

STATEMENT OF INVESTMENT POLICY
Updated September 2011

THE MILWAUKEE EMPLOYEES'
RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
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Individual manager guidelines are updated upon Annuity and Pension Board Approval

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| I. STATEMENT OF INVESTMENT POLICY | 1 |
| Introduction | |
| Responsibilities of the Board | |
| Scope and Purpose of the Policy | |
| Duties of Fiduciaries | |
| Staff | |
| Investment Consultant | |
| Investment Managers | |
| Custodian | |
| Additional Professionals | |
| II. INVESTMENT GOALS AND OBJECTIVES..... | 7 |
| Funding Levels and Liquidity Requirements | |
| Asset Allocation Considerations | |
| Target Allocations | |
| Rebalancing Procedures | |
| Transition Manager Procedures | |
| III. GUIDELINES FOR ACTIVELY MANAGED FUND ASSETS..... | 11 |
| Risk Aversion | |
| Fully Invested | |
| Investment Discipline Objectives | |
| Commingled Funds | |
| Brokerage and Execution of Transactions | |
| IV. SELECTION AND REVIEW OF INVESTMENT MANAGERS..... | 13 |
| Performance Review and Evaluation | |
| V. DEFINITIONS AND CONCLUSION..... | 15 |
| VI. SPECIFIC OBJECTIVES FOR INDIVIDUALLY MANAGED PORTFOLIOS..... | 17 |
| Investment Objectives and Guidelines | |
| Board Restrictions | |
| Derivatives | |
| Total Fund Objectives and Guidelines | |
| Individual Investment Managers Objectives and Guidelines | |
| VII. REQUIRED REPORTING OF ACTIVELY MANAGED INVESTMENT PORTFOLIOS..... | 43 |
| VIII. PROXY VOTING GUIDELINES..... | 44 |
| IX. POLICY AND GUIDELINES FOR BROKERAGE SERVICES..... | 44 |
| X. APPROVED SECURITIES LENDING PROGRAMS..... | 44 |
| XI. ADDENDUM..... | 46 |

**THE MILWAUKEE EMPLOYEES'
RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**

**- SECTION I -
STATEMENT OF INVESTMENT POLICY**

INTRODUCTION

The Employees' Retirement System of the City of Milwaukee (the "ERS") was established to provide for the present and future retirement, disability, and death and survivor benefit payments for all city and city agency employees. All of the funds of the retirement system taken in the aggregate constitute a special trust subject to applicable local, state, and federal laws, including but not limited to sections 36-15, 36-09-1, and 36-09-6 of the Milwaukee City Charter.

The Annuity and Pension Board (the "Board") is responsible for the operation of the retirement system and making effective the provisions of the Employees' Retirement Act. The Board consists of three members appointed by the president of the Common Council, the City Comptroller ex-officio, three members elected by the present members of the Employees' Retirement System and one member elected by the retired members of the Employees' Retirement System.

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

The Board is the trustee of the funds in the retirement system. The Board must use reasonable care, skill and caution in selecting investment professionals. The Board is required to contract for management services. The Board must exercise prudence in selecting investment managers, but the exercise of prudence does not relieve the Board of all responsibilities. The responsibilities of the Board relating to the investment management of Fund assets include:

1. Establishing written investment objectives and guidelines governing the investment of Fund assets.
2. Using reasonable care, skill and caution in selecting investment professionals.
3. Determining the Fund's liquidity requirements, investment horizon and risk tolerance and communicating these to the appropriate parties.
4. Evaluating the performance of Investment Manager(s) and other qualified investment professionals on a systematic and regularly scheduled basis.
5. The Board and a person under contract to the ERS who invests and manages trust assets has a duty to comply with the prudent investor rule, s. 36-09-1-d and sub-unites thereof.

SCOPE OF THIS STATEMENT OF INVESTMENT POLICY

This Statement of Investment Policy reflects the investment policy, objectives, and constraints of the Employees' Retirement System of the City of Milwaukee ("ERS").

PURPOSE OF THIS STATEMENT OF INVESTMENT POLICY

This Statement of Investment Policy is set forth by the Board of the City of Milwaukee ERS in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish specific asset allocation and rebalancing procedures.
3. Establish a clear understanding for all parties of the investment goals and objectives of Fund assets.
4. Provide specific guidelines and define limitations for all Investment Managers regarding the investment of Fund assets.
5. Establish a basis for evaluating investment results.
6. Establish a framework for further review and revision of this policy.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure prudence and care in the execution of the investment program.

DUTIES OF FIDUCIARIES

Each member of the Board of the City of Milwaukee ERS is a fiduciary. The investment managers are also fiduciaries.

The Board and a person under contract to the ERS to invest and manage trust assets shall invest and manage assets as a prudent investor would by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the Board and such person shall exercise reasonable care, skill and caution. Investment and management decisions respecting individual investment assets must be evaluated not in isolation, but in the context of the trust portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the trust. A reasonable effort shall be made to verify facts relevant to the investment and management of trust assets. Assets may be invested in any kind of property or type of investment consistent with the standards set forth in the Employees' Retirement Act and the Board guidelines. A Board member or a person under contract to the ERS who invests and manages trust assets who has special skills or expertise or is named in reliance upon his or her representation that he or she has special skills or expertise has a duty to use those special skills or expertise.

To fulfill such responsibilities, the Trustees are authorized and in the case of investment managers, required to retain professional experts including but not limited to:

1. **Staff:** The Retirement Staff ("Staff"), as designated by the Board is the agent of the Board. The Board does not delegate investment management responsibility through the use of its staff. Staff duties include:
 - A. Monitoring investment managers for adherence to policies and guidelines.
 - B. Evaluating and managing the relationships with the Consultant to ensure they are providing all necessary assistance to Staff and the Board as agreed to in service contracts.
 - C. Conducting manager search process, with necessary assistance from consultants as directed by Board.
 - D. Restructuring the portfolio following manager terminations with the assistance of Consultant(s) and Investment Manager(s)
 - E. Organizing and/or participating in any special research required to manage the Fund more effectively and in response to any questions raised by the Board.
 - F. Supporting the Board in the development and approval of the Investment Policy Statement, implementing the Policy Statement and reporting at least monthly on investment activity and matters of significance.
 - G. Ensuring the Investment Managers conform to the terms of their contracts and that performance monitoring systems are sufficient to provide the Board with timely, accurate and useful information.
 - H. Perform on-site due diligence visits with ERS investment managers every two years or as required by the Board in accordance with Board Rules and Regulations section – Duties of the Chief Investment Officer.
2. **Investment Consultant:** The Investment Consultant is an advisor to the Board retained to provide investment management advice and a fiduciary for the purposes of the duties assumed under the Consulting Services Agreement. The Investment Consultant will provide investment management advice concerning the investment management of fund assets. Specific responsibilities of the Investment Consultant include:
 - A. Assisting in the development and periodic review of investment policy.
 - B. Conducting Investment Manager searches as authorized by the Board.
 - C. Providing "due diligence" reports or research on each of the Fund's Investment Managers.

- D. Monitoring the performance of the Investment Managers to provide the Board with the ability to determine progress toward the investment objectives.
 - E. Communicating advice on matters of policy, manager research, and manager performance to the Board.
 - F. Reviewing Fund investment history, historical capital markets' performance and the contents of this Statement of Investment Policy with all Trustees when necessary.
 - G. Providing topical research and education on investment subjects that are relevant to the Fund.
 - H. Providing asset/liability allocation review and specific recommendations as appropriate.
 - I. Communicating with all investment related professionals retained by the Fund as required or prudent.
 - J. Reviewing all contracts between the Fund and all investment managers and providing summary of suggested changes.
3. **Investment Managers:** The Board must contract for investment management but exercise discretion in selection of investment managers. The Board may contract with Investment Managers based on an evaluation of their investment philosophy, performance and ability to complement existing portfolio styles. The Board delegates fiduciary responsibility to investment managers through investment manager agreements and Board guidelines. The Investment Manager acknowledges that it is a fiduciary of ERS with respect to the investment and management of the Assets. In performing its delegated functions, the Investment Manager owes a duty to the trust to exercise reasonable care to comply with the terms of the delegations as set forth in Chapter 36 of the City Charter, 36-09-1-d, 1-d-1, 1-d-3, 1-d-4 and the Board guidelines. City Charter 36-09-1d through d-8, as of July 27, 2010, are attached as an addendum.

Each specific manager must manage Fund assets according to their role as stated in the guidelines of this Investment Policy and contracted with the Board. No deviation from this discipline is authorized unless first discussed with the Board and its Investment Consultant and written approval issued. If ERS assets are invested in collective investment funds maintained by an Investment Manager, the plan and/or trust document with respect to such collective investment funds shall be part of the guidelines and controlling in the event of a conflict with any other provision of the guidelines.

This Statement of Investment Policy communicates policies regarding the current asset allocation strategies for the assets and the duties and obligations of Investment Managers. Each Investment Manager has full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints and philosophies as outlined in this Statement.

Each Investment Manager is required to manage assets as a prudent investor in accordance with s. 36-09-1-d of the Charter and sub-units thereof.

Specific responsibilities of the Investment Managers are specified in the Investment Management Agreement and Board guidelines and generally include:

- A. Exercise discretionary investment authority including decisions to buy, sell, or hold individual securities within the guidelines established in this Statement. An investment manager has a fiduciary duty under federal securities laws to allocate securities fairly among its various accounts. The ERS will be provided a copy of the investment manager's trade allocation policy and procedures and will be advised, in writing, of changes to the policy and the potential impacts on ERS' account.
 - B. Communicate in a timely manner any significant changes regarding economic outlook, investment strategy, or any other factors which may have an impact upon the achievement of the Fund's investment objectives.
 - C. Inform the Board regarding changes within the investment management organization within a timely manner (3 days): Examples include but are not limited to: changes in lead personnel assigned to manage the account and or other significant changes including ownership, ownership structure, investment philosophy.
 - D. Inform ERS of any significant asset value lost within 30 days due to termination or withdrawal. Significant asset value is indicated by 15% of the institutional assets under management in the strategy or 10% of the institutional assets under management of the firm.
 - E. Subject to such guidelines as the ERS' Board may from time to time establish, vote all proxies for securities held for the Fund so long as in the Manager's belief the result of the ballot would serve to increase the value of the investment or otherwise benefit the Fund. For additional details, refer to Section VIII, Proxy Voting Guidelines.
 - F. Provide timely reporting of investment activities. Each Investment Manager shall provide reports to the Board as outlined in Section VII.
 - G. Maintain records of security buy and sell transactions in accordance with the records retention schedules and practices of the Fund's custodian.
 - H. Meet with the Board on an as needed basis.
4. **Custodian:** The Custodian acts in a ministerial capacity, which means that the Custodian does not assume fiduciary responsibility except as specified in the Custodial Agreement.

In addition, the Custodian will conduct the following responsibilities:

- A. Perform regular accounting of all assets owned, purchased, or sold, as well as monitor

- the movement of assets into and out of the Fund accounts.
- B. Provide assistance to the Fund to complete activities including, but not limited to, annual audits and transaction verifications.
 - C. If directed by the Board, manage a short-term income fund for investment of any cash not invested by managers.
 - D. The Custodian, if directed by the Board, will manage the securities lending program.
5. **Additional Professionals:** Additional Professionals, including but not limited to attorneys, actuaries and auditors may be retained by the Board as necessary to assist toward the prudent administration of the Fund.

**- SECTION II -
INVESTMENT GOALS AND OBJECTIVES**

The overall investment goal is to provide participants with retirement, disability and death and survivor benefits. The purpose of the Fund establishing an investment policy is to obtain the highest return possible on Fund investments within corresponding acceptable levels of minimum investment risk and liquidity requirements in recognition of prudent person standards and compliance with applicable local, state, and federal laws governing the operation and activities of the Fund. In particular, the Fund is bound by the City of Milwaukee Charter Chapter 36.

FUNDING LEVELS AND LIQUIDITY REQUIREMENTS

The Board seeks to keep Plan benefits as well funded as possible at all times. Additionally, the Board wishes to remain as fully invested as possible at all times, while maintaining appropriate liquidity. Generally, the Fund will maintain enough liquidity to meet one month of payments and expenses.

ASSET ALLOCATION CONSIDERATIONS

The Board implements an asset allocation policy that is predicated on a number of factors, including:

1. A projection of actuarial assets, liabilities, and benefit payments and the cost of contributions;
2. Historical and expected long-term capital market risk and return behavior;
3. An assessment of future economic conditions, including inflation and interest rate levels; and
4. The current and projected funding status

The asset allocation policy provides for diversification of assets in an effort to maximize the Fund's investment return consistent with market conditions. Asset allocation modeling identifies asset classes that the Board will utilize and the percentage that each asset class represents of the total Fund. Due to fluctuations in market values, positioning within a specific range is acceptable and constitutes compliance with the policy. It is anticipated that periodic revisions to the policy may occur and implementing such changes may require an extended period of time.

The Board's asset allocation policy is summarized on the following page. The Board, Staff and external consultants will monitor and assess the actual asset allocation versus the policy and will evaluate any deviation deemed significant.

The Board will implement the asset allocation policy through the use of external investment managers. Assets will be invested subject to guidelines incorporated into individual investment management agreements (see SECTION VI - SPECIFIC OBJECTIVES AND GUIDELINES FOR MANAGED PORTFOLIOS).

TARGET ALLOCATIONS

The Board has determined that the following asset allocation policy is currently appropriate for the Fund. This asset allocation policy will be reviewed periodically and may be modified, if appropriate, in light of changes in the structure or goals of the Fund. The following asset allocations are meant to apply to the actual realized asset class allocations as opposed to the allocations among manager types.

| <u>Equity</u> | <u>Target</u> | <u>Minimum</u> | <u>Maximum</u> |
|-------------------------------------|------------------------|----------------|----------------|
| Domestic | | | |
| Passive Large Cap Equity | 8% | | |
| Active Large Cap Equity | 25% | | |
| Mid/Small Cap Equity | 12% | | |
| Total Domestic Equities | 45% | 41% | 49% |
| Total International Equities | 20% | 17% | 23% |
| Total Equities | 65% | 61% | 69% |
| <u>Fixed Income</u> | | | |
| Cash | 1% | 0% | 1.5% |
| Passive Fixed Income | 8% | | |
| Core Opportunistic Fixed Income | 19% | | |
| Total Fixed Income | 28% | 25% | 31% |
| <u>Real Estate</u> | 7% | 5% | 9% |
| <u>Total</u> | <u>100%</u> | | |

INTERIM ALLOCATION

The Board has approved the following interim asset allocation, which will be in place until the Board approves the new recommended long-term asset allocation. The interim asset allocation includes the addition of global equity, global fixed income and private equity.

| <u>Equity</u> | <u>Target</u> | <u>Minimum</u> | <u>Maximum</u> |
|-------------------------------------|--------------------|----------------|----------------|
| Domestic | | | |
| Passive Large Cap Equity | 8% | | |
| Active Large Cap Equity | 14% | | |
| Mid/Small Cap Equity | 9% | | |
| Total Domestic Equities | 28% | 27% | 35% |
| Total International Equities | 22% | 19% | 25% |
| Total Global Equities | 10% | 6% | 14% |
| Total Equities | 63% | 58% | 68% |
| <u>Fixed Income</u> | | | |
| Cash | 1% | 0% | 1.5% |
| Passive Fixed Income | 6% | | |
| Core Opportunistic Fixed Income | 16% | | |
| Global Fixed Income | 5% | | |
| Total Fixed Income | 28% | 25% | 31% |
| <u>Real Estate</u> | 7% | 4% | 10% |
| <u>Private Equity</u> | 5% | 0% | 8% |
| <u>Total</u> | <u>100%</u> | | |

REBALANCING PROCEDURES

The Fund routinely needs cash for payroll or other expenses, has cash flows to and from real estate investments, has cash flows to private equity investments or has other cash needs as approved by the Board, required by a court order or required by a governmental body. Cash needs and investment experience may take the Fund outside of the established asset allocation range, requiring rebalancing activity.

In order to maintain the established target asset allocation, the Fund will implement a systematic rebalancing procedure. As determined necessary given significant cash flows or market movements, the Fund will develop and execute a rebalancing plan. To limit the amount of required liquidations and associated transaction costs, the Fund will look to rebalance concurrently with liquidity requirements of the Fund. The Board's Staff, in consultation with the consultant, will retain discretion regarding rebalancing issues.

Based on the established ranges set forth above, Staff will determine what, if any, rebalancing activity is required. If ERS Staff deems rebalancing to be necessary, they will provide the consultant with written recommendations from which Staff and consultant will develop a mutually agreed upon rebalancing plan. ERS Staff will be responsible for executing all rebalancing activity.

TRANSITION MANAGER PROCEDURES

The Fund at times may need to utilize the assistance of a transition manager. The ERS staff working with a consultant will develop a transition manager panel, with final approval from the Board. Transition managers may be used, but not limited to, the following:

- Rebalancing between asset classes to achieve the asset allocation target policy objectives
- Terminating and funding new asset managers

If ERS Staff and the investment consultant deems hiring a transition manager to be necessary, they will work to develop a mutually agreed upon transition plan. ERS Staff will retain discretion regarding transition issues and will be responsible for executing all transition manager activity. ERS staff will be responsible for providing an update to the Board on all transition issues.

**- SECTION III -
GUIDELINES FOR ACTIVELY MANAGED FUND ASSETS**

Each Investment Manager within the Fund will be chosen for a specific discipline and will be required to adhere to these general investment guidelines.

1. **Risk Aversion:** Investment Managers are to make reasonable efforts to control risk and will be evaluated regularly to ensure that the return of the portfolio under management is commensurate with the level of risk that is assumed within any given discipline.
2. **Fully Invested:** The Board has adopted a long term Asset Allocation Policy and grants Investment Managers discretion over assets within the portfolios they manage. The Board has set specific guidelines concerning the allowable levels of cash that may be maintained in each actively managed portfolio (Section VI). The Board will closely monitor the use of cash by any manager. If a manager believes that a change in its specific guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Board.
3. **Investment Discipline Objectives:** Each separately managed portfolio will have specific guidelines and objectives established by the Board. Investment Managers are expected to adhere to the investment discipline for which they were hired. Managers will be evaluated for adherence to their stated investment discipline.

Specific investment goals and constraints for each Investment Manager shall be incorporated as part of this Statement in Section VI: SPECIFIC OBJECTIVES FOR INDIVIDUALLY MANAGED PORTFOLIOS. Each manager shall receive a written statement outlining specific goals and constraints as approved by the City of Milwaukee Retirement System.

The goal of each Investment Manager, over the investment horizon, shall be to:

- A. Exceed the market index, or blended market index, selected and agreed upon by the Board that most closely corresponds to its style of investment management.
- B. Display an overall level of risk in the portfolio that is consistent with the risk associated with the benchmark specified.

The Investment Managers are charged with the responsibility of maintaining their portfolios in compliance with the investment guidelines. The Investment Manager is expected to identify policy items that may have an adverse impact on performance and to initiate discussion with the Board's Staff regarding possible modification of such policies. Under no circumstances shall an Investment Manager take an action that causes the portfolio to be in conflict with the guidelines without prior written consent of the Board. If there is a deviation from the guidelines because of an Investment Manager's action, the manager will be reviewed by the Board at the next meeting following notification of the deviation. If there is a deviation from the guidelines because of a change in the market value of an Investment

Manager's portfolio or a particular holding, or a change in quality rating of a particular holding, the Investment Manager shall take action that is prudent and appropriate to the intended purpose of the portfolio. If for any reason a portfolio deviates from the guidelines, the Investment Manager is responsible for reporting the deviation from the guidelines to the Board and its Investment Consultant in writing within 3 business days of when the deviation occurred. The Investment Manager is required to give this notice even if they have taken immediate action to correct the deviation. The Investment Manager will explain the deviation from the guidelines and suggest appropriate action. Within 30 days after receiving notification of a deviation from the investment policy guidelines, the Board will respond to the manager's recommendation and will direct appropriate action. Depending upon the circumstances, the consequences of deviating from the investment policy guidelines could range from an Investment Manager merely explaining what caused the deviation to occur, to the manager's termination.

4. **Commingled Funds:** In circumstances where the Fund is invested in a commingled vehicle, the Investment Manager will be held to the investment performance standards and guidelines set forth in the goals and guidelines of the commingled vehicle. For voting of proxies, commingled fund managers will use their master trust agreement proxy voting policy standards, however, reporting of proxy voting activity will be in accordance with ERS' policy. Brokerage decisions, including commission recapture, will be made according to the master trust document of the commingled investment vehicle.
5. **Brokerage and Execution of Transactions:** Investment Managers with authority over fund assets must use sound professional judgment in conducting each transaction to obtain the best possible unit price and terms of execution and to work in the best interest of the Fund.

Additionally, the Fund may utilize commissions generated on securities to obtain performance evaluation and other investment related services and benefits for the Fund.

(Please see Section IX: POLICY AND GUIDELINES FOR BROKERAGE SERVICES)

**- SECTION IV -
SELECTION AND REVIEW OF INVESTMENT MANAGERS**

The Board of Trustees must use reasonable care, skill and caution in selecting the investment managers, establishing the scope and terms of the obligations of fiduciary responsibility and periodically reviewing the Investment Manager's actions in order to monitor performance in conjunction with the terms of the delegation. The Investment Manager has a duty to the Board to exercise reasonable care to comply with the terms of the delegations. All Investment Managers must:

1. Provide the Board with a written agreement to invest within the guidelines established in the Investment Policy Statement.
2. Provide the Board with proof of liability and fiduciary insurance coverage.
3. Be a registered investment advisor or a "bank" exempt from registration under the Investment Advisers Act of 1940, and be recognized as demonstrating experience over a number of years in the management of institutional, tax-exempt assets within a defined investment capacity.
4. Adhere to investment style, concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, conducting research, constructing buy, sell, and hold lists and purchasing and selling securities.
5. Offer services in exchange for fees that are competitive with industry standards for the product category.
6. Execute all transactions for the benefit of the Fund with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the Fund. For additional details, refer to Section IX: POLICY AND GUIDELINES FOR BROKERAGE SERVICES.
7. Reconcile monthly accounting, transaction, and asset summary with custodian valuations, report separately on gains and losses on sales, and communicate and resolve any significant discrepancies. The month-end custodian valuations will be used to calculate rates of return for performance-reporting purposes and manager fee calculations.
8. Maintain frequent and open communication with the Board and its Staff on all significant matters, including but not limited to changes in the Investment Manager's outlook, strategy, and portfolio structure, changes in ownership, structure, any changes involving key decision makers and significant client losses.

INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Consultant and Custodian shall be compiled quarterly and communicated to the Board for review. The investment return of total portfolios, as well as asset class components, will be measured against performance benchmarks, appropriate for each portfolio, as adopted by the Board. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in this Statement. The Board reserves the right to terminate a manager at its discretion for any reason including, but not limited to, the following:

1. Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this Statement of Investment Policy, including communication and reporting requirements.
3. Significant changes to the investment management organization, including but not limited to loss of key personnel.
4. Evidence of illegal or unethical behavior by the investment management firm.
5. Lack of willingness to cooperate with reasonable requests by the Board and/or Staff for information, meetings, or other material related to its portfolios.
6. Loss of confidence by the Board in the Investment Manager.
7. A change in the Fund's asset allocation program that necessitates a shift of assets to another sector or asset class.

Investment Managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters and other factors that may impact their ability to achieve the desired investment results.

**- SECTION V -
DEFINITIONS**

1. **"The Fund"** shall mean the Employees' Retirement System of the City of Milwaukee Fund.
2. **"Annuity and Pension Board"** shall refer to the governing Board of Trustees established to administer the Fund as specified by applicable ordinance.
3. **"Fiduciary"** shall mean any entity or person who exercises any discretionary authority or discretionary control respecting management of the Fund or exercises any authority or control respecting management or disposition of the Fund's assets, or renders investment advice for a fee or other compensation, direct or indirect, with respect to monies or property of the Fund, or has any discretionary authority or responsibility in the administration of the Fund.
4. **"Investment Consultant"** shall mean any entity or person employed to provide advisory services, including advice on investment objective and/or asset allocation, manager search, and performance monitoring.
5. **"Investment Manager"** shall mean any individual, or group of individuals, employed to manage the investment of Fund assets.
6. **"Broker-Dealer"** shall mean any entity or person in the business of effecting securities transactions for its own account and/or of others and registered as such with the Securities and Exchange Commission and a member of the National Association of Securities Dealers, Inc.
7. **"Market Cycle"** shall be a time period that includes a significant market decline from peak to trough and a sustained market increase significantly above the previous peak. Within the stock and bond markets, a complete cycle usually has a span of 4 to 6 years but can be shorter or longer. Observing performance over a market cycle allows the Board to analyze the results without biasing the results in favor of managers that might outperform during certain sub-periods. If a market cycle should take place within a shorter time period, additional time may still be needed to assess the value added of the manager.

CONCLUSION

This Statement is a working document structured to accomplish long term and short term planning. Investment Managers and other fiduciaries are invited to contact the Fund or the Investment Consultant with any questions about the interpretation or application of any provisions. This Statement of Investment Policy will be reviewed annually. All changes will be communicated to all appropriate parties in writing.

Please address reports, correspondence and communications to:

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
Thomas A. Rick, Chief Investment Officer
789 N. Water Street
3rd Floor
Milwaukee, WI 53202
(414) 286-3557

Please address all manager fee bills to:

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
Bernard (Jerry) Allen, Executive Director
789 N. Water Street
3rd Floor
Milwaukee, WI 53202
(414) 286-3557

- SECTION VI -
SPECIFIC OBJECTIVES AND GUIDELINES FOR MANAGED PORTFOLIOS

INVESTMENT OBJECTIVES AND GUIDELINES

The Board expects to receive results from the Investment Managers that are consistent with the policies included herein. The following sections outline the specific objectives and guidelines established for each asset and management category. These objectives and guidelines will provide a basis for evaluating the effectiveness of each Investment Manager and the overall investment program over time.

BOARD RESTRICTIONS

- No transaction that is prohibited under the Uniform Prudent Investor Act promulgated by the National Conference of Commissioners on Uniform State Laws (1994) and the Restatement of Trusts 3d (City of Milwaukee Charter, Chapter 36-09-1-d-7).
- No unauthorized investment under the Wisconsin Statutes.
- Prohibited investments include mortgage interest only (IO), principal only (PO), inverse floaters or other CMO derivatives that have uncertain or volatile duration or price movement.
- No assets shall be invested in restricted (lettered) stock or in private placements. This restriction is not meant to preclude purchases of securities issued under SEC Rule 144a. Rule 144a allows trading among qualified institutional investors within a segment of the private placement market.

DERIVATIVES

Investment managers may use derivatives traded on a recognized derivatives exchange for hedging and efficient portfolio management purposes subject to compliance with the following specific guidelines at all times. The ability to use derivatives is specified into the individual manager guidelines.

a) Futures

- Shall never be used for leverage purposes.
- The effective economic exposure to any asset class after allowing for the impact of short futures positions shall never be negative.

b) Options

- Call options may be purchased only as long as there is sufficient cash available to meet the exercise price or as part of a call spread.
- Put options may be purchased only to the extent that the corresponding physical asset is held in the portfolio or as part of a put spread.
- Writing of options is prohibited.

c) Reporting

- All derivative positions and transactions shall be separately and explicitly identified in the Investment Manager's reporting. Each time the Investment Manager undertakes a derivative transaction they shall highlight it in the first written report afterwards and explain the rationale for the transaction.
- d) Over-the-counter derivatives not traded on a recognized exchange can only be used with prior specific written consent of the Board.*
- Forward contracts may be used at the manager's discretion to hedge currency exposure.

TRANSITION MANAGER

Permission is granted to transition managers to use futures on financial contracts, forward currency contracts, and Exchange Traded Funds in the management of portfolio transitions and in the management of portfolio rebalancing activity, according to the above-referenced Derivatives Guidelines. The use of these instruments by transition managers for these purposes will typically begin and end in short periods of time.

TOTAL FUND

OBJECTIVES AND GUIDELINES

Investment Objectives

| Time Horizon | Performance Standard | |
|--|---|--|
| | Universe | Index |
| Less than one market cycle (rolling 3-year periods). | Rank in upper 50% of a Peer Group ¹ | |
| One market cycle (rolling 5-year periods). | Rank in upper 40% of a Peer Group. ¹ | Exceed the return on a benchmark Index by 1%. ² Have volatility of +/- 2% tracking error to the benchmark Index. ² |

Investment Guidelines

- The investment guidelines governing each asset class/manager will together constitute the Total Fund guidelines.
- The Board is responsible for the overall asset allocation of the Fund. Each manager will be responsible for adhering to the guidelines for its portion of Fund assets only.

¹ As measured by a universe of similarly managed funds.

² As measured by a composite index designed to track the target asset allocation.

| | From: To: | Prior 5/31/99 | 5/31/99 12/31/99 | 12/31/99 4/30/06 | 4/30/06 7/1/08 | 7/1/08 9/30/10 | 9/30/10 ³ Present | 9/30/10 ⁴ Present |
|---------------------------|--------------|------------------|---------------------|---------------------|-------------------|-------------------|---------------------------------|---------------------------------|
| Russell 3000 | | 47.0 | 53.0 | 50.0 | 45.0 | 45.0 | 33.0 | 31.0 |
| MSCI EAFE (net) | | 12.0 | 12.0 | 15.0 | 20.0 | 20.0 | 22.0 | 22.0 |
| MSCI Emerging Markets | | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| MSCI World | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10.0 | 10.0 |
| BC Agg | | 24.0 | 32.0 | 30.0 | 28.0 | 28.0 | 28.0 | 28.0 |
| SB World Govt Bond Index | | 6.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NAREIT All REIT | | 1.5 | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NCREIF Property | | 1.5 | 1.5 | 5.0 | 7.0 | 0.0 | 0.0 | 0.0 |
| NCREIF (1 Qtr in Arrears) | | 0.0 | 0.0 | 0.0 | 0.0 | 7.0 | 7.0 | 7.0 |
| Russell 3000 + 3% lag | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.0 |
| SWIB | | 5.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

³ Designed to track the target asset allocation

⁴ Designed to track the interim asset allocation

Manager: Northern Trust
Role: Passive Domestic Equities

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|----------------------|---|
| | <u>Universe</u> | <u>Index</u> |
| Less than one market cycle (rolling 3-year periods). | Not Applicable | |
| One market cycle (rolling 5-year periods). | Not Applicable | Track the performance of S&P 500 Index within 10 basis points |

Investment Guidelines

- The portfolio will be invested in a sufficient number of stocks, which in aggregate fairly represent the S&P 500 Index.
- Eligible investments for the portfolio shall be limited to units of the NTGI – QM Collective Daily S&P 500 Equity Index Fund – Lending.
- Cash will be held to a minimum.
- The portfolio will be rebalanced as necessary – selling issues that are removed from the Index and purchasing new issues added to the Index.
- Derivatives may be used to equitize cash.

Manager: BlackRock
Role: Enhanced Index Domestic Equities

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|---|---|
| | <u>Universe</u> | <u>Index</u> |
| Less than one market cycle (rolling 3-year periods). | Rank in upper 50% of a Peer Group. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in upper 45% of a Peer Group. ¹ | Exceed (after fees) the Russell 1000 Index + 1.0% |

Investment Guidelines

- Appropriate investments consist primarily of common and preferred stocks and/or convertible securities. Convertible securities may represent up to 5% of the portfolio market value.
- Holdings in any one company should not exceed the greater of 5% of the portfolio or 3% over the Index weighting, measured at market value.
- The manager is expected to maintain a fully invested position at all times with no more than 10% of the portfolio in fixed income or cash equivalents. If a manager believes that a change in this guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Board.
- Holdings may include up to 10% American Depository Receipts (ADRs), measured at market value.
- Derivatives may be used to equitize cash.

¹ As measured by the Callan Large Cap Core Equity Peer Group.

Manager: AllianceBernstein
Role: Active Large Capitalization Value Domestic Equities

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|---|---|
| | <u>Universe</u> | <u>Index</u> |
| Less than one market cycle (rolling 3-year periods). | Rank in upper 50% of a Peer Group. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in upper 45% of a Peer Group. ¹ | Exceed (after fees) the Russell 1000 Value Index + 1.5%. ² |

Investment Guidelines

- Appropriate investments consist primarily of common and preferred stocks and/or convertible securities. Convertible securities may represent up to 5% of the portfolio market value.
- Holdings in any one company should not exceed the greater of 5% of the portfolio or 3% over the Index weighting, measured at market value
- Holdings in one economic sector should not exceed the greater of 30% of the portfolio or 150% of the Index weighting, measured at market value.
- The manager is expected to maintain a fully invested position at all times with no more than 10% of the portfolio in fixed income or cash equivalents. If a manager believes that a change in this guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Board.
- Holdings may include up to 15% American Depository Receipts (ADRs) and/or foreign securities traded on US exchanges, measured at market value.
- The manager has the ability to invest in one or more private secondary equity offerings of publicly traded large cap companies looking to finance acquisitions. These securities shall not exceed the lesser of 5% of the portfolio or \$6 million.

¹ As measured by the Callan Large Cap Value Equity Peer Group.

² From account inception until December 31, 2005, the index for performance standards was the S&P 500/Barra Value. With the discontinuation of the S&P 500/Barra Value as of December 31, 2005, the Russell 1000 Value index will be used for performance standards effective January 1, 2006.

Manager: Turner Investments
Role: Active Large Capitalization Growth Domestic Equities

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|---|---|
| | <u>Universe</u> | <u>Index</u> |
| Less than one market cycle (rolling 3-year periods). | Rank in upper 50% of a Peer Group. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in upper 45% of a Peer Group. ¹ | Exceed (after fees) the Russell 1000 Growth Index + 1.5%. |

Investment Guidelines

- Appropriate investments consist primarily of common and preferred stocks and/or convertible securities. Convertible securities may represent up to 5% of the portfolio market value.
- Holdings in any one company should not exceed the greater of 5% of the portfolio or 4% over the Russell 1000 Growth Index weighting, measured at market value
- Holdings in one economic sector should not exceed the greater of 30% of the portfolio or 150% of the Russell 1000 Growth Index weighting, measured at market value.
- The manager is expected to maintain a fully invested position at all times with no more than 10% of the portfolio in fixed income or cash equivalents. If a manager believes that a change in this guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Board.
- Holdings may include up to 10% American Depository Receipts (ADRs) and/or foreign securities traded on US exchanges, measured at market value.

¹ As measured by the Callan Large Cap Growth Equity Peer Group.

Manager: EARNEST Partners
Role: Active Mid Capitalization Domestic Equities

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|---|---|
| | <u>Universe</u> | <u>Index</u> |
| Less than one market cycle (rolling 3-year periods). | Rank in upper 50% of a Peer Group. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in upper 45% of a Peer Group. ¹ | Exceed (after fees) the Russell Mid Cap Index + 2%. |

Investment Guidelines

- Appropriate investments consist primarily of common and preferred stocks and/or convertible securities. Convertible securities may represent up to 5% of the portfolio at market value.
- Holdings in any one company should not exceed 7% of the portfolio, measured at market value.
- Holdings in one economic sector should not exceed the greater of 30% of the portfolio or 200% of the Index weighting, measured at market value.
- The manager is expected to maintain a fully invested position at all times with no more than 10% of the portfolio in fixed income, cash equivalents or Exchange Traded Funds. If a manager believes that a change in this guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Board.
- Holdings may include up to 10% American Depository Receipts (ADRs), measured at market value.
- Holdings may include Real Estate Investment Trusts (REITs) at a level of up to 1.2 times the proportion of REITs in the Russell Mid Cap Index.

¹ As measured by the Callan Mid Cap Equity Peer Group.

Manager: Allianz Global Investors Capital
Role: Active Small Capitalization Growth Domestic Equities

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|---|---|
| | <u>Universe</u> | <u>Index</u> |
| Less than one market cycle (rolling 3-year periods). | Rank in upper 50% of a Peer Group. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in upper 40% of a Peer Group. ¹ | Exceed (after fees) the Russell 2000 Growth Index + 2%. |

Investment Guidelines

- Appropriate investments consist of common and preferred stocks and cash equivalents.
- Holdings in any one company should not exceed 5% of the portfolio, at market value at any time for a period of five consecutive trading days.
- Holdings in one economic sector should not exceed the greater of 30% of the portfolio or 200% of the Index weighting, measured at market value at any time for a period of five consecutive trading days.
- The manager is expected to maintain a fully invested position with no more than 10% of the portfolio in fixed income or cash equivalents. If a manager believes that a change in this guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Board.
- The portfolio's average weighted market capitalization is limited to no more than 175% of the Russell 2000 Growth.
- Holdings may include up to 15% securities of foreign issuers measured at market value at any time for a period of five consecutive trading days. Foreign issuers would include American Depository Receipts (ADR's) and securities of foreign issuers traded on U.S. securities exchanges.

¹ As measured by the Callan Small Capitalization Growth Equity Peer Group.

Manager: Dimensional Fund Advisors
Role: Active Small Capitalization Value Domestic Equities

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|---|--|
| | <u>Universe</u> | <u>Index</u> |
| Less than one market cycle (rolling 3-year periods). | Rank in upper 50% of a Peer Group. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in upper 40% of a Peer Group. ¹ | Exceed (after fees) the Russell 2000 Value Index + 2%. |

Investment Guidelines

- Appropriate investments consist of common and preferred stocks and cash equivalents.
- Holdings in any one company should not exceed 5% of the portfolio measured at cost; 10% measured at market value.
- Holdings in one industrial sector should not exceed the greater of 30% of the portfolio or 150% of the Index weighting, measured at market value.
- The manager is expected to maintain a fully invested position with no more than 10% of the portfolio in fixed income or cash equivalents. If a manager believes that a change in this guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Board.
- The median portfolio market capitalization should not exceed that of the Russell 2000 Value Index.
- Holdings may include up to 10% American Depository Receipts (ADRs), measured at market value.

¹ As measured by the Callan Small Capitalization Value Equity Peer Group.

Manager: Brandes Investment Partners
Role: Active International Equities

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|---|---|
| | Universe | Index |
| Less than one market cycle (rolling 3-year periods). | Rank in the upper 50% of a Universe. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in the upper 40% of a Universe. ¹ | Exceed (after fees) the MSCI EAFE Index + 2%. |

Investment Guidelines

- Holdings in any one company should not exceed the greater of 7% of the portfolio or 5% over the Index weighting, measured at market value.
- Adequate diversification by sector, country and currency block should be maintained.
- Japan's and the United Kingdom's combined weighting is limited to their combined benchmark weighting plus 15% while Canada's is limited to 12%. Other countries' maximum is the greater of the benchmark plus 10% or 200% of the benchmark weighting.
- A maximum of 30% of the portfolio may be invested in non-EAFE markets. Canada is not counted towards this 30% limitation.
- The manager is expected to maintain a fully invested position with no more than 10% of the portfolio in fixed income or cash equivalents. If a manager believes that a change in this guideline is in the best interest of the Fund, the manager should bring this recommendation immediately to the attention of the Board.
- Foreign currency forward contracts are permitted for defensively hedging purposes only. The total exposure of all hedges is limited to 100% of the total portfolio value, at market. Shorting currency exposure in countries without any underlying security exposure is prohibited.
- Warrants are not to exceed 20% of the portfolio value.

¹ As measured by the Callan International Equity Peer Group.

² MSCI EAFE is the Morgan Stanley Capital International Europe, Australasia and the Far East

Manager: William Blair Institutional Management
Role: Active International Equities

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|---|---|
| | Universe | Index |
| Less than one market cycle (rolling 3-year periods). | Rank in the upper 50% of a Universe. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in the upper 40% of a Universe. ¹ | Exceed (after fees) the MSCI ACWIxUS ² Index + 2%. |

Investment Guidelines

- Holdings in any one company should not exceed the greater of 7% of the portfolio or 5% over the Index weighting, measured at market value.
- Adequate diversification by sector, country and currency block should be maintained.
- Japan's and the United Kingdom's combined weighting is limited to their combined benchmark weighting plus 15% while Canada's is limited to 12%. Other countries' maximum is the greater of the benchmark plus 10% or 200% of the benchmark weighting.
- William Blair may invest a maximum of 35% of the portfolio or 150% of the MSCI ACWI ex-US Index weighting (whichever is less) in emerging markets companies.
- The manager is expected to maintain a fully invested position with no more than 10% of the portfolio in fixed income or cash equivalents. If a manager believes that a change in this guideline is in the best interest of the Fund, the manager should bring this recommendation immediately to the attention of the Board.
- Foreign currency forward contracts are permitted for defensive hedging purposes only. The total exposure of all hedges is limited to 100% of the total portfolio value, at market. Shorting currency exposure in countries without any underlying security exposure is prohibited.
- Warrants are not to exceed 20% of the portfolio value.

¹ As measured by the Callan International Equity Peer Group.

² MSCI ACWIxUS is the Morgan Stanley Capital International All Country World Free Index excluding the United States.

Manager: DFA International Small Capitalization Value Portfolio
Role: Active International Small Capitalization Equities

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|---|---|
| | <u>Universe</u> | <u>Index</u> |
| Less than one market cycle (rolling 3-year periods). | Rank in the upper 50% of a Universe. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in the upper 40% of a Universe. ¹ | Exceed (after fees) the MSCI EAFE Small Cap (Net) ² Index by 2%. |

Investment Guidelines

- Holdings in any one company should not exceed the greater of 7% of the portfolio or 5% over the Index weighting, measured at market value.
- Investments are limited to small Japanese, United Kingdom, European, Canadian and Asia Pacific companies, or small companies in such other countries as the manager's Investment Committee may from time to time determine.
- At least 80% of the portfolio will be invested in small capitalization companies.
- The manager is expected to maintain a fully invested position with no more than 10% of the portfolio in fixed income or cash equivalents. If a manager believes that a change in this guideline is in the best interest of the Fund, the manager should bring this recommendation immediately to the attention of the Board.
- Foreign currency forward contracts are permitted for defensive hedging purposes only. The total exposure of all hedges is limited to 100% of the total portfolio value, at market. Shorting currency exposure in countries without any underlying security exposure is prohibited.
- Warrants are not to exceed 20% of the portfolio value.

¹ As measured by the Callan International Equity Small Cap Peer Group.

² MSCI EAFE is the Morgan Stanley Capital International Europe, Australasia and the Far East (MSCI EAFE).

Manager: GMO (Grantham Mayo Van Otterloo)
Role: Active Value Global Equities

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|---|---|
| | <u>Universe</u> | <u>Index</u> |
| Less than one market cycle (rolling 3-year periods). | Rank in upper 50% of a Peer Group. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in upper 40% of a Peer Group. ¹ | Exceed (after fees) the MSCI World Index + 2.0% pa. |

Investment Guidelines

- Holdings in any one company should not exceed the greater of 7% of the portfolio or 5% over the Index weighting, measured at market value at the time of purchase.
- Adequate diversification by sector and country should be maintained, meaning that (i) holdings in any one sector should not exceed the greater of 30% of the portfolio or 200% of the Index weighting, measured at market value, for a period of five consecutive trading days at any time and (ii) the portfolio will be invested in at least 10 countries at all times.
- Japan's and the United Kingdom's combined weighting is limited to their combined benchmark weighting plus 20% while Canada's is limited to a maximum weight of 12%. Other countries' maximum is the greater of the benchmark plus 10% or 200% of the benchmark weighting.
- A maximum of 25% of the portfolio may be invested in emerging markets.
- The manager is expected to maintain a fully invested position with no more than 10% of the portfolio in fixed income or cash equivalents, except in the event of large client driven cash flows. If a manager believes that a change in this guideline is in the best interest of the Fund, the manager should bring this recommendation immediately to the attention of the Board.
- Foreign currency forward contracts are permitted for defensively hedging purposes only. The total exposure of all hedges is limited to 100% of the total portfolio value, at market. Shorting currency exposure in countries without any underlying security exposure is prohibited.
- Warrants are not to exceed 20% of the portfolio value.

¹ As measured by the Callan Global Equity Peer Group.

Manager: T. Rowe Price
Role: Active Growth Global Equities

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|---|---|
| | <u>Universe</u> | <u>Index</u> |
| Less than one market cycle (rolling 3-year periods). | Rank in the upper 50% of a Universe. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in the upper 40% of a Universe. ¹ | Exceed (after fees) the MSCI All Country World Index by 2%. |

Investment Guidelines

- All percentage restrictions in these Guidelines apply to market value at the time of purchase.
- If the portfolio deviates from these Guidelines for any reason, manager will notify the Board and its Investment Consultant in writing within three business days of *discovery* of the variance and take further action pursuant to Section III. 3. of the Statement of Investment Policy.
- Permissible Investments include the following:
 - Common Stock
 - Preferred Stock
 - Convertible Securities, including Convertible Preferred Stock and Convertible Bonds
 - Rights and Warrants
 - Exchange-traded Funds (“ETFs”)
 - Index Futures
 - Options
 - Closed-end Funds
 - ADRs, ADSs, GDRs, and GDSs (and other depository receipts and shares)
 - Real Estate Investment Trusts (“REITs”)
 - Publicly-traded Partnerships (“PTPs”)
 - Units
 - IPOs. The portfolio may participate in initial public offerings. For purposes of investment in U.S. IPOs, the Board represents that the portfolio is not restricted from participating in such offerings under FINRA Rule 5130.
 - Unlisted securities are allowed (including securities traded in the over the counter market and Rule 144A securities as further described herein).
- Holdings in any one company (excluding the STIF) should not exceed the greater of 8% of the portfolio or 5% over the Index weighting, measured at market value.

- Adequate diversification by sector and country should be maintained, meaning that (i) holdings in any one sector should not exceed the greater of 30% of the portfolio or 200% of the Index weighting, measured at market value at the time of purchase and (ii) the portfolio will be invested in at least 10 countries at all times, one of which will be the United States.
- Japan's and the United Kingdom's combined weighting is limited to their combined benchmark weighting plus 20% while Canada's is limited to a maximum weight of 12%. Other countries' maximum is the greater of the benchmark plus 10% or 200% of the benchmark weighting.
- A maximum of 25% of the portfolio may be invested in emerging markets as classified by MSCI.
- The manager is expected to maintain a fully invested position with no more than 10% of the portfolio in fixed income or cash equivalents. If a manager believes that a change in this guideline is in the best interest of the Fund, the manager should bring this recommendation immediately to the attention of the Board. Cash reserves may be invested in the Custodian's STIF. The portfolio will be exempted from this restriction due to timing differences regarding simultaneous buy/sell trade settlements, at the discretion of manager due to strategic decisions regarding reinvestment of proceeds of sales, and for a period of two months from the date of large cash injections into the portfolio (or in preparation for large cash redemptions upon notice by the Board). Cash reserves may be denominated in one or more currencies at the discretion of the manager including (but not limited to): United States dollars, Japanese yen, U.K. pounds, Euros, or Australian dollars.
- Foreign currency forward contracts are permitted for defensive hedging purposes only. The total exposure of all hedges is limited to 100% of the total portfolio value, at market. Shorting currency exposure in countries without any underlying security exposure is prohibited. (Manager is not required to execute foreign currency trades through the custodian but may trade with those foreign exchange counterparties that manager believes will provide the best service in accordance with its fiduciary duty to seek best execution.)
- Rights and warrants are not to exceed 20% of the portfolio value.
- Settlement Practices/Lock-Ups. It is understood that certain foreign markets may require free or partial free delivery (e.g. initial partial escrow payments) regarding settlement of trades. It is further understood that certain securities, including pre IPOs, are subject to "lock-up" provisions in certain markets.

- For purposes of the restriction in Section VI of the IPS prohibiting investment in restricted (lettered) stock or private placements (other than Rule 144A securities with registration rights which are allowed), lettered stock shall be defined as private placements other than Rule 144A with registration rights.
- It is understood that the restriction in Section VI of the IPS prohibiting use of borrowed funds does not restrict the Account from occasionally experiencing temporary overdrafts due to settlement, rebalancing and/or operational considerations.

¹ As measured by the Callan Global Equity Peer Group.

Manager: BlackRock
Role: Passive Fixed Income

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|----------------------|--|
| | <u>Universe</u> | <u>Index</u> |
| Less than one market cycle (rolling 3-year periods). | Not Applicable | |
| One market cycle (rolling 5-year periods). | Not Applicable | Track the performance of the Barclays Capital Intermediate Aggregate Index within 10 basis points. |

Investment Guidelines

- BlackRock Intermediate Aggregate strategy will consist of the following funds: Intermediate Government/Credit Bond Index Fund, Mortgage-Backed Securities Index Fund, Asset-Backed Securities Index Fund, Commercial Mortgage-Backed Securities Index Fund. The Funds shall be held such that they stay in proportion to the Barclays Capital Intermediate Aggregate Index.
- Appropriate investments for the Intermediate Government/Credit Bond Index Fund consist of investment grade corporate and government bonds with maturities between one and ten years as defined by the intermediate portion of the Barclays Capital Government/Credit Bond Index.
- Appropriate investments for the Mortgage-Backed Securities Index Fund consist of mortgage-backed securities issued or guaranteed by the United States government or its agencies such that the performance of the Fund approximates the Barclays Capital Mortgage-Backed Securities Index.
- Appropriate investments for the Asset-Backed Securities Index Fund consist of a portfolio of debt securities that in aggregate approximates the performance of Barclays Capital Aggregate Asset-Backed Securities Index.
- Appropriate investments for the Commercial Mortgage-Backed Securities Index Fund consist of mortgage-backed securities collateralized by loans that are secured by income-producing commercial real estate such that the performance of the Fund approximates the Barclays Capital Commercial Mortgage-Backed Securities Index portion of the Barclays Capital Aggregate Index.

Manager: Reams Asset Management
Role: Opportunistic Fixed Income

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|---|--|
| | <u>Universe</u> | <u>Index</u> |
| Less than one market cycle (rolling 3-year periods). | Rank in upper 50% of a Peer Group. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in upper 40% of a Peer Group. ¹ | Exceed (after fees) the Benchmark Index + 1.0%. ² |

Investment Guidelines

- The duration of the aggregate portfolio should be no more than 2 years below or above the Barclays Capital Aggregate Index.
- A maximum of 20% of the market value of the portfolio may be invested in corporate, non-corporate and 144(a) securities rated B- or B3. An additional 5% of the market value of the portfolio may be invested in non-rated issues.
- A maximum of 10% of the market value of the portfolio may be invested in non-dollar securities.
- Corporate, non-corporate and 144(a) securities that are downgraded below B- or B3 by both Standard and Poors and Moody's Investor Services must be sold within 90 days following the downgrade. Reams must notify ERS of the downgrade in writing within 3 business days and provide a written update to ERS on the downgraded security on a weekly basis.
- Asset-backed securities that are downgraded below BBB- or Baa3 by both Standard and Poors and Moody's Investor Services must be sold within 90 days following the downgrade. Reams must notify ERS of the downgrade in writing within 3 business days and provide a written update to ERS on the downgraded security on a weekly basis.
- The average quality of the portfolio must be A-/A3 or better. Unrated U.S. Treasury and U.S. Federal Government Agency securities are permissible and will be treated as AAA rated for purposes of average quality calculations.
- No one security or aggregation of one company's securities, except securities issued or guaranteed by the U.S. Government or its agencies, will comprise more than 2% of the portfolio, as determined at the time of purchase.
- A maximum of 3% of the portfolio, at the time of purchase, may be invested in the Columbus Extended Market Fund, a commingled fund, managed by Reams, subject to guidelines set forth in the goals and guidelines of the commingled vehicle.

- Sector limitations (as a percentage of the portfolio's market value) are limited to the following ranges:

| Sector | Min | Max |
|-------------------------------------|-----|--------|
| US Treasuries | 0% | 100% |
| US Agencies | 0% | 80% * |
| Corporates | 0% | 100% |
| Mortgage-Backed Securities | 0% | 80% ** |
| Asset-Backed Securities | 0% | 25% |
| Non-Corporates ⁽³⁾ | 0% | 20% |
| Emerging Market Debt ⁽⁴⁾ | 0% | 0% |
| Non-Dollar Securities | 0% | 10% |
| 144(a) Securities | 0 | 25% |

*US Agencies excluding Mortgage-Backed Securities Max is 50%.

**Non-Agency Mortgage-Backed Securities Max is 25%.

- Minimum credit ratings for individual holdings, specific to the sectors, are as follows:

| Sector | Minimum Rating |
|--|----------------|
| Corporates & Non-Corporates | B-/B3 |
| Asset-Backed Securities | BBB-/Baa3 |
| 144(a) Securities | B-/B3 |
| Cash equivalents, commercial paper and repurchase agreements | A1/P1 |

¹ As measured by the Callan Fixed Income Core Opportunistic Peer Group

² As measured by the Barclays Capital Aggregate Index

³ Non-Corporates replaced Yankees in the Barclays Capital Aggregate Index and include dollar denominated supranational, sovereign, foreign agency, and foreign local debt.

⁴ Emerging markets as defined by the International Finance Corporation.

Manager: Loomis, Sayles & Company
Role: Opportunistic Fixed Income

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|--|--|
| | Universe | Index |
| Less than one market cycle (rolling 3-year periods). | Rank in upper 50% of a Peer Group. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in the upper 40% of a Peer Group ¹ | Exceed (after fees) the Benchmark Index + 1.0%. ² |

Investment Guidelines

- The effective duration of the aggregate portfolio should be no less than 80% and no more than 250% of the Barclays Capital Aggregate Index.
- Up to 20% of the market value of the portfolio may be issues rated B- or B3 and an additional 5% may be invested in non-rated issues.
- Loomis must notify ERS of the downgrade of corporate, non-corporate and 144(a) securities below B- or B3 by both Standard and Poor's and Moody's Investors Service within three (3) business days. Loomis must provide quarterly credit updates so long as it retains the security(ies). Corporate, non-corporate and 144(a) securities rated below B- and B3 by both Standard and Poor's and Moody's Investors Service may not exceed 3% of the market value of the portfolio.
- Asset-backed securities that are downgraded below BBB- or Baa3 by both Standard and Poors and Moody's Investor Services must be sold within 90 days following the downgrade. Loomis must notify ERS of the downgrade in writing within 3 business days and provide a written update to ERS on the downgraded security on a weekly basis.
- The average quality of the portfolio must be BBB-/Baa3 or better. Unrated U.S. Treasury and U.S. Federal Government Agency securities are permissible and will be treated as AAA rated for purposes of average quality calculations.
- No security, except securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities, will comprise more than 5% of the portfolio.
- Up to 20% of the market value of the portfolio may be invested in preferred stocks, as determined at the time of purchase.

- Sector limitations (as a percentage of the portfolio's market value) are limited to the following ranges:

| Sector | Min | Max |
|--|-----|------|
| US Treasuries | 0% | 100% |
| US Agencies | 0% | 50% |
| Corporates | 0% | 100% |
| Mortgage-Backed Securities | 0% | 50% |
| Asset-Backed Securities | 0% | 25% |
| Investment Grade Yankees and Non-Corporates ⁽³⁾ | 0% | 15% |
| Non-Investment Grade Yankees and Non-Corporates ⁽³⁾ | 0% | 15% |
| Non-US Dollar / Non-Canadian Dollar | 0% | 20% |
| 144(a) Securities | 0 | 25% |
| Canadian Dollar Issues | 0 | 20% |

- Minimum credit ratings for individual holdings, specific to the sectors, are as follows:

| Sector | Minimum Rating |
|--|----------------|
| Corporates & Non-Corporates | B-/B3 |
| Asset-Backed Securities | BBB-/Baa3 |
| 144(a) Securities | B-/B3 |
| Cash equivalents, commercial paper and repurchase agreements | A1/P1 |

¹ As measured by the Callan Core Opportunistic Fixed Income Peer Group

² As measured by the Barclays Capital Aggregate Index

³ Canadian issued bonds do not count towards the Yankee limit.

Manager: Wellington Management Company, LLP
Role: Global Fixed Income

Objectives and Guidelines

Investment Objectives

| Time Horizon | Performance Standard | |
|--|--|--|
| | Universe | Index |
| Less than one market cycle (rolling 3-year periods). | Rank in upper 50% of a Peer Group. ¹ | |
| One market cycle (rolling 5-year periods). | Rank in the upper 40% of a Peer Group ¹ | Exceed (after fees) the Benchmark Index + 1.0%. ² |

Investment Guidelines

- The effective duration of the aggregate portfolio should be no more than +/- 2 years of the Citigroup World Government Bond Index.
- Net credit exposure to securities rated in the range of Baa by Moody's or BBB by Standard and Poors will not represent more than the Index +/- 20% of the portfolio assets at market value.
- The sum of net credit exposure to securities rated below investment-grade will not represent more than the Index +/- 10% of portfolio assets at market value. Net credit exposure to any single issuer rated below investment-grade will not represent more than the Index +/- 2% of Portfolio assets at market value.
- Bonds that are downgraded below B- or B3 by both Standard and Poors and Moody's Investor Services must be sold within 90 days following the downgrade. Wellington must notify ERS of the downgrade in writing within 3 business days and provide a written update to ERS on the downgraded security on a weekly basis.
- Net credit exposure of any single issuer will not represent more than index +/- 5% of the portfolio assets at market value. This restriction does not apply to securities issued or guaranteed by member countries of the Organization for Economic Co-Operation and Development (OECD) and/or securities issued or guaranteed by countries rated Aa by Moody's, AA by S&P, or AA by Fitch; by their agencies, government-sponsored corporations, or subdivisions thereof; or by supranational community, regional, or world institutions and organizations.
- Net market exposure of the portfolio will be limited to 100% or less.
- Net exposure to any single currency (excluding the US Dollar) will not represent more than the index +/- 10% of Portfolio assets at market value. Net exposure to any single currency outside the index or rated below investment-grade will not represent more than +/- 5% of portfolio assets at market value.

- Cash and cash equivalents holdings are not subject to the net exposure restrictions. Cash must be denominated in the United States dollar.
- Cash reserves may be invested in the Custodian's STIF. The manager must seek written approval from the Board to invest in a STIF vehicle managed or sponsored by Wellington Management or its affiliates.
- Direct currency hedging and cross-currency positions are permitted. Up to 50% of the non-USD denominated currency exposure of the portfolio value can be hedged back to USD.
- The Portfolio may buy and sell exchange-traded and over-the-counter derivative instruments, including interest rate, credit, index and currency futures; currency and bond options; bond futures; deliverable and non-deliverable currency forward contracts; bond forwards; and "to-be-announced" (TBA) securities. The manager must have written authorization from the Board to utilize any other derivative instruments.
- Short sales are permitted for hedging and portfolio construction purposes.
- The use of Swaps is prohibited.
- Sector limitations (as a percentage of the portfolio's market value) are limited to the following ranges:

| Sector | Min | Max |
|----------------------------|-------------------|--------------------|
| Corporates | -30% of the Index | + 30% of the index |
| Mortgage-Backed Securities | -30% of the Index | + 30% of the index |
| Emerging Market Debt | 0% | 20% |

¹ As measured by the Callan Global Fixed Unhedged Peer Group

² As measured by the Citigroup World Government Bond Index

Manager: Robert W. Baird
Role: Short-Term Fixed Income Manager

Objectives and Guidelines

Investment Objectives

Primary: Provide principal preservation and liquidity of assets to meet projected payouts.

Secondary: Track the Barclays 1-3 year Government/Credit Index, and provide competitive investment returns over time.

Investment Guidelines

- Meet liquidity requirements that currently anticipate payouts beginning in January 2013 through at least December 2014. These liquidity needs shall be reviewed on a regular basis.
- The maximum effective duration of the short-term fixed income portfolio, including any investments in approved money market and short-term bond funds, shall be 2 years.
- The portfolio may be invested in securities having a rating of AAA or AA by Standard and Poor's or Aaa and Aa1 by Moody's Investors Service.
- Baird must notify ERS of downgrades of securities below AA or Aa1 by both Standard and Poor's and Moody's Investors Service, and make a recommendation within three (3) business days. If the security is retained, Baird must provide weekly credit updates so long as it retains the security(ies).
- No security, except securities issued or guaranteed by the U.S. Government or its agencies, will comprise more than 5% of the portfolio. No limitation with regard to money market sweep funds or short term bond funds.
- Eligible Investments:
 1. The following shall be eligible investments:
 - a. U.S Treasury and Agency Obligations
 - b. Approved money market and short term bond funds
 - c. Agency mortgage-backed securities including collateralized mortgage obligations
 - d. Mortgage and asset backed securities rated AAA
 - e. Corporate notes and bonds, U.S. dollar-denominated, including 144a securities
 - f. Repurchase agreements – U.S. government collateral only
 - g. Short-term fixed income mutual funds whose holdings are consistent with the characteristics of the eligible investments
 2. Convertibles, options, futures or other derivative instruments are prohibited

PRIVATE EQUITY

A separate Private Equity Statement of Investment Policy has been adopted by the Board. This policy is an extension of the Statement of Investment policy and will be reviewed annually.

REAL ESTATE

A separate Real Estate Statement of Investment Policy has been adopted by the Board. This policy is an extension of the Statement of Investment policy and will be reviewed annually.

- SECTION VII -

REQUIRED REPORTING OF ACTIVELY MANAGED INVESTMENT PORTFOLIOS

The Board has determined that each Investment Manager given discretionary authority over a portion of the Fund's assets shall provide the following required reports to the Fund at the time periods indicated.

15 copies of these reports shall be compiled and distributed to ERS Staff.

ON A MONTHLY BASIS:

1. **TRANSACTION STATEMENT:** A complete list of all transactions.
2. **ASSET LISTING:** A complete list of all portfolio holdings, including securities' names, amount owned, cost and market valuations and percentage of total portfolio.
3. **A STATEMENT OF INVESTMENT PERFORMANCE:** Expressed in percentage increase/decrease for the following periods: Month, Year To Date, One Year, Three Year, Five Year and Since Inception. Comparative statistics for the specific Benchmarks should also be included.

ON A QUARTERLY BASIS:

In addition to the above reports, the following will be completed:

1. **A LETTER OF TRANSMITTAL:** Addressed to the Chief Investment Officer of the Fund with copies to trustees that includes a narrative about the account performance and all related factors for the quarter.
2. **A STATEMENT OF EXPECTATIONS:** Regarding both near and long-term expectations for the account.
3. **RECONCILIATION:** At market value, between the managers' records and those provided by the Fund's Custodian. Differences in cash due to unsettled trades should be so noted as well as any differences in carrying value of securities. The Custodian's final pricing will be used to calculate returns and to calculate manager fees.

ON AN ANNUAL BASIS:

1. Complete an Annual Compliance Certificate that the ERS or the consultant provides

In addition, the Manager will meet with the representatives of the Board as often as deemed necessary by the Board. In the interim, the Manager will keep Staff, the Board, and the Investment Consultant apprised of any relevant information regarding its organization, personnel and/or investment strategy. The manager will notify Staff or the President of the Board within 3 days of any change in the lead personnel assigned to manage the account.

**- SECTION VIII -
PROXY VOTING GUIDELINES**

The Board of the ERS has delegated the responsibility for voting proxies to their investment managers. Each investment manager has the responsibility for voting proxies in the best interests of plan participants.

The Board will monitor the proxy voting of its investment managers. By June 30 of each year, each investment manager will supply to the Board and its Investment Consultant an acknowledgement that it is responsible for voting proxies in the best interests of plan participants, a copy of the investment manager's proxy voting procedures and guidelines and a list of how the investment manager voted on all proxy issues during the 12 months preceding the report.

**- SECTION IX -
POLICY AND GUIDELINES FOR BROKERAGE SERVICES**

This policy statement is intended to serve as a guide for investment managers engaged on behalf of the Employees' Retirement System of the City of Milwaukee (the "System") in the course of investing the retirement funds of the System. Each Investment Manager engaged by the System is responsible to exercise its responsibility prudently and solely in the interests of the participants and beneficiaries of the System. This document outlines the policies and procedures to be considered by investment managers in fulfilling this obligation.

1. General Policies and Principles: The Board requires that these principles guide all transactions:
 - a) Each manager is charged with the responsibility for all aspects of the investment process with respect to assets entrusted to it and consistent with the specific terms of this engagement by the System.
 - b) Each manager is expected to act prudently with respect to decisions to buy or sell securities as well as with respect to the decision who will execute the transaction.
 - c) Each manager shall secure best execution for each transaction it enters on behalf of the System. This requires that each manager execute securities transactions for the System in such a manner that the System's total cost or proceeds in each transaction is the most favorable under the circumstances. Each manager shall consider the full range and quality of a broker's services in placing brokerage, including, but not limited to, the value of research provided as well as execution capability, commission rate, financial responsibility and responsiveness to the manager. Lowest commissions paid in connection with a trade is not determinative of whether the transaction represents the best qualitative execution of the trade.

2. Trading Policies and Guidelines: Consistent with its fiduciary and best execution responsibilities described above, each manager, excluding the collective or commingled fund managers, should use its best efforts to minimize total commission dollars generated by buy and sell transactions of exchange traded or electronically traded securities in accordance with the following action and policy of the Board:
 - a) The System desires to minimize total transaction costs (commission plus net price) through the use of electronic trading services.
3. The Board may utilize the services of a transaction cost provider to monitor the individual manager transactions.

**- SECTION X -
APPROVED SECURITIES LENDING PROGRAMS**

The Board has authorized the execution of a Securities Lending Program which will be performed by the Fund's custodian or qualified third party securities lending agent(s). The program is monitored and reviewed by the Staff and was established by a written agreement authorized by the Board. The Securities Lending Program is detailed in the contract with the Fund's custodian, presently The Northern Trust Company.

**- SECTION XI -
STATEMENT OF INVESTMENT POLICY ADDENDUM**

- d. Prudent Investor Rule. Except as otherwise specifically provided in this chapter, the board and a person under contract to the Employees' Retirement System who invests and manages trust assets owes a duty to comply with the prudent investor rule.

- d-1. Standard of Care; Portfolio Strategy; Risk and Return Objectives. The board and a person under contract to the Employees' Retirement System to invest and manage trust assets shall invest and manage assets as a prudent investor would by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the board and such person shall exercise reasonable care, skill and caution. Investment and management decisions respecting individual investment assets must be evaluated not in isolation, but in the context of the trust portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the trust. A reasonable effort shall be made to verify facts relevant to the investment and management of trust assets. Assets may be invested in any kind of property or type of investment consistent with the standards of this sub. d. A board member or a person under contract to the Employees' Retirement System who invests and manages trust assets who has special skills or expertise or is named in reliance upon his or her representation that he or she has special skills or expertise has a duty to use those special skills or expertise.

- d-2. Diversification. The board and person under contract to the Employees' Retirement System to invest and manage trust assets shall diversify the investment of the trust unless the board reasonably determines that because of the special circumstances, the purposes of the trust are better served without diversifying.

- d-3. Loyalty. The board and a person under contract with the Employees' Retirement System to invest and manage trust assets shall invest and manage the trust assets solely in the interests of the beneficiaries.

- d-4. Investment Costs. In investing and managing trust assets, the board and a person under contract to the Employees' Retirement System to invest and manage trust assets may only incur costs that are appropriate and reasonable in relation to the assets for the purposes of the trust and the skills of the trustee.

- d-5. Delegation. The board has a duty to personally perform the responsibilities of trusteeship except as those responsibilities are by this section delegated to others or except as a prudent person might delegate those responsibilities to others. In deciding whether and to whom and in what manner to delegate fiduciary authority in the administration of the trust and thereafter supervising agents, the board is under a duty to the beneficiaries to exercise fiduciary discretion and to act as a prudent person would in similar circumstances. In performing a delegated function, a person under contract to the Employees' Retirement System to invest or manage funds owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation. The board shall not be liable to the beneficiaries or to the trust for the decisions or actions of a person to whom a function was delegated provided that the board shall have used reasonable care, skill and caution in selecting the person; establishing the scope and terms of the delegation consistent with the purposes and terms of the trust; and periodically reviewing the person's actions in order to monitor performance in compliance with the terms of delegation.
- d-6. Reviewing Compliance. Compliance with the prudent investor rule is determined in light of the facts and circumstances existing at the time of the decision or action and not by hindsight.
- d-7. The text and comments to the Uniform Prudent Investor Act promulgated by the National Conference of Commissioners on Uniform State Laws (1994) and the Restatement of Trusts 3d: Prudent Investor Rule (1992) are interpretive of the provisions of this par.
- d-8. Nothing in this par. prevents the board and the Employees' Retirement System from requiring indemnification or insurance from a contractor, nor does anything in this par. preclude the board and the Employees' Retirement System from obtaining indemnification or insurance for their activities.