

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

Minutes of the Investment Committee Meeting
held March 4, 2010

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

Committee Members Present: John Barmore
 Michael J. Murphy, Chair
 Gust Petropoulos

Committee Members Not Present: William C. Carey (excused)
 Larry Holland (arrived at 9:15 a.m.)
 W. Martin Morics (arrived at 9:54 a.m.)
 Ron Walter (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
 Suzanne Fortier, Board Stenographer

Others Present: Rudy Konrad, City Attorney's Office; Doug Kryscio and Patricia Hafner, Mercer; Matthew Rose, Alpha Investment Consulting Group; Jonathan Roth and Charles van Horne, Abbott Capital Management; Peter Lawrence, Peter Denious and Michael Sullivan, Flag Capital Management; Erik Hirsch, Jackie Rantanen and Mike DiMartile, Hamilton Lane Advisors; Marc Sacks, Tom Galuhn and Tom Hynes, Mesirow Financial; and Paul R. Crotty, Todd A. Hughes and Eric Thunem, Portfolio Advisors.

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

Q4 2009 Fund Performance Review. As a matter of information, Committee members received a copy of the 4th Quarter Performance Report from ERS, dated March 4, 2010 and Mercer's Board Report Periods Ending December 31, 2009. Mr. Rick reported that at year-end, the fund's asset allocation was within our strategic investment guidelines approved by the Board. The fund's overweight in equities and fixed income was offset by its underweight to real estate primarily due to continued write-down's, although somewhat slowed compared to a year ago, in our real estate portfolio. Asset values as of year-end were roughly \$3.96 billion, a net increase of over \$534 million since the beginning of the year.

(Mr. Holland arrived at 9:15 a.m.)

The meeting convened as an Investment Committee meeting at 9:15 a.m.

He reported that through 2009, the fund had a total of \$765 million in gross asset gains. This is netted against contributions of \$31.7 million and the payment of nearly \$263 million in retiree payments and operating expenses to arrive at the net increase of \$534 million at year end. For the quarter, the Fund returned 3.2% gross of fees, which outperformed our blended benchmark by 30 basis points. For the 12 month period, the fund's return of 23.6% thumping the benchmark by 470 basis points. Mr. Rick said that the Fund has earned an annualized 2.9% rate of return over the last five years compared to the benchmark return of 3.1%. Discussion ensued with respect to ERS' 8.5 percent expected return. Mr. Rick talked about the 10-year total Fund performance.

Mr. Silber stated 2009 was a very good year for the domestic equity composite, which had a return of 31.6 percent and outperformed its benchmark by 3.3 percent. He reported for the most recent quarter the composite had a nice return of 5.4 percent, but underperformed its benchmark by 50 basis points. Mr. Silber talked about the domestic equity 5-year performance and statistics. Talking about the relative investment performance for the domestic equity managers, he noted that staff and Mercer are closely watching Barclays and Turner due to underperformance. Mr. Silber reported that the international equities composite had a good 2009, returning 36.1 percent, which outperformed its benchmark by 4.3 percent. He talked about the international equity 5-year performance and statistics, and the relative investment performance – international equity managers.

Mr. Thomas reported that fixed income portfolio had a 2.2 percent return, which outperformed its benchmark by 2 percent. Over the one year time frame ERS outperformed the benchmark by 19.6 percent. He talked about the fixed income 5-year performance and statistics. Mr. Thomas talked about the fixed income managers' relative investment performance. He reported that through March 3, 2010 the Fund was valued at approximately \$4.02 billion; in 2009 the Fund outperformed the benchmark by 470 basis points; January 2010 the Fund underperformed by 10 basis points; and February 2010 the estimated return is 1.7 percent versus a 1.5 percent return for the benchmark. Mr. Thomas stated the year-to-date return is estimated at 1.6 percent. Discussion ensued.

Approval of BlackRock Transition Agreement. Mr. Rick indicated this item was approved at the Regular Board meeting.

Private Equity Manager Presentations. As a matter of information, Committee members received a Manager Search Report from Mercer, along with a Private Equity Manager Summary report. Ms. Hafner briefly touched on a few points about the five managers who were presenting at this meeting. She stated the goal is to look for two managers, and she talked about various points the Committee should focus on during the presentations. Mr. Kryscio stated Mercer's recommendation is for a commitment of \$80 million. He said that he and Ms. Hafner will point out subtle differences Mercer has noticed through their research on the five managers. Brief discussion ensued.

Abbott Capital Management, LLC. As a matter of information, Committee members received a presentation book, dated January 2010. Mr. van Horne introduced

himself and Mr. Roth. He briefly talked about Abbott's unique attributes and perspective and the top two layers of the organization. Mr. Roth talked about the investment team and their client list. He talked about Abbott's consistently applied investment disciplines; pooled performance, as well as vintage year pooled performance. Mr. van Horne talked about how historic relationships and proactive research provide access to best-of-breed partnerships; selection and screening criteria; and the portfolio diversification. Mr. Roth talked about Abbott's investment and monitoring processes. He also went over the AP2010 selected terms designed to benefit cumulative long-term investors. Discussion ensued throughout the presentation.

Flag Capital Management. As a matter of information, Committee members received a presentation book, dated March 4, 2010. Mr. Lawrence, Mr. Sullivan and Mr. Denious introduced themselves and provided brief background information to the Board. Mr. Lawrence provided some history on the firm; the organization and the seasoned senior team. Mr. Sullivan talked about the three components to the FLAG advantage; the U.S. Private Equity portfolio construction and investment philosophy. Mr. Lawrence talked about the U. S. Venture Capital portfolio construction and investment philosophy. Mr. Denious talked about the international portfolio construction and investment philosophy. Mr. Sullivan explained proactive fund sourcing and the diligence process honed over 15 years. Mr. Lawrence talked about the rigorous on-going monitoring; and active management. Mr. Sullivan talked about Flag's private capital solution and service to limited partners. Discussion ensued throughout the presentation.

Hamilton Lane Advisors. As a matter of information, Committee members received a presentation book. Mr. DiMartile introduced himself, Mr. Hirsch and Ms. Rantanen. Mr. Hirsch talked about the firm; representative client list; Hamilton Lane's global presence; the hands-on investment committee; and their track record. He also talked about private equity asset class returns. Ms. Rantanen talked about Hamilton Lane's portfolio construction. Mr. Hirsch briefly talked about their approach to investing and allocation process. Ms. Rantanen talked about the Fund VII Portfolio construction philosophy; anticipated portfolio construction; and summary of terms and fees; and investor communication tools. Mr. Hirsch talked about monitoring and reporting and what Fund VII would provide the Milwaukee ERS. Discussion ensued throughout the presentation.

Mr. Murphy called for a break at 12:07 p.m. The Committee reconvened at 12:50 p.m.

Mesirow Financial. As a matter of information, Committee members received a presentation book, dated March 4, 2010. Mr. Hynes introduced himself, Mr. Sacks and Mr. Galuhn and provided an overview of the firm. Mr. Sacks talked about the private equity investment team; the institutional sales and marketing team; Mesirow's commitment to superior client service; and their financial private equity investors. He also talked about Mesirow's investment objectives; investment strategy and portfolio construction; and the Mesirow Financial Private Equity Partnership Fund V, L.P. – Developing Portfolio. Mr. Galuhn talked about their investment selection criteria; primary venture capital commitment; and primary buyout commitment. Mr. Sacks

briefly talked about portfolio monitoring. He closed the presentation talking about a summary of principal terms. Discussion ensued through the presentation.

Portfolio Advisors, LLC. As a matter of information, Committee members received a presentation book, dated March 4, 2010. Mr. Thunem introduced himself, Mr. Crotty and Mr. Hughes. Mr. Crotty briefly talked about the firm and the investment team. Mr. Thunem talked about reporting and client communications. Mr. Hughes went over Portfolio Advisors investment philosophy; Privilege Information System; resources and tools; PAPEF VI manager performance; PAPEF I, II, III, IV and V highlights as of December 31, 2009 and core inception-to-date performance figures as of September 30, 2009; and seasoned long-term performance record. Mr. Crotty gave an overview of the transition into PAPEF VI funds; structure; and the fee schedule. He also talked about the diversification of model portfolio commitment; and timely market opportunity. Mr. Thunem talked about risk management; monitoring fund investments; compliance; PAPEF V commitments. He finished up by summarizing why ERS should choose Portfolio Advisors. Discussion ensued throughout the presentation.

Selection of Private Equity Manager. Mr. Murphy advised that the Investment Committee may vote to convene in closed session on this item (IV.), 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 public business, whenever competitive or bargaining reasons require a closed session. He stated it was his intent to adjourn the meeting from closed session. It was moved by Mr. Morics and seconded by Mr. Barmore, to convene in closed session. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Holland, Morics, Petropoulos and Murphy. NOES: None.

The Committee convened in closed session at 2:20 p.m. The meeting was adjourned from closed session at 2:30 p.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.)