

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

Minutes of the Investment Committee Meeting
held July 30, 2009

The meeting was called to order at 9:08 a.m.

Committee Members Present: John Barmore
 Thomas Fischer
 Angela Henschel
 W. Martin Morics
 Michael J. Murphy, Chair
 Ron Walter

Committee Members Not Present: William C. Carey (excused)
 Larry Holland (excused)

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

Others Present: Doug Kryscio and Patty Hafner, Mercer Investment Consulting; Jessie Magee and Katie Driver Ealy, Earnest Partners; and Lawrence Spieth, Dimensional Fund Advisors.

Approval of Due Diligence Reports.

Reams Asset Management. As a matter of information, Committee members received a copy of a memorandum from Mr. Silber, dated July 24, 2009. Mr. Silber handed out a report from Zephyr StyleADVISOR. Mr. Silber stated that staff moved the meeting with Reams up by several months due to concerns over Reams' compliance of their guidelines and performance. He talked about the issues addressed during the due diligence trip. Discussion ensued.

Earnest Partners. As a matter of information, Committee members received a copy of a memorandum from Mr. Thomas, dated July 24, 2009. Mr. Thomas reported on the results of the due diligence trip to Earnest Partners. Discussion ensued.

The Townsend Group. As a matter of information, Committee members received a copy of a memorandum from Mr. Silber, dated July 24, 2009. Mr. Silber handed out a report from Zephyr StyleADVISOR. Mr. Silber reported on the results of the due diligence trip to the Townsend Group. Lengthy discussion ensued. It was moved by Mr. Barmore, seconded by Ms. Henschel, and unanimously carried, to approve the due diligence reports from Reams, Earnest and Townsend Group.

Performance Update Q2 2009. As a matter of information, Committee members received copies of the 2nd Quarter Performance Report, dated July 30, 2009 and the Mercer Board Report Periods Ending June 20, 2009. Mr. Kryscio stated the report

included in the packet was very preliminary, and Ms. Hafner handed out an updated report. Mr. Kryscio stated the 2nd quarter was pretty good for ERS as the stock market was up strong. He talked about the economic conditions, unemployment and the market environment. Mr. Kryscio stated that because of market movement and the rebalancing, ERS is back within your long-term policy ranges.

Mr. Rick talked about ERS' asset allocation as of June 30, 2009. He reported that at the end of the second quarter the Fund's value was \$3.51 billion, which shows about an \$80 million net gain compared to year-end 2008. Mr. Rick stated that for 2009 ERS has had market gains of about \$190 million, which is offset by outflows of \$127 million and inflows of \$17 million. He said if you include July's year-to-date numbers, ERS' market gains are about \$360 million. Mr. Silber stated the Fund's value is just under \$3.7 billion. Mr. Rick stated that the Fund return for the quarter is 15 percent; relative returns are 260 basis points above our benchmark; and year-to-date the Fund is looking at 250 basis points of outperformance. He talked about the domestic equity performance for the 2nd quarter indicating that ERS had a return of 18.5 percent compared to the Russell 3000 benchmark return of 16.8 percent. Mr. Rick stated that DFA and Artisan have 20+ percent returns; year-to-date Earnest is doing very strong with over 500 basis points of outperformance; and Bernstein has a year-to-date outperformance of about 590 basis points.

He stated that the international equity performance for the 2nd quarter is about 110 basis points of outperformance, and year-to-date is about 4 percent of outperformance. He said looking out at longer time periods, the portfolio as a whole over a five year period is about 170 basis points of outperformance. Mr. Rick stated that the fixed income composite had a 13 percent return for the 2nd quarter; 12.9 percent year-to-date, with over 1,000 basis points of outperformance for the fixed income performance. Reams year-to-date is almost 1,800 basis points and Loomis is about 1,300 basis points. He indicated that all our fixed income managers for a five year time period are outperforming. Mr. Rick reported that the estimated market value as of July 23, 2009 is \$3.68 billion; and the estimated outperformance for July is about 50 basis points for an estimated year-to-date return of 11.3 percent.

Mr. Kryscio briefly updated the Committee on the Custody environment, AllianceBernstein, BGI, Turner, William Blair and Artisan.

Private Equity Market Update. Mr. Kryscio handed out a memo, dated July 30, 2009 and a chart and talked about the current market environment. Mr. Kryscio stated it is Mercer's opinion that now is a good time to start a private equity fund-of-funds program. Discussion ensued. Mr. Rick handed out a chart "Private Equity Structure Review" and talked about both Fund of Funds and a Private Equity Advisor. He stated that his recommendation would be a Fund of Funds manager to initially access the space and then as staff and the Board get comfortable and more experienced in this ERS could branch off and build a more customizable portfolio. Mr. Rick stated that with the Committee's approval, staff could come back with a list of private equity fund of fund managers for the Investment Committee Meeting in September. Mr. Kryscio said it would be feasible to come back in September with a list of managers, plus a high level summary of the managers. Discussion ensued.

Mr. Murphy called for a break at 10:15 a.m. Mr. Walter left the meeting at 10:15 a.m. The meeting reconvened as a sub-committee at 10:35 a.m.

Earnest Partners Presentation. As a matter of information, Committee members received a copy of the presentation book, dated June 30, 2009. Mr. Thomas handed out an updated performance chart and briefly talked about Earnest Partners. Ms. Ealy talked about the firm; their guidelines and investment policy audit and an equity market overview. She reported that as of June 30, 2009 the portfolio was valued at \$149 billion and has an estimated annual income of \$2.5 million, which related to dividends and a small amount of interest.

Mr. Magee stated that for the 2nd quarter the portfolio gained about 22 percent versus 21 percent for the index. Year-to-date the portfolio had a return of 23 percent versus about 18 percent for the index. He noted that Earnest has been ahead of the benchmark for both the 2 year numbers and since inception despite what has been a difficult time for the last 12 months on an annualized basis. Mr. Magee talked about some of their stock selections; contributors/detractors; sector weightings; and equity portfolio characteristics. Discussion ensued throughout the presentation.

Dimensional Fund Advisors. As a matter of information, Committee members received a copy of the presentation book, dated July 30, 2009. Mr. Silber handed out an updated performance chart and briefly talked about Dimensional Fund Advisors (DFA). Mr. Spieth briefly talked about DFA's securities lending program. He mentioned that since he was last here DFA has officially moved their headquarters from Santa Monica to Austin, TX. Mr. Spieth talked about yearly observations of the market premium; risk factors periods of under – and – over performance; five-year moving average of the market premium; five-year moving average of the value and size premium; and the value and size effects in US, international markets and emerging markets. He briefly talked about the portfolio construction as of June 30, 2009. Turning to page 18, Mr. Spieth stated that on a year-to-date basis DFA is ahead of the benchmark and he talked about the detailed attributions by size, book-to-market, and sector from January 1 – February 28, 2009, and from February 28 – June 30, 2009. Mr. Spieth went over DFA's performance as of June 30, 2009. Discussion ensued throughout presentation.

There being no further business, Mr. Murphy adjourned the meeting at 11:40 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.)