

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

Minutes of the Investment Committee Meeting
held August 20, 2008

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

Committee Members Present: John Barmore
 William C. Carey
 Michael J. Murphy, Chair
 Ron Walter

Committee Members Not Present: Thomas Fischer
 Larry Holland
 W. Martin Morics (excused)
 Sebastian Raclaw

Retirement Staff Present: Bernard J. Allen, Executive Director
 Martin Matson, Deputy Director
 Tom Rick, Chief Investment Officer
 David Silber, Pension Investment Analyst
 Bruce Thomas, Pension Investment Analyst
 Kathleen Conway, Board Stenographer

Others Present: Doug Kryscio, and Patty Schneider, Mercer Investment Consulting; Beth Cleary, City Attorney's Office and Bob Peterman, Smith Barney.

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

Approval of Asset Liability Study Implementation Plan. Mr. Kryscio stated that as discussed at the June 11, 2008 meeting, Mercer and ERS staff worked together to come up with a proposed roadmap. He said this is just a proposed roadmap, and Mercer would not proceed now or in the future if the overall Board is not comfortable with this plan. The educational sessions on the various asset classes we have had are only a tip of the iceberg as there is a lot more discussion to be had when talking about hedge funds, absolute returns, private equity, and commodities. Mr. Kryscio said regardless of the asset class and individuals' feelings, Mercer will not proceed any quicker as their job is to make sure the Board is comfortable with what they are going to be investing in. Once ERS does implement the plan, the investment policy statement will need to be adjusted. Brief discussion ensued. Mr. Kryscio said page 3 shows the current policy, Mix 6D, and most efficient and he talked about the differences. He indicated that this process is going to take about one to three years to do all this work. Further discussion ensued.

Turning to page 4, Mr. Kryscio said one thing that does need to be done for a variety of reasons is for ERS to do a complete review of both the domestic and international equities and fixed income structures. What we would look at is: does ERS have the right number of managers; active versus passive split and enhanced index; dedicated emerging markets; should ERS have someone who handles global fixed income; and are the guidelines appropriate for each manager. Mr. Kryscio indicated that ERS and Mercer have had conversations with some of the managers during due diligence trips about the guidelines and asked for comments or if they felt there could be improvements. He stated

the Board should feel comfortable with what you currently have before ERS starts moving money around. Mr. Kryscio indicated that ERS should do more in-depth educational sessions on private equity, infrastructure, hedge funds and commodities. Lengthy discussion ensued. He said that assuming the Board is comfortable with where we are, Mercer would envision potentially doing a global equity manager search to hire one manager for a \$200 - \$250 million mandate. He stated we would start to transition some money from domestic equity to international/global equity and doing replacement searches.

Ms. Schneider indicated that, based off of what Mercer does in the third and fourth quarter, as well as the comfort level of the Board, the first alternative search Mercer proposes would be the private equity fund-of-funds manager. Looking at the recommendation, Mix 6D is about \$240 million, but right now Mercer recommends doing \$100 million to diversify with one to two managers through a traditional search process. Slated for the third and fourth quarter would be to look at infrastructure and do a search process looking at one or two managers. ERS could either look at splitting the dollar amount between two managers and going about \$50 million each, or looking at one manager with a \$100 million mandate. She said Mercer would also look at conducting an absolute return strategy search for a \$50 million mandate during that time as well. Discussion ensued with respect to infrastructure. Ms. Schneider said that depending on the market conditions Mercer would then do a commodities search for about \$50 million in 2010.

Mr. Kryscio stated that even if ERS was ready to do commodities today, he would suggest that we dollar cost average in and not invest it all at once. Mercer just interviewed commodity managers last week for one of his other clients but they have to do some Board due diligence and have not selected a manager yet. Once the contract is completed, Mercer is proposing doing this in quarterly installments over the next year. Brief discussion ensued. Ms. Schneider said the next search would be another private equity search to diversify among vintage years and also looking at another absolute return search.

Mr. Kryscio talked about potential future topics such as opportunistic buckets. Lengthy discussion ensued.

There being no further business, Mr. Murphy adjourned the meeting at 10:17 a.m.

Bernard J. Allen
Secretary and Executive Director

(NOTE: All proceedings of the Annuity and Pension Board Meetings and related Committee Meetings are recorded. All recordings and material mentioned herein are on file in the office of the Employees' Retirement System, 789 N. Water Street, Suite 300.)