

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

Minutes of the Investment Committee Meeting  
held May 6, 2010

The meeting was called to order at 9:10 a.m.

Committee Members Present:        John Barmore  
   Konrad Ellenberger  
   W. Martin Morics  
   Michael J. Murphy, Chair

Committee Members Not Present:   William C. Carey  
   Larry Holland (excused)  
   Gust Petropoulos (excused)  
   Ron Walter

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: Rudy Konrad, City Attorney's Office; Doug Kryscio and Patricia Hafner, Mercer; W. George Greig and Julie Stevens, William Blair; Larry Spieth and Robert Deere, Dimensional Fund Advisors; and Craig Bardo, BroadRiver Asset Management.

Due to the lack of a quorum, the meeting convened as a sub-committee.

**Review of Q1 2010 Performance.** As a matter of information, Committee members received copies of the ERS 1<sup>st</sup> Quarter Performance Report, dated May 6, 2010, and the Mercer Board Report Periods Ending March 31, 2010. Mr. Kryscio talked about the market environment. Mr. Rick reported that at quarter-end the Fund was in line with our interim allocation approved by the Board late last year. The fund's underweight to real estate was offset by overweights to International Equity and the funding of our global equity mandates. The transition bar represents the \$60 million tranche which was completed in early April. He stated that at quarter end, the Fund had a market value of approximately \$4.13 billion, a net increase of \$166 million since the beginning of the year. Through Q1 2010, the fund had a total of \$164 million in unrealized capital market gains. This gain is netted against contributions of \$68 million and the payment of over \$70 million in retiree payments and operating expenses to arrive at the net increase of \$166 million at quarter end. Mr. Rick reported for the first quarter the Fund had a return of 4.2 percent or 90 basis points higher than the blended benchmark. He talked about the total Fund 5-year performance and statistics. Brief discussion ensued.

Mr. Silber reported on the domestic equity performance stating the portfolio did very well during the first quarter, as well as the past twelve months. The composite had a return of 6.7 percent for the quarter, outperforming its benchmark by 80 basis points, and had a one-year return of 56.7 percent, outperforming by about 430 basis points. He briefly

talked about the 5-year performance and statistics. Mr. Silber talked about relative investment performance as of March 31, 2010. He noted that the outperformance over the quarter and one-year time periods was largely driven by DFA and Bernstein. Over the longer term you can see the underperformance driven by Turner, Bernstein and Barclays. Mr. Silber indicated that Artisan had the worst relative performance during the quarter and one-year time period and was replaced on March 22, 2010 with Allianz, and they will show up on this report next quarter. BlackRock is the only manager to be underperforming in all time periods, and DFA is the only manager to be outperforming in all time periods.

Mr. Silber reported on the international equity composite stating it has performed very well, outperforming in all time periods. During the quarter the composite had a return of 2.4 percent and outperformed by 150 basis points. He briefly talked about the 5-year performance and statistics. Mr. Silber talked about the relative investment performance as of March 31, 2010. He noted that the first quarter performance was largely driven by Blair and DFA's outperformance. Over the longer term the outperformance has been driven more by Brandes and DFA International.

Mr. Thomas reported the fixed income composite had a 3.3 percent return, which outperformed its benchmark by 150 basis points. Over the one-year time frame they managed to outperform by 2,200 basis points. He briefly talked about the 5-year performance and statistics. Mr. Thomas talked about relative investment performance as of March 31, 2010. He noted that Loomis and Reams outperformance over all time frames is indicative of the portfolio's outperformance. Loomis' outperformance comes from its holdings in non-dollar, investment grade and high yield credit. Reams outperformance for the quarter comes from their holdings in CMBS, high yield and investment grade credit. Mr. Thomas talked about the first quarter transitions with GMO and Allianz. He reported that as of April 30, 2010, the Fund was valued at \$4.1 billion, and in the first quarter ERS outperformed by 90 basis points. In April the Fund's estimated 1.7 percent return outperformed the benchmark's estimated 0.9 percent return by an estimated 80 basis points. In May, month-to-date, the Fund is down 2 percent; and year-to-date the Fund is up over 3.8 percent.

**Approval of Value Added Report.** As a matter of information, Committee members received a copy of the Active Management versus Passive Analysis 1/1/00 – 12/31/09. Mr. Rick handed out a returns chart analysis from Northern Trust, dated May 6, 2010, and stated this is an annual report. Mr. Thomas stated this report shows the Fund's decision to invest actively and also the decision to invest internationally as well. He reported that ERS' domestic, international and fixed income portfolios had excess returns of 2 percent, 2.5 percent and 1 percent, respectively, which rolls up into a value added number of \$680.5 million. He said the chart is a view of ERS' decision to invest internationally. Mr. Thomas reported that ERS' total equity had excess returns of 2.6 percent, which translates into \$701.4 million. Combine that with the fixed income's \$85.8 million, you get a total of \$787.2 million in added value. Brief discussion ensued.

**William Blair Presentation.** As a matter of information, Committee members received a presentation book, dated May 6, 2010. Mr. Rick handed out an updated performance chart. Mr. Thomas briefly talked about William Blair's performance. Ms. Stevens talked about the firm and team update and an overview of their asset base. Turning to page 19,

she talked about market performance through March 2010. Ms. Stevens went over the performance summary stating the ACWI was up about 1.66 percent and ERS' portfolio was at 2.89 percent for the quarter. She stated that through yesterday, year-to-date, the portfolio is down 0.83 percent; however, the benchmark is down 3.97 percent. Ms. Stevens briefly talked about ERS versus MSCI ACWI ex-US attribution. Mr. Greig talked about current positioning for the City of Milwaukee, including regional and sector weightings as of March 31, 2010. Discussion ensued throughout the presentation.

Mr. Murphy called for a break at 10:15 a.m. The Sub-committee reconvened at 10:30 a.m.

**Approval of Agreement with Abbott Capital; Approval of Agreement with Mesirow Financial; Approval of Agreement with T. Rowe Price; Approval of The Townsend Group Brookfield Agreement; Approval of Northern Trust Securities Lending Fee Agreement.** Mr. Rick noted that these items were on the agenda as placeholders, but none of the agreements were ready for approval at this time.

**Update on Investment Consultant RFP.** As a matter of information, Committee members received a copy of two memorandums from Mr. Silber, dated April 28, 2010. Please note that due to the lack of a quorum, the Committee did not convene in closed session as noticed. Mercer representatives excused themselves for the discussion on this item. Mr. Silber reported that Mercer's consulting contract expires June 30, 2010. He stated staff sent out an RFP for general investment consulting services as Mercer has been our consultant for ten years. Mr. Silber indicated that while there are no concerns with Mercer as a consultant, staff thought it was appropriate to test the market to make sure the Fund is receiving top-tier consulting services. He said ERS received nine responses to the RFP; staff put together an RFP review committee and reviewed all nine responses. Overall, there was unanimous consent that Mercer's proposal was the best of the nine. Mr. Silber stated that ERS staff is recommending that the Fund retain Mercer as our consultant and enter into negotiations. He handed out a confidential memorandum, dated May 6, 2010, which outlined the process. After discussion, it was moved by Mr. Morics, seconded by Mr. Barmore and unanimously carried, to support the recommendation of staff to continue with Mercer and enter into negotiations. Mr. Rick indicated that staff would start the process as Mercer's contract expires at the end of June.

Ms. Cleary updated the Committee on items IV. through VIII. stating they are on the verge of completion for almost all of these items, with a goal to have all of these agreements and amendments at the next Board meeting. For Abbott and Mesirow the City Attorney's office has been working with Reinhart and everything is pretty much complete in terms of negotiations. She indicated that her office is doing a final public records review in terms of the language specific to public records. Ms. Cleary stated these new types of investments that the Board is getting into have a bit more sophistication in its approach to the type of information. The City Attorney's office is scrutinizing that and making sure we are comfortable with that language, and hopefully going forward this can help us if we can set precedent with getting the best possible language. She said they are in the middle of negotiations with T. Rowe Price. On the Townsend Group, Ms. Cleary indicated they were working with Reinhart to look over the Brookfield agreement, which is going along nicely. Townsend has agreed to a lot of what we have asked in terms of strengthening our position and terms with them. She

stated that working with Reinhart has been very value added as opposed to just having blindly gone into this agreement.

**Discussion and Approval of Fixed Income Manager Search.** As a matter of information, Committee members received a memo from Mercer, dated May 6, 2010. Mercer handed out an updated memo, dated May 6, 2010. Mr. Kryscio said a fixed income review was conducted at the end of 2008, and what was agreed was to keep the overall exposure to fixed income to 28 percent, including cash. He talked about some of the things that came out of the review. Mercer recommended adding an additional manager with a 5 percent allocation by taking 2 percent from Loomis, 1 percent from Reams and 2 percent from BlackRock. Mr. Kryscio talked about the portfolio structuring and sector analysis. He said two things we want to accomplish with by this exercise is to bring down the overall volatility of the fixed income portfolio, and not having over 12 percent of your overall plan with one active manager, which is a bit much. Mr. Kryscio stated that Mercer would recommend the 5% Aggregate + 2% Global; than the 5% Aggregate. Mr. Rick said he was comfortable with Mr. Kryscio's recommendation, but his first choice would be 5% Aggregate, and his second choice would be 5% Global. After discussion, it was the consensus of the Committee to go with the 5% Global allocation. Mr. Kryscio stated that Mercer will begin making a long list; they will work with ERS staff and if any Board members would like Mercer to consider a firm, please send them an email or let Mr. Rick know the firm's name. He said the list would be ready by the June 10 Investment Committee meeting, and have finalist presentations for the July 22 Investment Committee meeting.

**Dimensional Fund Advisors Presentation.** As a matter of information, Committee members received a presentation book, dated May 6, 2010. Mr. Rick handed out an updated performance chart. Mr. Silber briefly talked about DFA's performance. Mr. Spieth briefly talked about Mr. Deere's background. Mr. Deere talked in length about DFA's portfolio construction, the market environment, and the issues in Europe involving Greece. Discussion ensued throughout the presentation.

There being no further business, Mr. Murphy adjourned the meeting at 11:50 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.)