

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

Minutes of the Investment Committee Meeting  
held March 24, 2011

The meeting was called to order at 9:17 a.m.

Committee Members Present:        John Barmore  
   Konrad Ellenberger  
   W. Martin Morics  
   Michael J. Murphy  
   Ron Walter

Committee Members Not Present:   William C. Carey (excused)  
   Larry Holland (excused)  
   Gust Petropoulos (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: Beth Cleary, City Attorney's Office; Kevin Dolsen and Michael Joecken, Callan Associates; and Thomas Scerbo and Michael Corelli, Allianz Capital.

**Election of Vice-Chair.** Mr. Murphy asked for a motion for nominations for Vice-Chair. It was moved by Mr. Morics and seconded by Mr. Murphy to nominate Mr. Barmore for Vice Chair. Mr. Murphy asked three more times for any further nominations. There being no further nominations, it was moved by Mr. Morics, seconded by Mr. Murphy, and unanimously carried, that nominations be closed and that a unanimous vote be cast for Mr. Barmore as Vice-Chair of the Investment Committee.

**Allianz Capital US Small Cap Growth Equity Strategy Presentation.** As a matter of information, Committee members received a presentation book, dated March 24, 2011. Mr. Rick handed out an updated performance chart. Mr. Thomas talked about Allianz's performance. Mr. Scerbo provided some background information on himself and Mr. Corelli. He also talked about the organizational structure at Allianz and their product categories. Mr. Corelli talked about small cap growth; investment philosophy: translating research insights into alpha potential; and maximizing risk-adjusted alpha. He reported on performance since inception, April 1, 2010 through February 28, 2011, with Allianz underperforming. Mr. Corelli talked about sector allocations and portfolio composition. Lengthy discussion ensued. Mr. Corelli said a number of the names that hurt them last year are the same names that are helping them at the end of 2010 and the

first quarter of 2011. He talked about Allianz's top ten holdings; portfolio characteristics; portfolio allocation; and market observations and outlook. Further discussion ensued.

**Value Added Presentation.** As a matter of information, Committee members received a copy of the Active Management versus Passive Analysis, January 2001 through December 31, 2010. Mr. Thomas stated this is the yearly analysis of the decision to invest actively versus passively. He said there is also an analysis on the decision to invest internationally. Mr. Thomas reported that domestic equity has outperformed its index on a net basis by 1.2 percent, which translated into \$243.8 million in added value. He said the international equity has outperformed its benchmark by 2.1 percent, which translates into \$139.7 million in added value. Fixed income has outperformed its benchmark by 1.7 percent, which translates into \$155.1 million in added value. Mr. Thomas stated the decision to invest actively benefited the plan by \$538.5 million over the last 10 years.

Mr. Thomas reported that the decision to invest internationally where the total equity of the Fund outperformed by 1.8 percent, which translates into \$467 million in added value, and fixed income stayed the same, \$155.1 million. The decision to invest internationally benefited the plan by \$622 million. Mr. Morics asked this report be put out on the ERS website. Discussion ensued.

**Callan Private Equity Presentation and Proposed Funding Approval.** As a matter of information, Committee members received a presentation book, dated March 24, 2011. Mr. Dolsen talked about the asset mix alternatives: optimization – current asset classes; efficient frontier; range of returns – 10 years. Lengthy discussion ensued. (Please note during discussion, tape malfunctioned cutting out some discussion.) In summary, Mr. Dolsen talked about ERS using a current manager, Abbott, in their 2011 vehicle, with a \$55 million allocation subject to legal review and the manager's ability to call that capital. He said in Callan's conversations with Mesirow, ERS has the ability to also complete one of those transactions by the end of April 2011. Mr. Dolsen indicated that ERS' original commitment was \$45 million; Callan had a suggestive target of \$75 million, so \$30 million would be new money. He said there are two recommendations: one is to fund Abbott in your annual vehicle adding \$55 million in 2011; and secondly to fund Mesirow's Fund 5, which ERS is currently in, with an additional \$30 million. Mr. Morics asked if staff concurred with Callan's recommendation. Mr. Rick said staff thinks the 5 percent target makes a lot of sense; Mercer was on board with that; and Callan concurs that ERS needs to put money to work. He said for this year the number is somewhere from \$80 to \$100 million in order to get to that 5 percent target in a measurable time period. Mr. Rick stated that both these managers are very good managers, and he talked about the programs within both firms. After discussion, it was moved by Mr. Morics, to approve recommending to the Board the increase to 5 percent and invest with Abbott and Mesirow this year in accordance with the recommendation of Callan and staff. After further discussion, Mr. Barmore seconded by motion, which unanimously carried.

**Callan US Domestic Equity Presentation – Part I.** As a matter of information, Committee members received a presentation book, dated March 24, 2011. Mr. Dolsen said Callan wanted to start with some education about domestic equity or just equity structure in general. Mr. Joecken talked about what equity structure analysis is and why do you need one; the role of equity in the portfolio; U.S. versus non-U.S. allocations – MSCI ACWI weights as of December 2010; targeted beta – appropriate exposure to the market; active versus passive; pros and cons of active management; tracking error; and range of information ratio by equity asset class. Discussion ensued throughout the presentation.

There being no further business, Mr. Murphy adjourned the meeting at 11:08 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.)