

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
ANNUITY AND PENSION BOARD**

Minutes of the Investment Committee Meeting
held February 12, 2009

The meeting was called to order at 9:07 a.m.

Committee Members Present: John Barmore, Vice Chair
 William C. Carey
 Thomas Fischer
 Larry Holland
 Ron Walter

Committee Members Not Present: W. Martin Morics (excused)
 Michael J. Murphy (arrived at 9:15 a.m.)

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: Beth Cleary, City Attorney's Office; Doug Kryscio and Patricia Hafner, Mercer Investment Consulting; Rob Kochis and Kevin Rivchun, The Townsend Group; and Daniel Blumhardt and Jeremy Watt, Barclays Global Investors.

Mr. Barmore called the meeting to order.

Townsend Group Presentation. As a matter of information, Committee members received a Performance Measure Report – Third Quarter 2008. Mr. Rick handed out an updated performance chart. Mr. Thomas provided some background information on The Townsend Group indicating that as of December 31, 2008, they manage \$354 million, which split among 20+ strategies. He stated that Townsend's core target was recently changed from 60 percent to 50 percent, and the Value and Opportunity has changed from 40 percent to 50 percent. Mr. Thomas noted that Townsend's ability to invest internationally has remained at 20 percent of the real estate allocation, which was approximately 9.5 percent of the total real estate allocation as of September 30, 2008.

Mr. Kochis reported that with the changes approved by the Committee Townsend is back in compliance in terms of the funded level. He said because of the lag in terms of performance and valuations in real estate Townsend is still in a period of correcting values. He said they know the market is going to get quite ugly, and Townsend is expecting some pretty dismal returns for the next six months to one year. The number one factor that affects commercial real estate is the announcements of all the job losses nationally and globally. He said the first punch in real estate is the re-pricing because capital markets have re-priced every asset class, and real estate is feeling that now. The number two punch is going to be the significant deterioration of operating fundamentals in 2009. Brief discussion ensued.

Mr. Kochis reported that ERS has \$365 million invested in real estate as of September 30, 2008. He indicated that Townsend expected a loss of 20 to 25 percent of that value over the last two quarters of 2008. Mr. Kochis stated that the third quarter data came in better than expected with ERS' portfolio only declining about 7 percent, and the fourth quarter looks like it is going to be a lot worse than Townsend expected. Mr. Kochis said Townsend's best estimate to clients is to expect about a 20 to 25 percent write-down.

(Mr. Murphy arrived at 9:15 a.m.)

He stated that the consensus is that 2009 is going to be a complete write off as there will not be any rebound in 2009 in the economy. He indicated that with real estate lagging the economy, Townsend does not expect a rebound in real estate until 2010 or beyond. Mr. Kochis went over ERS' third quarter performance measurement report. Discussion ensued throughout presentation. Mr. Rivchun talked about the Oakbrook property in the UBS Separate Account stating that the current strategy is to liquidate the property and return all available capital to ERS when a reasonable sale price can be obtained. After discussion, it was moved by Mr. Carey and seconded by Mr. Fischer, to approve the recommendation by Townsend to refinance the Oakbrook property at this time. After further discussion, the motion prevailed by the following roll call vote: AYES: Messrs. Carey, Fischer, Holland, Walter and Murphy. NOES: Mr. Barmore.

Barclays Global Investors Presentation. As a matter of information, Committee members received a presentation book, dated February 12, 2009. Mr. Rick handed out an updated performance chart. Mr. Silber introduced Mr. Blumhardt and Mr. Watt. He indicated that Mr. Watt is ERS' new Client Relationship Officer, but he has worked behind the scenes on ERS' account. Mr. Silber provided background information on Barclays and briefly talked about their performance. Mr. Watt stated that Barclays was managing close to \$700 million for ERS as of January 31, 2009. Barclays did outperform by 64 basis points in 2008 but slightly under their target of 100 basis points. He said the Barclays Intermediate Aggregate Index did outperform by 17 basis points in 2008, slightly above target, and he talked about that index and BGI's modular design.

Mr. Blumhardt talked about how BGI reorganized their business to be more efficient for Global Active Equity. He talked about Barclays' investment philosophy; stock selection; and portfolio characteristics of the Russell 1000 Alpha Tilts Fund. Mr. Blumhardt talked about Barclays' performance in 2008, the active risk, and the information ratio. He highlighted the reversal in trending behavior as investors sought safe havens, and opportunities created by the recent crisis. Discussion ensued throughout presentation.

(Mr. Walter left at 10:40 a.m.)

Mr. Murphy called for a break at 10:40 a.m. The Committee reconvened at 11:00 a.m.

Review of Global Equity Search Managers. As a matter of information, Committee members received a memo from Mercer, dated February 12, 2009. Mr. Kryscio and Ms. Hafner updated the Committee on the Global Equity Search Criteria and list of candidates for both Global Equity – Growth and Global Equity - Value. Brief discussion ensued.

Educational Session – Private Equity and Infrastructure. As a matter of information, Committee members received a presentation book, dated February 12, 2009. Mr. Kryscio walked the Committee through the presentation book. Discussion ensued throughout the presentation.

Approval for Reams’ to Extend Downgraded Debt Holding. As a matter of information, Committee members received a letter from Reams, dated February 4, 2009. Mr. Silber talked about the Harrah’s Casino bond. After discussion, it was moved by Mr. Carey, seconded by Mr. Holland, and unanimously carried, to approve Reams’ request to hold the downgraded bond an additional 90 days.

Fund Update on Downgraded Holdings. As a matter of information, Committee members received a report on MERS Downgraded Securities. Mr. Thomas briefly talked about the downgraded securities.

Fund Added Value Report. As a matter of information, Committee members received a copy of the Active Management versus Passive 10-Year Analysis, 1/1/99 – 12/31/08. Mr. Silber updated the Committee on the added value to the Fund.

Rebalancing Update. As a matter of information, Committee members received a memorandum from Mr. Silber, dated February 4, 2009. Mr. Silber updated the Committee on the rebalancing.

MERS Q4 2008 Performance Report. As a matter of information, Committee members received the Board Report Periods Ending December 31, 2008 from Mercer and a 4th Quarter Performance Report from staff, dated February 12, 2009. Brief discussion ensued with respect to the fee schedules contained in the Mercer report. Mr. Rick, Mr. Silber and Mr. Thomas updated the Committee on the 4th quarter performance. Discussion ensued throughout the presentation.

There being no further business, Mr. Murphy adjourned the meeting at 12:33 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 Employees’ Retirement System, 789 N. Water Street, Suite 300.)