

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

Minutes of the Investment Committee Meeting  
held June 18, 2009

The meeting was called to order at 10:30 a.m.

Committee Members Present:        Thomas Fischer  
   Angela Henschel  
   Larry Holland  
   W. Martin Morics  
   Michael J. Murphy, Chair

Committee Members Not Present:   John Barmore (arrived at 10:35 a.m.)  
   William C. Carey (arrived at 10:37 a.m.)  
   Ron Walter (excused)

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  
   Kathleen Conway, Board Stenographer

Others Present: Beth Cleary, City Attorney's Office; Doug Kryscio and Patty Hafner, Mercer Investment Consulting; Christopher Reece and Halie O'Shea, Turner Investment Partners; and Rob Kochis and Kevin Rivchun, The Townsend Group.

**Mercer Update.** As a matter of information, Committee members received a copy of a letter from Mercer, dated June 10, 2009.

**Global Equity Search.** Mr. Kryscio updated the Committee on the Global Equity Search fee schedules for both the Global Growth Equity and Global Value Equity firm. After discussion, it was moved by Mr. Carey, seconded by Mr. Morics, and unanimously carried, to approve Mercer's recommendation to hire MFS and GMO for the stated mandates pending final due diligence, legal document review, on-site visits and contract negotiations.

**Fixed Income.** Mr. Kryscio stated that in December 2008 Mercer recommended looking for a fourth manager, but they wanted to see the fixed income market return to a more normal state, so Mercer agreed to wait until June 2009. He handed out a chart from TCW. Mr. Kryscio indicated that the bottom line is that Mercer is suggesting delaying this decision another six months until December 2009. Mr. Kryscio handed out a chart on Reams Asset Management. He stated that it is Mercer's opinion that Reams did not buy any additional risky securities, but held on to the ones that went down last year, but have now come back up. Discussion ensued.

**Custody.** Mr. Kryscio stated that Mercer uses a company called the Sentinel Group, that specializes in custody review and currency transactions. It is the Sentinel Group's suggestion that with the current environment it is not a good idea to make a

credit decision on a banking organization right now. Mercer indicated that by making a custody change the Fund would be making an explicit credit decision on the soundness of the bank ERS would choose. Mr. Kryscio stated that Mercer is recommending extending the contract ERS has with Northern Trust for one to two years. Mr. Rick indicated that he was comfortable sticking with Northern for an extended period of time, 2 years, in the absence of the lack of transparency through the custodial arena. Discussion ensued.

**Asset Allocation Implementation Plan.** Mr. Kryscio stated that Mercer recommends that ERS begin a private equity (fund-of-funds) search. The expectation is to hire 1 to 2 managers for a total of approximately \$100 million. He stated that, if approved, staff and Mercer would suggest following the similar approach as to the recently completed global equity searches. After discussion, Mr. Barmore and Mr. Murphy both indicated that they would like an update and further education on the private equity strategy. Further discussion ensued.

**Q1 2009 Performance and Update.** As a matter of information, Committee members received copies of the Mercer Board Report Periods Ending March 31, 2009, and ERS' 1<sup>st</sup> Quarter Performance Report, date June 18, 2009. Mr. Kryscio indicated that he attended an investment forum that had a lot of outside speakers from different approaches: fixed income, private equity, hedge funds, and three economists. He stated that all these individuals came to the same conclusion: the economy is better than it was; we are not out of this yet; and it could be worse before getting better, but people are more comfortable than in September and October. Mr. Kryscio stated that it is fair to say that no one expects a "V" shaped correction. Mercer does not think the economic numbers will get better until early 2010; and the unemployment numbers will be over 10 percent. He stated that it is nice to see ERS' managers having some positive performance.

**Turner Investment Partners Presentation.** As a matter of information, Committee members received a presentation book from Turner, dated June 18, 2009. Mr. Thomas handed out an updated performance report and briefly updated the Committee. Mr. Reece briefly talked about his and Ms. O'Shea's backgrounds, and updated the Committee on the organization. Ms. O'Shea talked about Turner's investment philosophy; investment process; investment team and responsibilities, and Turner's portfolio construction. Mr. Reece stated that ERS' original investment was \$90 million, and with the contributions and withdrawals, there is a total portfolio gain of just under \$27 million since inception. He briefly talked about Turner's investment guidelines, and pointed out that on May 4, 2009 some appreciation in the foreign ADR holdings caused an increase to 10.1 percent. This was subsequently sold down below the 10 percent cap. Mr. Reece stated that other than that brief instance, Turner has been in compliance with the stated guidelines.

Ms. O'Shea directed the Committee's attention to page 19. She talked about the higher growth companies rebound in 2009. Ms. O'Shea stated that year-to-date Turner has outperformed by 300 basis points. She talked about the market environment in years 2007 and 2008. Ms. O'Shea reported that since inception of this strategy in 1997, the strategy has outperformed the Russell 1000 Growth during seven of the eight times that the Russell 1000 Growth has been up during this period. She briefly talked about the portfolio attribution. Discussion ensued with respect to health care related companies.

Ms. O'Shea continued with the portfolio positioning and characteristics. Discussion ensued.

**The Townsend Group Presentation.** As a matter of information Committee members received a copy of a presentation book, "MERS' Performance and Market Outlook Fourth Quarter 2008", dated June 18, 2009. Mr. Silber handed out an updated performance chart and briefly updated the Committee. Mr. Kochis talked about the market environment, stating there has been a major disruption in the capital markets, and real estate is a capital intensive asset class, and any real estate investor is not immune from what is going on in the market. Mr. Kochis reported that ERS' portfolio suffered a significant loss in 2008, down 22 percent, and underperformed the benchmark by more than 1,400 basis points during the calendar year.

Mr. Kochis talked about the 2009 real estate market outlook stating that right now real estate markets are basically frozen. He talked about transaction volume in institutional real estate, and based on 2008 results the transaction volume has dropped down to levels that have not been seen since the early 1990s. Mr. Kochis said Townsend tracks the redemption cues for the large-pooled-open-end funds, of which ERS does invest, and these are good vehicles to get access to the market. He said that investors are trying to get their money out; the cash flows are moving in the opposite direction; and the redemption cues in these large pools have grown from \$2.5 billion in December 2007, to \$12.2 billion in January 2009. Mr. Kochis said that is a signal that most investors are moving in the other direction and getting out of real estate. He said the banking window is closed for most real estate investors as lenders are not lending. Discussion ensued. Mr. Kochis talked about the challenge of replacing debt and the NCREIF Property Index – valuation lag. He talked about investment implications; new initiatives for MERS – Equity, Debt, Recaps and the Opportunity Set.

Mr. Rivchun talked about MERS' performance versus the NCREIF Property Index; property index quarterly returns; long-term index returns; portfolio risk diversification; MERS' cashflows, and MERS' performance versus Townsend clients. Lengthy discussion ensued.

There being no further business, Mr. Murphy adjourned the meeting at 12:08 p.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.)