

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

Minutes of the Investment Committee Meeting
held September 14, 2011

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

Committee Members Present: John Barmore
 William C. Carey
 Michael J. Murphy

Committee Members Not Present: Larry Holland (arrived at 9:15 a.m.)
 W. Martin Morics (excused)
 Gust Petropoulos
 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: Kevin Dolsen, Callan Associates; Trey Greer and Jessie Magee, Earnest Partners; and Beth Cleary, City Attorney's Office.

Q2 2011 Fund Performance Briefing. As a matter of information, Committee members received copies of the Callan Associates Investment Measurement Service Quarterly Review, June 30, 2011 and Executive Summary, dated September 2011, and the ERS 2nd Quarter Performance Report, dated September 14, 2011. Mr. Dolsen talked about the world economy; 2nd quarter market performance; asset allocation; total Fund performance; and ERS' investment manager performance. Lengthy discussion ensued.

Mr. Rick talked about ERS' asset allocation as of June 30, 2011. He reported that as of June 30, 2011 the Fund is slightly over \$4.4 billion or a \$97 million increase over the start of 2011. Mr. Rick reported on the year-to-date market value change; total Fund performance; total Fund 5-year performance and statistics; and total Fund versus the universe. Mr. Silber updated the Committee on the domestic equity performance stating the return for the quarter was -1.0 percent, underperforming the benchmark return, which was flat. He talked about the domestic equity 5-year performance and statistics; and domestic equity composite versus the universe.

Mr. Silber reported on the domestic equity managers' relative investment performance as of June 30, 2011 stating that BlackRock was the only active manager that outperformed its benchmark during the quarter. He noted that the international equity portfolio has a

positive return during the quarter of 1.4 percent, but still underperformed its benchmark by 20 basis points. Mr. Silber briefly talked about the international equity 5-year performance and statistics; and the international equity composite versus the universe. He reported on the international equity managers' relative investment performance as of June 30, 2011 stating that DFA and Brandes both underperformed, which was largely offset by Blair who had a very strong quarter due to stock selection.

Mr. Thomas reported on the global equities market stating returns were mixed, as the domestic market had flat returns during the second quarter, the developed non-US had positive returns, and the emerging markets had negative returns. He stated the Greek sovereign debt crisis, along with weak US economic data is what weighed on the market for the second quarter. Mr. Thomas reported that for the second quarter the global equity portfolio underperformed its benchmark by 130 basis points. He talked about the global equity performance and statistics since inception, and the global equity portfolio versus the universe. Mr. Thomas reported on the global equity managers' relative investment performance as of June 30, 2011 stating that GMO and T. Rowe Price both underperformed.

He stated that the fixed income portfolio did well during the second quarter outperforming the benchmark by 60 basis points. Mr. Thomas talked about the fixed income 5-year performance and statistics, and the fixed income portfolio versus the universe. He noted that the fixed income managers' relative performance as of June 30, 2011 stating that Loomis and Wellington both outperformed their benchmark, and all managers have outperformed over the long term. Mr. Thomas reported that the estimated market value as of August 31, 2011 was \$4.11 billion and the Fund underperformed by an estimated 60 basis points through the month of August; and September year-to-date, the Fund is down approximately 4.3 percent. Discussion ensued throughout the presentation.

Approval of R. W. Baird Contract and Due Diligence Report. As a matter of information, Committee members received copies of the Baird contract and due diligence report, dated September 6, 2011. Mr. Rick stated the contract was negotiated between the City Attorney's Office, ERS staff and R. W. Baird. He talked about what the City wants to do with the Employer Reserve Fund and the process used to make the decision to hire Baird. Mr. Rick stated that staff recommends this as fitting the needs of the City and ERS is prepared to go forward with the City and setting up that structure within Northern and get the funding set up. After discussion, it was moved by Mr. Carey, seconded by Mr. Barmore, and unanimously carried, to recommend approval to the full Board at the September meeting.

Mr. Murphy stated if there were no objections, he would like to hear from Earnest Partners at this time.

Earnest Partners Presentation. As a matter of information, Committee members received a presentation book, dated June 30, 2011. Mr. Rick handed out an updated performance chart for Earnest Mid Cap Equity strategy. Mr. Thomas briefly talked about

Earnest Partners strategy. Mr. Greer briefly talked about the firm; investment guidelines; equity market overview; Earnest's mid cap core portfolio review; equity market overview as of June 30, 2011. He talked about the portfolio summary as of June 30, 2011 stating the portfolio value was \$136 million; Earnest had about 6 percent cash at quarter end due to a holding being sold. Mr. Greer reported on performance through September 13, 2011 stating the portfolio is down 15 percent, which is in line with the benchmark; year-to-date as of September 13, 2011 the portfolio and the benchmark are both down around 8 percent.

Mr. Magee talked about ERS' performance attribution - June 30, 2011; contributors and detractors; sector weightings - June 30, 2011; and asset growth - June 30, 2011. Discussion ensued.

Mr. Murphy called for a break at 10:34 a.m. The Committee reconvened at 10:47 a.m.

Equity Discussion Part III and Recommendations. As a matter of information, Committee members received a copy of a presentation book, dated September 2011. Mr. Dolsen talked about an equity structure analysis; role of equity in the portfolio; equity decision path; pros and cons of active management; active versus passive; large cap value and growth; concentrated groups; active equity management and associated tracking error; styles of active equity management and associated standard deviation; risk and return of options in large cap; return per unit risk; and domestic equity structure. Lengthy discussion ensued.

(During the above discussion, Mr. Murphy left the meeting and Mr. Barmore took over as Chair.)

Approval of Due Diligence Reports: Reams Asset Management and Earnest Partners. As a matter of information, Committee members received copies of the Reams Asset Management and Earnest Partners due diligence reports, dated September 8, 2011. Mr. Silber reported on the trip to Reams talking about the purchase by Scout Investments. He indicated that Reams performance and compliance stating there were no issues at this time. Mr. Thomas reported on the trip to Earnest Partners stating there were only a few minor issues such as potential expansion of their strategies; effects of turnover; and their higher trading costs than ERS wants to see. He noted there were no compliance issues and staff will continue to monitor Earnest. Discussion ensued.

Discussion on Townsend Group Organizational Change. As a matter of information, Committee members received copies of a letter and Investment Advisory Agreement from Townsend, dated August 29, 2011. Mr. Rick stated this is just notification from Townsend that a private equity group came in and bought about 70 percent of their partnership. He said this group is going to bundle Townsend with other alternative type asset manager consultant groups. Mr. Rick stated the Committee needs to make a decision if ERS wants to continue on with Townsend as this is a change of control. He noted that he, Mr. Thomas and Mr. Carey will be going to Townsend next week. Discussion ensued.

There being no further business, Mr. Barmore adjourned the meeting at 11:47 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.)