EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
ANNUITY AND PENSION BOARD

Minutes of the Investment Committee Meeting
held February 15, 2008

The meeting was called to order at 9:13 a.m.

Committee Members Present:	John Barmore Thomas Fischer Michael J. Murphy, Chair
Committee Members Not Present:	William C. Carey (excused) Larry Holland W. Martin Morics (excused) Sebastian Raclaw Ron Walter
Retirement Staff Present:	Martin Matson, Acting Director Tom Rick, Chief Investment Officer David Silber, Pension Investment Analyst Bruce Thomas, Pension Investment Analyst Suzanne Fortier, Board Stenographer

Others Present: Doug Kryscio and Patty Schneider, Mercer Investment Consulting; Beth Cleary, City Attorney's Office; Yvonne Ceresa and Joseph Caminiti, Barclays Global Investors; George Greig and Julie Stevens, William Blair & Co.

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

MERS 4th Quarter 2007 Performance Review. As a matter of information, Committee members received copies of the Fourth Quarter 2007 Board Report, submitted by Mercer Investment Consulting, and ERS' 4th Quarter 2007 Performance Report. Mr. Kryscio updated the Committee on the economic environment; interest rates and inflation; equity market performance; fixed income performance and other markets performance. He said the key for this plan, as well as other plans, has been diversification. Mr. Rick talked about the asset allocation as of December 31, 2007. He reported that ERS' Fund had a market value of $5.2 billion at year end 2007, which is about $150 million over the prior year. Mr. Rick said that ERS had total gross market gains of about $372 million; paid out in payroll and expenses $255 million; and received contributions of almost $30 million. He said for the fourth quarter the Fund returned -1.1 percent, which underperformed our blended benchmark by about 30 basis points; for 2007 ERS had a 7.5 percent return compared to the benchmark return of 7.8 percent. Over the 5-year time period ERS returned 14.2 percent, compared to the benchmark return of 12.3 percent. He talked abut ERS' 10 year total Fund performance and statistics. Mr. Rick talked about the domestic equity manager investment styles and performance stating for the fourth quarter ERS underperformed the benchmark by about 60 basis points; as well as underperforming in 2007 by 220 basis points. The domestic equity composite did outperform for the five year number by 80 basis points of annualized excess return. He talked about the relative investment performance for the domestic equity managers as of December 31, 2007.

Mr. Silber reported on the international equity composite which had a return of -0.8 percent during the quarter, but outperformed its benchmark by nearly 1.0 percent. The one year performance did very well with a return of 14.1 percent, beating the benchmark by 2.9 percent. He said the international equity composite has achieved above benchmark returns while taking slightly additional risk over the last five years. The five year performance and statistics chart shows that the composite has averaged 24.1 percent return per year over the period, beating its benchmark by 2.5 percent per year. Mr. Silber said the beta of 1.1 indicates the composite is slightly more sensitive to the benchmark. He talked about the relative investment performance for the international equity managers as of December 31, 2007 stating that Blair had a positive return of 0.2 percent, outperforming its benchmark by 0.8 percent, and Brandes had a return of -0.6 percent, outperforming its benchmark by 1.2 percent. Mr. Silber stated that the DFA international small cap value strategy returned -7.3 percent, underperforming the benchmark by 2.2 percent, but still had a positive return of 3.7 percent for the year, significantly outperforming their benchmark.

He reported that fixed income had a return of 2.4 percent for the quarter, which underperformed its benchmark by 0.6 percent. The one year number shows the composite had a return of 7.8 percent outperforming its benchmark by 0.8 percent, and significantly outperformed its benchmark over the three and five year time periods. Mr. Silber said the 5 year performance shows an annualized return of 7.1 percent. The relative investment performance for fixed income managers as of December 31, 2007 shows that Loomis had a return of 1.7 percent during the quarter, underperforming its benchmark by 1.3 percent, but still had a return of 8.3 percent for the year, outperforming their benchmark by 1.4 percent. He said that Reams had a return of 3.1 percent for the quarter, slightly outperforming their benchmark; and for the one year period they had a return of 7.5 percent outperforming their benchmark by 0.5 percent. Mr. Silber reported the estimated market value for January 2008 is $4.98 billion with a January return coming in at -4.5 percent. Month-to-date for February, staff is projecting the market value as $4.91 billion, with an estimated return of -1.5 percent.

Investment Manager Presentations.

Barclays Global Investors. As a matter of information, Committee members received a presentation booklet, dated February 15, 2008. Mr. Rick handed out an updated performance chart for Barclays. Mr. Silber talked about Barclays' goals and guidelines for the fixed income strategy and also the alpha tilts strategy. He indicated that Barclays Alpha Tilts strategy has not been performing up to their guidelines as they are matching the benchmark return of 7.0 percent since inception. Ms. Ceresa briefly talked about her and Mr. Caminiti's backgrounds. She stated that as of January 30, 2008, Barclays Russell 1000 Alpha Tilts Fund has an asset value of $623 million and the

Lehman Intermediate Aggregate Index Strategy has an asset value of $416 million. Ms. Ceresa gave an update on Barclays Global Investors. Brief discussion ensued. Mr. Caminiti talked about the Alpha Tilts 2007 performance stating that the negative performance started in the end of 2006. He said that year-to-date Barclays is up about 38 basis points, and up another 30 basis points in February, so Barclays is encouraged to see the investment insights they use turning around. Mr. Caminiti briefly talked about Barclays' investment philosophy. Talking about their 2007 performance, he said stock selection includes relative valuation, earnings quality and sentiment. Mr. Caminiti said the failure took place first with earnings quality, which was primarily a result of the excess liquidity in the marketplace through August; since August, valuation has been the primary driver of underperformance. He said at the end of the day this has been a failure of the alpha model and their investment insights have not been working.

Looking over time at Barclays' insight, this is the first time they have had two major themes being negative in a single year. The idea of having a balanced model is that certain indicators are always going to fail, while other indicators do well. He said Barclays tries to build a balanced portfolio and incorporate valuation and Barclays was in disagreement with the market in the second half of 2007. Mr. Caminiti said Barclays felt that the market has overshot; and firms/investors are paying too much for obvious growth in the marketplace. There has been this perception since August 2007 when this crisis started with the sub prime issue, the extent of the write downs that are now over $100 billion, and could easily approach a trillion before this is all said and done. He said there is clearly a crisis going on as there was way too much liquidity in the system, way too many loans that were put out to leverage buyout firms, no covenant loans, and easy financing, all of which disrupted a lot of these signals, particularly the quality signals in the first half of the year. Mr. Caminiti talked about how they judge a company's qualities, basically where their financing is coming from; how quickly are they turning over their inventory; what are the chances they can continue to produce these earnings or are they stealing from future earnings.

He said if Barclays looks at their earnings quality signals, it was the companies that were scoring as very poor on the earnings quality matrix, that were really damaging Barclays return because they were getting taken over, but the whole group was trading higher on the expectation that these companies may be take over targets. Mr. Caminiti said when you have a period of great excess it does not really end smoothly, which is what we are seeing in the marketplace. What investors generally do is they get scared; say there is going to be no earnings growth so we better buy earnings growth where we can get it and they tend to over pay for earnings growth and they pile into names like Apple and Google that are promising some earnings growth. He said Barclays has taken a lot of steps to improve these signals, made some changes to bet more heavily on Barclays' specific proprietary signals that were built into the portfolio to try to bet more heavily on BGI's specific research. Discussion ensued throughout the presentation.

Mr. Murphy called for a break at 10:27 a.m. The Committee reconvened at 10:37 a.m.

William Blair. As a matter of information, Committee members received a presentation booklet, dated February 15, 2008. Mr. Rick handed out a performance update chart. Mr. Silber said Blair manages about ten percent of the Fund's value and have been a manager for ERS since December 2003. He said that Blair has made a request to increase the allocation allowance for emerging markets, but staff has not yet had a chance to discuss the increase. Mr. Silber stated that Blair's goal is to generate 200 basis points of excess return versus their benchmark, and looking at the four year period, Blair is not achieving that goal. However, if you go by quartiles this benchmark has been very difficult to beat and Blair is doing very well to stay in the top quartile versus both this universe and according to Mercer's universe. Ms. Stevens briefly updated the Committee on the firm stating as of December 31, 2007 Blair has almost $50 billion in assets under management. She reported that for the one year period Blair did outperform the benchmark with a return, gross of fees, of 19.4 percent versus the benchmark return of 17.1 percent. For January 2008, Ms. Stevens said Blair is relatively in line with the benchmark.

Mr. Greig said the broad theme of the market environment last year, and the reason the overall market returns were good, was that there was a fairly strong undercurrent of belief that the international economies, particularly emerging economies, could maintain a big growth differential, even as the U.S. slowed down, both in terms of not only economic growth, but also earnings growth, and a relatively stable financial performance especially in emerging markets. Mr. Greig talked about different market phases: the first big wave of fear about financial stability in the summer; the first interest rate cuts that gave a lot of confidence to international markets; and then we moved into a period that became fairly speculative into September and October; peaked out at the end of October and then began to see more risk aversion creep in toward year end. He said Blair came out of the year with a 19 percent return, which is the fourth year in a row they have seen this kind of return. Mr. Greig said, in a sense, he thinks the market was ripe for a consolidation or correction. What Blair has seen this year has been a renewed erosion of confidence or perception of risk in the global financial system, but really focused in the U.S., as well as Europe. He said right now we are in a very subdued market environment; volumes are low; confidence is very low; sentiment measures are very bearish and weak; and insider buying and selling is at points normally associated with a market bottom. Mr. Greig said we are obviously in a slow down and looking at probably a little more disappointment in terms of growth in Europe than expected some time ago. He said we will probably see some slow down in Eastern Europe, but he did not see the same degree of vulnerability in Asia; and Japan should have a steady outlook with possibly a bit of acceleration; and not much change in China and India. He briefly talked about Blair's current positioning for ERS. Discussion ensued throughout the presentation. Ms. Stevens said that Blair's emerging market exposure is currently 25%, and they are requesting an increase up to 35% or two times the weighting of emerging markets in the ACWI ex US index. She said the reason for the request is that Blair is trying to keep pace with where the emerging markets are today.

Approval of Reams Asset Management Investment Guideline Changes. As a matter of information, Committee members received a copy of a Memorandum from Mr. Silber, dated February 7, 2008. Mr. Silber outlined the guideline changes: allow Reams to invest up to 80% of the portfolio in US Agency MBS, while limiting investments in non-agency MBS to 25% of the portfolio; allow Reams to invest up to 30% of the portfolio in futures, forwards, options, and swaps; allow Reams to invest up to 3% of the portfolio, at the time of purchase, in the Columbus Extended Market Fund. He stated it is the recommendation of the ERS investment staff and Mercer to approve the proposed guideline changes. The first two guideline changes will be effective immediately upon Board approval. The third guideline change will require a contract amendment, and staff has not received a draft, and therefore, requests Board approval conditioned on approval by the City Attorney. After discussion, Mr. Murphy indicated this would be forwarded to the full Board without a recommendation for further discussion. Mr. Barmore asked staff to study the impact this would have on the portfolio.

Approval of Loomis Sayles Investment Guideline Change. As a matter of information, Committee members received a copy of a Memorandum from Mr. Rick, dated February 7, 2008. Mr. Rick indicated this is related to Loomis' downgrade policy, and this change would eliminate the need for Loomis to seek approval to continue holding a downgraded security. He said that it was the recommendation of ERS staff and Mercer to cap at 3%. Mr. Murphy indicated this would be recommended for approval to the full Board.

Asset Liability Study Survey – Mercer Investment Consulting. As a matter of information, Committee members received a copy of a Risk Tolerance Analysis Summary. Mr. Kryscio said as somewhat expected this survey shows mixed results among the Board and he talked about the responses to the survey.

Mr. Rick said that the City Attorney's Office and ERS received correspondence from Northern Trust regarding an SEC Rule 14b-2, which has to do with a rule that allows corporations to access ERS' holdings with respect to proxy type voting. By default, Northern has to provide the information unless ERS objects to that disclosure. He said if someone is interested in ERS' holdings all they have to do is make an open records request. Mr. Rick stated he would also discuss this issue with the full Board.

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

Martin Matson
Acting 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 Employes' Retirement System, 789 N. Water Street, Suite 300.)