

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

Minutes of the Investment Committee Meeting
held January 14, 2010

The meeting was called to order at 9:10 a.m.

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

Committee Members Not Present: William C. Carey

Retirement Staff Present: Bernard J. Allen, Executive Director
 Martin Matson, Deputy Director
 Tom Rick, Chief Investment Officer
 Suzanne Fortier, Board Stenographer

Others Present: Beth Cleary, City Attorney's Office; Doug Kryscio and Patricia Hafner, Mercer Investment Consulting; Thomas Fink and Deanne Olson, Reams Asset Management; and Pam Newton, Don Anderson and Gregory Williams, Northern Trust.

Mr. Murphy welcomed Mr. Petropoulos to the Board.

MERS Preliminary Performance for 2009. As a matter of information, Committee members received a performance chart for 2009. Mr. Rick noted that the Fund has not yet been audited so the numbers may change, especially as real estate data comes in from the Townsend Group. He stated that as of December 31, 2009 the estimated value of the Fund was \$3.97 billion, and for the year the Fund is up about 23.7 percent or 470 basis points above ERS' blended benchmark. For December 2009 Turner Investment Partners was ERS' largest domestic equity outperformer beating their benchmark by 100 basis points. For fixed income, Loomis Sayles beat their benchmark by about 210 basis points. Mr. Rick stated the domestic equity composite had 280 basis points of outperformance for 2009. He said the international equity composite was ERS' strongest performing asset class with a 36 percent return for 2009 and beating their benchmark by about 420 basis points. Mr. Rick reported that fixed income composite was up about 25.5 percent for 2009. He indicated as of January 13, 2010 the Fund's value is estimated at \$4.06 billion, and up 2.2 percent through January. Mr. Morics asked how badly real estate hurt the Fund. Mr. Rick stated that Northern's indication of ERS' real estate performance was down 37 percent, but the number will be different when Townsend reports because they will report the actual year return; whereas Northern actually lags one quarter. Discussion ensued. Mr. Rick reported that through 2009 ERS withdrew \$242.5 million to pay benefits and operating expenses. For 2009 the Fund had: capital market gains of \$766.1 million; paid out \$262.8.0 million in payroll and expenses; and received contributions of \$31.7 million. Discussion ensued.

Reams Asset Management Strategy and Performance Presentation. As a matter of information, Committee member received a presentation book, dated January 14, 2010.

Mr. Rick handed out an updated performance chart. Mr. Rick stated that for 2009 Reams had a return of over 30 percent, and since inception Reams' is close to their goal to generate 100 basis points of outperformance. Ms. Olson talked about the firm stating that as of December 31, 2009 they had \$9.1 billion in fixed income assets under management. She briefly talked about Reams' fixed income professionals, and touched on Reams' investment objective and guidelines.

Mr. Fink talked about Reams' performance for 2009 stating Reams was up almost 31 percent in the high quality fixed income portfolios. He also talked about the numbers for the last three years as that is when this new credit cycle started. Mr. Fink indicated that Reams has significantly restructured the portfolio; they have taken a lot of risk off the table and harvested a lot of those gains. They feel they have positioned the portfolio appropriately to take advantage of some volatility which they would expect to occur over the next couple of years. Discussion ensued. Mr. Fink talked about sector spreads; economic review; and the portfolio characteristics as of December 31, 2009. Discussion ensued throughout presentation.

Northern Trust: Custody, Securities Lending and S&P 500 Index Presentations. As a matter of information, Committee members received a presentation book, dated January 14, 2010. Mr. Rick handed out an updated performance chart. Ms. Newton noted that last week Northern celebrated 17 years as ERS' custodian. She talked about innovative solutions designed around the clients' needs. Mr. Rick talked about the contract for the compliance module.

Mr. Anderson provided some background of the Securities Lending process and associated risks; how revenue is generated: cash collateral loan; collateral reinvestment; data block on passport; new collateral pool guidelines; core characteristics report, December 31, 2009; market to book report; City of Milwaukee collateral deficiency summary; and historical earnings. Mr. Williams gave an overview on the Northern Trust Global Investments stating they have assets of \$610.5 billion under management. He said their strengths are in a quantitative and index strategies, whether it is in equities or fixed income, cash management and also their manager of managers program. Mr. Williams talked about the global investment products. He stated the goal for the S&P 500 Equity Index Fund is to replicate the risk and return profile for the underlying benchmark, and the way Northern Trust does is to focusing on minimizing transaction costs. Mr. Williams said September 2008 was a tough month for this portfolio, in particular, given Securities Lending; performance was impacted by a -66 basis points. Through November 30, 2009, year-to-date performance was +58 basis points in performance. Mr. Williams said things are coming back, and a lot of it is attributed to Securities Lending coming back. He briefly talked about the Fund characteristics and attribution, and the Collective Short-Term Extendable Portfolio (STEP). Discussion ensued.

Approval of Loomis Sayles Due Diligence Report. As a matter of information, Committee members received a copy of a memorandum from Mr. Thomas, dated January 7, 2010. Mr. Rick stated that Mr. Thomas was unable to be here today and he would be happy to answer any questions from the Board. He indicated Mr. Thomas' report was very good and he briefly talked about the report. It was moved by Mr. Morics, seconded

by Mr. Petropoulos, and unanimously carried, to approve the Loomis Sayles due diligence report.

Private Equity Update. As a matter of information, Committee members received a copy of a memo from Mercer, date January 14, 2009 (sic). Ms. Hafner stated the memo contains the five finalist candidates Mercer is recommending the Board interview for the Private Equity search. She said the next steps would be to compile a full search report and look at bringing the candidates to the Committee. Interviews will be held with the top five candidates at the March 4, 2010 Investment Committee meeting.

Approval of GMO and MFS Global Equity Contracts. Ms. Cleary indicated that the City Attorney's Office is finalizing the terms of a contract with GMO and should have a final version for the Board meeting scheduled for January 25, 2010. Mr. Kryscio handed out a copy of a News Item, dated January 12, 2010 regarding MFS. He stated that Mercer was notified on January 12, 2010 that the lead portfolio manager of the MFS global equity strategy resigned and is moving to Artisan Partners. He indicated that Mercer's research group is recommending a downgrade from A- to B. Mr. Kryscio stated that what that means is a B rated strategy would not be put into the search today for consideration. He said in May 2009 the Board approved MFS, subject to final due diligence and contract negotiations. In the final due diligence process, Mr. Dargan resigned, and it is fair to say the Mercer would not be comfortable proceeding with MFS, but the decision is at the Board's discretion. Mr. Kryscio indicated that T. Rowe Price came in as a 1 and 1A manager. It would be Mercer's recommendation not to proceed with MFS and to start the due diligence process and contract negotiations with T. Rowe Price. After discussion, it was moved by Mr. Morics, seconded by Mr. Walter, and unanimously carried, that negotiations commence with T. Rowe Price in place of MFS.

Approval of BlackRock (Barclays) Transition Manager Contract. Mr. Rick indicated the contract is not available at this time. He stated the hope is to have the GMO contract done and be ready with the transition at the end of January 2010.

Mr. Kryscio updated the Committee on Mercer's client conference and if any Board member would be interested in attending Mercer would forward them the information. He also updated the Committee on recent hires at Mercer indicating there would be upcoming press releases.

There being no further business, it was moved by Mr. Morics, seconded by Mr. Walter, and unanimously carried to adjourn the meeting at 11:00 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.)