

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

Minutes of the Investment Committee Meeting
held September 2, 2010

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

Committee Members Present: John Barmore
 Konrad Ellenberger
 Michael J. Murphy, Chair
 Gust Petropoulos
 Ron Walter

Committee Members Not Present: William C. Carey
 Larry Holland (excused)
 W. Martin Morics (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
 Suzanne Fortier, Board Stenographer

Others Present: Doug Kryscio and Mariya Nikolova, Mercer Investment Consulting; and Mark Turner and Chris Reese, Turner Investment Partners.

Mr. Murphy directed that item VI. be taken up at this time as we may lose a quorum.

Approval of Global Fixed Income Finalists. Mr. Murphy advised that the Investment Committee of the Annuity and Pension Board may vote to convene in closed session on the following item (VI.), as provided in Section 19.85 (1) (e), Wisconsin State Statutes, for deliberating or negotiating the purchasing of public properties, the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session. The Committee may then vote to reconvene in open session following the closed session. It was moved by Mr. Barmore and seconded by Mr. Petropoulos that the Committee convene in closed session on this item. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Ellenberger, Petropoulos, Walter and Murphy.

The Committee convened in closed session at 9:12 a.m. The Committee reconvened in open session at 9:21 a.m.

Q2 2010 Fund Performance Review. As a matter of information, Committee members received copies of Mercer's Board Report – Periods Ending June 30, 2010, and ERS' 2nd Quarter Performance Report, dated September 2, 2010. Mr. Kryscio briefly talked about the market environment. He stated that just this morning he and Mr. Rick received an email from Reams Asset Management indicating they are being sold to UMB, a bank in Kansas City, which has an investment subsidiary called Scout Investment Advisors. Mr. Kryscio stated there will be a consent letter that will have to be signed, and Mercer will

have an opinion of this as we move through this issue. He stated that Reams' initial reaction was that this is not a liquidation of the senior partners, who all have five year contracts and must stay. The team is going to stay independent and use Scout and UMB for things like HR and marketing. Discussion ensued. Mr. Kryscio stated that Mercer and ERS Staff did due diligence trips to Turner, AllianceBernstein, and also visited Allianz, and Abbott. Discussion ensued.

Mr. Rick talked about the asset allocation as of June 30, 2010; as of June 30, 2010 the Fund had a market value of just under \$3.8 billion, which is about a \$177 million decrease from year end. He stated that for the quarter the Fund was down about 6.8 percent, beating its reference benchmark by 20 basis points. Mr. Rick talked about the total Fund 5-year performance and statistics. Discussion ensued.

Mr. Silber reported on the domestic equities stating the composite had a return of -11.5 percent underperforming its benchmark by 20 basis points. The composite is still outperforming over the year-to-date and one year time periods. He talked about the domestic equity 5-year performance and statistics and relative investment performance as of June 30, 2010. Discussion ensued. On the international equity performance Mr. Silber reported that the active managers provided a significant amount of value added, not only during the quarter, but during all time periods. While the composite had a return of -9.9 percent during the quarter, they outperformed by 4.1 percent, and have outperformed strongly in all time periods. He also talked about the international equity 5-year performance and statistics and relative investment performance – June 30, 2010. Discussion ensued.

Mr. Thomas talked about the global equities stating ERS currently has only GMO on the report at this time; T. Rowe Price will be added for the 3rd quarter performance. He reported that GMO underperformed their benchmark by 60 basis points. Mr. Thomas reported that the fixed income composite had a 1.8 percent return, underperforming its benchmark by 170 basis points. He talked about the fixed income 5-year performance and statistics and relative performance – June 30, 2010. Mr. Thomas reported that through September 1, 2010, the Fund is at \$3.9 billion in assets, and year-to-date the Fund is up by an estimated 1.4 percent.

Turner Investment Partners Presentation. As a matter of information, Board members received a presentation book, dated September 2, 2010. Mr. Silber handed out an updated performance chart. Mr. Thomas briefly talked about Turner Investment Partners. Mr. Reece briefly talked about the organization. Mr. Turner talked about Turner's investment philosophy; investment process; and the investment team. He also talked about the relationship summary with ERS; and investment guidelines. Mr. Turner went over the market review for the second quarter in 2010; the domestic equity index performance; annualized returns performance as of July 31, 2010. Discussion ensued. Mr. Turner talked about the portfolio attribution and the sectors and securities that hurt Turner's performance. He also spoke about the portfolio positioning; portfolio characteristics; and their market outlook. Discussion ensued.

Mr. Murphy called for a break at 10:42 a.m. The meeting reconvened as a sub-committee at 10:50 a.m.

(Mr. Walter left the meeting at 10:42 a.m.)

Asset Allocation Roadmap Update. As a matter of information, Committee members received an ALM Study – Implementation Update. Mr. Kryscio gave some background information for the new Board members. He talked about the proposed interim allocation and the recommended allocation and summarized the implementation time. Mr. Kryscio provided a hand out of “Mercer view Commodities – April 2010” stating Mercer would be happy to turn this into a presentation. Mr. Murphy indicated it would be worthwhile to have an education session on commodities. Mr. Kryscio continued talking about the road map for the third and fourth quarters 2010, and the first, second and third quarters of 2011. Discussion ensued.

T. Rowe Price Transition Update. As a matter of information, Committee members received a memorandum from Mr. Thomas, dated August 27, 2010. Mr. Thomas reported that in July and August we continued the transition of assets over to T. Rowe Price. At the end of July ERS used BlackRock Transition Management to transfer \$60 million, which came in 7 basis points better than BlackRock had estimated. On August 18, 2010, he stated that ERS also transitioned \$25 million in cash, which was sourced from Blair, DFA – domestic and from Loomis Sayles. Mr. Thomas indicated ERS staff expects to transition an additional \$25 million on September 14, 2010, which would be sourced from Blair, DFA and Earnest. He said feedback from GTA was also attached to the memorandum.

Northern Trust Securities Lending Update. As a matter of information, Committee members received a copy of a memorandum from Mr. Rick, dated August 27, 2010. Mr. Rick reported that ERS earned about \$200,000 less than what we earned last year. This was primarily because earnings are based on a liquidity premium for the collateral pool in which ERS is investing. He indicated this is also due to lower interest rates, so the spreads ERS receives compared to what we pay for the on-loan spread are lower.

There being no further business, Mr. Murphy adjourned the meeting at 11:15 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.)