

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

Minutes of the Investment Committee Meeting  
held December 17, 2009

The meeting was called to order at 9:00 a.m.

Committee Members Present:        John Barmore  
    Larry Holland  
    W. Martin Morics  
    Michael J. Murphy, Chair

Committee Members Not Present:   William C. Carey (arrived at 9:15 a.m.)  
    Ron Walter (arrived at 9:10 a.m.)

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

Others Present: Beth Cleary, City Attorney's Office; Doug Kryscio, Patty Hafner, and Mariya Nikolova, Mercer Investment Consulting; Rick Jandrain, Dan Kapusta and Marty Flesher, Fort Washington Investment Advisors, Inc.; Michael Corelli and Geoff Mullen, Oppenheimer Capital; and Todd Wakefield and Ryan Fitzpatrick, The Boston Company Asset Management, LLC.

**Small Cap Manager Presentations.** As a matter of information, Committee members received a US Equity – Small Cap Growth Manager Search Report from Mercer, dated December 2009. Mr. Rick handed out a Small Cap Growth Manager Summary sheet. Ms. Hafner made some brief comments before the presentations.

**Fort Washington Investment Advisors.** As a matter of information, Committee members received a presentation book, dated December 17, 2009. Mr. Flesher introduced Mr. Jandrain and Mr. Kapusta and briefly talked about the "Summary of the Search" and the agenda. He stated the firm was founded in 1990 with \$49.3 billion in assets under management, with 95 total employees, including operations. He talked about their strong parent company, Western Southern Financial Group. Key strengths are alignment of interest; client-focused; culture of risk control. Mr. Flesher stated that the organization works very well together. He briefly went over the firm organization; current strategies, and recognized national and regional clients. Discussion ensued.

Mr. Jandrain talked about Fort Washington's philosophy, objectives, and the portfolio management team. Mr. Kapusta talked about Fort Washington's investment process, which is to blend quantitative and fundamental research and the difference of their process. He talked in detail on the proprietary quantitative selection criteria; bottom-up analysis; and the process in action. Lengthy discussion ensued. Mr. Kapusta also talked about the portfolio construction and guidelines, sell discipline and the portfolio characteristics as of September 30, 2009.

Mr. Flesher finished up talking about Fort Washington's outline of how they should perform for the ERS over a full market cycle; composite performance; performance attribution; and upside/downside capture ratio. He indicated there was a summary on page 26 for Committee members review. Further discussion ensued.

**Oppenheimer Capital.** As a matter of information, Committee members received a presentation book, dated December 17, 2009. Mr. Mullen briefly talked about his and Mr. Corelli's backgrounds. He quickly gave a high-level overview of the ownership structure and organization stating their parent company is Allianz Global Investor, who has owned Oppenheimer for ten years. Mr. Corelli talked about the small cap growth investment team. Mr. Corelli and Mr. Mullen talked about Oppenhemier's investment philosophy, investment process, sell discipline and risk management; portfolio diversification; investment theme diversification; portfolio characteristics; portfolio allocation; and performance. Lengthy discussion ensued throughout the presentation.

Mr. Murphy called for a break at 10:38 a.m. The Committee reconvened at 10:50 a.m.

**The Boston Company Asset Management.** As a matter of information, Committee members received a copy of a presentation book, dated December 17, 2009, and The Boston Company US Small Cap Growth Team Biographies. Mr. Wakefield provided a handout "Investment Themes for 2008-2009." Mr. Fitzpatrick and Mr. Wakefield introduced themselves. Mr. Fitzpatrick talked about the firm stating they have been part of what is now Bank of New York Mellon for over 15 years. He pointed out that they manage \$34 billion in equity, with the U. S. equity small cap assets at \$3.6 billion. Brief discussion ensued. Mr. Fitzpatrick briefly talked about their client list and the US Small Cap Growth Equity investment team. Mr. Wakefield walked the Committee through the investment philosophy; investment process; buy opportunities; sell discipline; and portfolio structure. Mr. Fitzpatrick talked about the rolling information ratio and tracking error; Russell 2000 monthly "quality" quintile spread March 1987 – September 2009; cumulative portfolio excess return and monthly quality quintile spread (gross of fees) May 2002 – September 2009. Discussion ensued with respect to fees.

Mr. Kryscio talked about pages 32-34 of the Mercer book.

**Selection of Small Cap Manager.** Mr. Murphy advised that the Investment Committee may vote to convene in closed session on this item as provided in Section 19.85 (1) (e), Wisconsin State Statutes, for deliberating or negotiating the purchasing of public properties, the investing of public funds, or conducting other specified business, whenever competitive or bargaining reasons require a closed session. The Committee will then reconvene in open session following the closed session. It was moved by Mr. Morics and seconded by Mr. Barmore, that the Committee convene in closed session. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Carey, Holland, Morics, Walter and Murphy. NOES: None.

The Committee convened in closed session at 11:34 a.m. and reconvened in open session at 11:47 a.m.

**Approval of Interim Target Allocations.** As a matter of information, Committee members received a copy of a memo from Mercer, dated December 17, 2009. Mr. Kryscio talked about the investment policy – interim allocation without alternatives. He indicated that Mercer recommends the Board give staff some discretion to move towards the interim allocation with the use of cash flows. It was moved by Mr. Morics, seconded by Mr. Holland, and unanimously carried, to approve the recommendations of Mercer for the interim allocation without alternatives.

**Request for Additional Funds for Outside Legal Expert.** As a matter of information, Committee members received an update on the negotiations. Ms. Cleary stated that currently there is a cap for working with Reinhart, who is the outside legal expertise for negotiating both the GMO and MFS contracts. She indicated the cap is at \$25,000, but given the nature of negotiations since working with the investment management agreement there has been a lot of negotiating back and forth, a lot of work and combing through, so that has brought up the fees and time spent on these contracts. Ms. Cleary did state that GMO has agreed to give ERS a separate account, which gives ERS more control over the terms of the agreement. She said this is a benefit that has come out of working with the expertise of the legal advisors. All of this has taken a lot of time and effort. Ms. Cleary also pointed out that Reinhart has helped the City Attorney's Office negotiate with MFS to obtain a legal opinion to make sure that all of the Fund documents in relation to MFS are legal and binding, which should provide the Board with a source of comfort, and MFS will be taking care of the costs which is about \$13,000 to \$16,000 for the opinion. Ms. Cleary stated that the request for additional funds would be not to exceed \$42,000. It was moved by Mr. Morics, seconded by Mr. Carey, and unanimously carried, to approve the request for additional funds not to exceed \$42,000.

**Approval of Global Equity Contracts.** Ms. Cleary stated the City Attorney's Office is getting very close to wrapping up both the deals with GMO and MFS. She did talk about an issue with MFS regarding the indemnification provision that is in our standard IMA. Discussion ensued. Ms. Cleary stated this was only informational at this time.

There being no further business, Mr. Murphy adjourned the meeting at 12:05 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.)