart shows a return of 24 percent per year, outperforming the benchmark by 2.6 percent per year. He said the alpha of 1.3 percent and the information ratio of 0.9 both indicate that the international equity managers, in aggregate, have generated very good risk adjusted returns over the five-year period. Mr. Silber reported that specific to the first quarter, the underperformance was due to both Brandes and Blair. Brandes' underperformance of -2.6 percent was mainly due to stock selection from the United Kingdom, Japan, as well as its overweight in telecommunications. Blair underperformed its benchmark by 0.9 percent mainly due to its emerging markets exposure in China and India. He indicated the DFA international small cap value mandate had a nice quarter outperforming its benchmark by 3.2 percent mainly due to stock selection within energy, financial and investment sectors. Relative performance looks very good over the longer time periods.

Mr. Thomas reported on the fixed income composite stating that as investors moved toward higher quality AAA bonds, the bond market outperformed lower quality bonds; high yield bonds declined while treasuries and mortgage backed securities appreciated. The fixed income composite had a 0.4 percent return, underperforming the benchmark return of 2.2 percent. Over the three and five year time periods fixed income has outperformed the benchmark. He noted that besides real estate, the fixed income composite has been one of the top performing asset classes during the first quarter. The fixed income 5-year performance and statistics chart shows an annualized return of 6.6 percent, which outperformed the benchmark return by 200 basis points. Mr. Thomas reported that Loomis and Reams both underperformed their benchmarks in the first quarter and one year time periods. Over the three and five year time periods, they both outperformed the benchmark. He noted that Loomis's underperformance was the biggest detractor from the composite due to high yield and corporate holdings. This is also some of the reason for Reams' underperformance.

Mr. Thomas stated that as of May 31, 2008 the Fund's value was $5.02 billion. The first quarter shows a -6.4 percent return, which underperformed the benchmark return of -5.3 percent. In April, the Fund had a return of 3.7 percent, outperforming the benchmark return of 3.5 percent. He indicated that the estimated return for May is 1.3 percent, outperforming the benchmark return of 1.0 percent. The year-to-date estimate is -1.7 percent for the ERS Fund, which underperformed the benchmark return of -1.0 percent. Mr. Rick stated that estimate was through May, and so far in June the Fund is down about 2.0 percent. Discussion ensued.

Turner Investment Partners Presentation. As a matter of information, Committee members received a presentation booklet from Turner Investment Partners, dated June 11, 2008. Mr. Rick handed out an updated performance chart for Turner. Mr. Thomas stated that as of June 6, 2008 Turner manages $286 million or 5.8 percent of the Fund's assets, and has been a manager for ERS since July 2002. He indicated that Turner invests in large growth stocks with a focus on companies that exceed earnings expectations and are forecasted to grow at very high rates. Turner's goal is to generate 150 basis points of excess return per year versus the Russell 1000 Growth Index. Mr. Thomas said that Turner did a pretty good job in 2007, but year-to-date, their return is -13.7 percent, which has underperformed the benchmark by about 820 basis points.

Mr. Ebenreiter talked about the Turner organization stating in September of 2007 Turner filed an S-1 Registration Statement with the SEC, which indicated their intent to offer a minority stake of the firm to the public. Turner also communicated this to ERS and Mercer. He said the plan was to do this in late 2007, early 2008, but that has been delayed until year end or early 2009 given the market conditions, specifically the financial services industry. Mr. Ebenreiter indicated that Turner is still committed to doing this, but as it is more of a strategic initiative for the firm timing is less important. What this will do for Turner is firmly cement their independence as an organization going forward. He said this will also serve as a valuable retention tool as this will serve as a way to attract new talent to the firm as they grow their business. There will be no changes in the way Turner manages their clients' assets or service. Discussion ensued.

Mr. Turner briefly talked about Turner's investment philosophy, process and the team. Mr. Ebenreiter summarized the relationship between ERS and Turner stating that ERS' initial investment was $90 million; there were contributions of $95 million; withdrawals of $25.2 million; total portfolio gains of $124.3, which comes to a current portfolio value of $284.1 million as of April 30, 2008. Mr. Ebenreiter indicated that the current portfolio value right now is up to $286 million, which is a gain of $126 million since inception. He also stated that Turner is in compliance with their guidelines since the last time Turner met with the Board.

Mr. Turner said that 2007 had a market that really favored Turner's style. There was a dramatic and quick shift in the market beginning January 2008. He said part of that was building up in 2007 with sub prime and the crisis seen in financial stocks. Moving into 2008 you saw that further accelerate in financial services, ultimately with the climax of the collapse of Bear Stearns, along with oil prices really spiking up. Mr. Turner said this is the reason for the underperformance in January and he talked about other various factors that resulted in the underperformance. Discussion ensued.

Mr. Murphy called for a break at 10:18 a.m. The Committee reconvened at 10:35 a.m.

Asset Liability Study II. As a matter of information, Committee members received a presentation booklet, dated June 11, 2008, submitted by Mercer Investment Consulting. Mr. Kryscio indicated this presentation has the new scenarios the Committee members wanted to see included for consideration. He stated what he is hoping to get from the Committee today is which mix they are interested in and come back to how to get from point A to point B. Mr. Kryscio also said Mercer is hoping for feedback either today or the next meeting on what additional education the Committee would need. Mr. Murphy asked the Committee if they felt ready to get some direction on this issue, or whether they felt comfortable with the past education from Mercer. Mr. Morics stated that the idea that is attractive to him is increasing up to 15 percent in alternatives and going somewhere in Near Efficient Frontier Mix 6. He is comfortable looking at how ERS would get in that direction. Mr. Murphy asked how the rest of the Committee members feel about that analysis. He indicated he was in agreement with Mr. Morics with slight variations. Mr. Kryscio went over the different mixes. After lengthy discussion, it was the consensus of the Committee to move forward with 15 percent and for Mercer to bring back more information to the Committee some time in late July or August.

There being no further business, Mr. Murphy adjourned the meeting at 11:12 a.m.

Bernard J. Allen
Secretary and Executive Director

(**NOTE:** All proceedings of the Annuity and Pension Board Meetings and related Committee Meetings are recorded. All recordings and material mentioned herein are on file in the office of the Employes' Retirement System, 789 N. Water Street, Suite 300.)