

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

Minutes of the Investment Committee Meeting
held June 10, 2010

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

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

Committee Members Not Present: William C. Carey
 Konrad Ellenberger (excused)
 Larry Holland (excused)
 W. Martin Morics (represented by Craig Kammholz)

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 and Mariya Nikolova, Mercer Investment Consulting; Trey Greer and Mondrell Moore, Earnest Partners; Jeremy Watt and Daniel Blumhardt, BlackRock; and Rob Kochis, Townsend Group.

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

Election of Vice Chair. Mr. Murphy laid this over due to the lack of a quorum.

Performance Update. As a matter of information, Committee members received a Performance Update Chart as of May 31, 2010. Mr. Silber talked about the issues with the global market, indicating that for May the Fund had a return of -6.5 percent versus the benchmark return of -6.0 percent. He stated that through June 9, 2010 the Fund was down slightly over 2 percent, which would put the year-to-date Fund return at about -3 percent, and the Fund's value was slightly over \$3.8 billion. Brief discussion ensued.

GMO Transition Update. As a matter of information, Committee members received a copy of a memo from Mr. Silber, dated June 4, 2010. Mr. Silber handed out a copy of the BlackRock Transition Summary. He reported that the Fund has completed its transition to GMO, the new global value equity manager. Mr. Silber stated the ERS ended up taking \$200 million from U.S. equities, and for \$180 million of that ERS used a transition manager, BlackRock. He talked about the transition and costs, which came in at about

\$134,000 lower than what BlackRock estimated in their pre-trade estimates. This was mainly due to BlackRock's ability to cross trades. Mr. Silber talked about the opportunity costs indicating these costs have gone against ERS by about \$628,000, which was well within BlackRock's estimates. This was due to the fact that on all three days we did the transitions the U.S. markets went down more on a relative basis than global markets. He reported that the total cost of the transitions was \$1.1 million. Discussion ensued. Mr. Silber pointed out the GTA Review stating that they provide a service to review transitions, and GTA found that BlackRock did a favorable job for ERS in all three transitions. Further discussion ensued.

(Mr. Kammholz arrived at 9:25 a.m.)

The meeting convened as an Investment Committee Meeting at 9:25 a.m.

Approval of T. Rowe Price Transition Plan. As a matter of information, Committee members received a copy of a memorandum from Mr. Rick, dated June 3, 2010. Mr. Rick talked about the plan for moving assets over to T. Rowe Price, which is the Global Growth equity manager.

Mr. Murphy directed the Committee's attention back to item I.

Election of Vice Chair. Mr. Murphy stated the floor was open for nominations for Vice Chair. Mr. Petropoulos nominated Mr. Barmore. Mr. Walter seconded the nomination. Mr. Murphy asked for any further nominations three times. There being no further nominations, Mr. Murphy asked for a roll call vote for Mr. Barmore as Vice Chair of the Investment Committee. AYES: Messrs. Kammholz, Petropoulos, Walter and Murphy. NOES: None. Mr. Barmore abstained from voting.

Mr. Murphy asked for a motion to approve the T. Rowe Price Transition Plan. It was moved by Mr. Barmore, seconded by Mr. Walter, and unanimously carried, to approve the T. Rowe Price transition plan.

Approval of Fixed Income Search. As a matter of information, Committee members received copies of a letter from Mercer, dated June 10, 2010. Mr. Kryscio talked about the global fixed income search. He also talked about Mercer and staff's recommendations for the top three firms to interview at the July 22, 2010 Investment Committee meeting. After discussion, it was moved by Mr. Barmore, seconded by Mr. Walter, and unanimously carried, to approve the three firms to interview for the Global Fixed Income Search on July 22, 2010.

Approval of Bernstein Guideline Change. As a matter of information, Committee members received copies of a letter from Mercer, dated June 10, 2010, and correspondence from AllianceBernstein, dated May 3, 2010. Mr. Kryscio talked about the guideline change requested by AllianceBernstein. He indicated Mercer's recommendation is to approve letting AllianceBernstein invest up to 5 percent of the portfolio in private secondary offerings as described in Mercer's memo. After

discussion, it was moved by Mr. Barmore, seconded by Mr. Kammholz, and unanimously carried, to approve the Bernstein guideline change based on Mercer and staff recommendations.

Earnest Partners Presentation. As a matter of information, Committee members received a presentation book from Earnest Partners. Mr. Rick handed out an updated performance chart. Mr. Thomas briefly updated the Committee on Earnest Partners performance year-to-date, stating they have outperformed the benchmark by approximately 2.3 percent, and month-to-date, Earnest is outperforming by an estimated 60 basis points. Mr. Moore briefly talked about Earnest's guidelines and investment policy. He also gave an overview of the equity market for the first quarter 2010. Mr. Moore reported that as of March 31, 2010, the portfolio balance was \$190 million with about \$2 million in estimated income from dividend payments from the securities in the portfolio. He indicated the portfolio is 96 percent invested.

Mr. Greer talked about performance stating year-to-date the portfolio is down about 5.2 percent versus the benchmark, which is down 7.7 percent. He talked about performance attribution; contributors/detractors; and sector weightings. Discussion ensued.

Mr. Murphy called for a break at 10:23 a.m.

(Mr. Kammholz left the meeting at 10:23 a.m.)

The meeting reconvened as a sub-committee at 10:32 a.m.

BlackRock/Barclays Presentation. As a matter of information, Committee members received a copy of a presentation book, dated June 10, 2010. Mr. Rick handed out an updated performance chart. Mr. Silber briefly talked about BlackRock's performance. Mr. Watts and Mr. Blumhardt briefly talked about their backgrounds. Mr. Watts gave an overview of BlackRock. Mr. Blumhardt stated BlackRock has \$3.35 trillion under management. He talked about BlackRock's investment philosophy for total performance management; stock selection; portfolio characteristics; identifying future alpha potential; and systematic approach to investment due diligence. Lengthy discussion ensued throughout the presentation.

The Townsend Group Presentation. As a matter of information, Committee members received copies of the Performance Measurement Report Fourth Quarter 2009 and a 5 page summary, dated June 10, 2010. Mr. Rick handed out an updated performance chart. Mr. Silber briefly talked about Townsend's performance. Mr. Kochis talked about the MERS' real estate exposure. He stated that Townsend thinks that the worst is behind us, so the good news today is they think they are starting to see the signs of a market that is bottoming. Mr. Kochis talked in depth about the real estate market environment. He stated that for 2009 ERS' portfolio was down 31.17 percent and he talked about the reasons behind the performance and returns and steps Townsend took during that time.

Mr. Kochis said what Townsend is seeing in ERS' portfolio is a lot of movement and change because they want to take advantage of the market bottoming. He talked in length about the new initiatives and strategy Townsend has going for ERS' portfolio.

Approval of Real Estate Strategy Change. As a matter of information, Committee members received a copy of the Real Estate Strategic Plan, June 2010. Mr. Kochis said Townsend would like to revert back to the original risk profile and portfolio construction (60% Traditional; 40% Specialized); re-emphasize primary emphasis on private equity real estate and clarify guidelines for debt-oriented, public market and international exposure. Mr. Murphy indicated this would be brought to the full Board for approval as there was not a quorum present.

There being no further business, Mr. Murphy adjourned the meeting at 11:48 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.)