

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

Minutes of the Investment Committee Meeting
held February 10, 2011

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

Committee Members Present: John Barmore
 William C. Carey
 Konrad Ellenberger
 Michael J. Murphy
 Gust Petropoulos

Committee Members Not Present: Larry Holland
 W. Martin Morics (excused)
 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: Beth Cleary, City Attorney's Office; Kevin Dolsen and Michael Joecken, Callan Associates; Doug Kryscio and Stephanie Braming, William Blair; and Rob Kochis and Roberta Waxman-Lenz, The Townsend Group.

4th Quarter Performance Presentation. As a matter of information, Committee members received a copy of the Callan Associates 4Q 2010 Review, dated February 10, 2011; a copy of Mercer's Board Report, Periods Ending December 31, 2011; and a copy of ERS' 4th Quarter Performance Report, dated February 10, 2011. Mr. Rick handed out copies of The Callan Periodic Table of Investment Returns; Callan Associates Investment Measurement Service Quarterly Review, dated December 31, 2010; and a copy of the Funded Status – Plan Sponsors Rankings, dated February 8, 2011.

Mr. Rick stated that Kevin Dolsen and Mike Joecken were present from Callan Associates, the Board's new Investment Consulting firm. Mr. Dolsen provided an overview of Callan's client service structure including monitoring and evaluation; plan implementation; and strategic planning. He also talked about Callan's 5 Step investment management process, and their 2011 work plan for ERS.

Mr. Dolsen talked about the broad market quarterly returns; U.S. Equity economic sector exposure and the economic sector quarterly returns. Mr. Joecken talked about the U.S. Equity rolling one-year relative returns; the style median and index returns for periods ended December 31, 2010. Mr. Dolsen talked about the U.S. Fixed income markets. Mr. Joecken and Mr. Dolsen talked about the Non-U.S. equity markets. Mr. Dolsen noted that the fourth quarter was when risk was rewarded as things like high yield; equity; very pro-cyclical industrial materials and energy did well. Things that were hurt for the quarter were defensive; treasuries; utility stocks; and in the fixed income space a low return environment on top of a low yield environment.

Mr. Rick reported on: ERS' asset allocation as of December 31, 2010; the Fund's value of assets as of year end was \$4.305 billion, representing a net gain of \$340 million from year-end 2009; year-to-date market value change December 31, 2009 – December 31, 2010. He stated that for the fourth quarter the Fund returned 7.0 percent, beating the blended benchmark by 90 basis points; and over the one-year time period the Fund returned 14.2 percent, beating the blended benchmark by 260 basis points. Mr. Rick also talked about the Total Fund 5-year performance and statistics; Total Fund versus Universe; 10-year Total Fund performance and statistics. Mr. Rick handed out a Plan Sponsor Rankings list from P & I Research Center, which ranks Milwaukee as #1 for 2010, #10 for 2009 and #1 in 2008. Discussion ensued.

Mr. Silber reported that the S&P 500's return in the fourth quarter was 10.2 percent, which was the highest fourth quarter return for that index since 1991. The domestic equity portfolio had a very strong quarter returning 13.2 percent and outperforming the benchmark by 160 basis points. He noted for the year the portfolio had a return of 19.1 percent and outperformed the benchmark by 220 basis points. Mr. Silber talked about the domestic equity 5-year performance and statistics, and relative investment performance as of December 31, 2010. Discussion ensued. Mr. Silber reported the Fund's international equity portfolio returned 7.2 percent during the fourth quarter and outperformed their benchmark by 60 basis points; for the year the composite had a 14.1 percent return and significantly outperformed its benchmark. He talked about the international equity 5-year performance and statistics, and relative investment performance as of December 31, 2010.

Mr. Thomas reported on the relative investment performance of the global equity managers as of December 31, 2010. He reported that the fixed income market had an upward shift in the yield curve which produced lower prices within various segments of the bond market. As a result, the fixed income portfolio had a flat return, but still managed to outperform the benchmark by 130 basis points. He talked about the fixed income 5-year performance and statistics, and relative investment performance as of December 31, 2010.

William Blair Presentation. As a matter of information, Committee members received a presentation book, dated February 10, 2011. Mr. Rick handed out an updated performance chart. Mr. Thomas introduced our new client manager at William Blair, Doug Kryscio. He also noted that Stephanie Braming was here today as Mr. Greig was unable to attend. Mr. Thomas briefly talked about William Blair's mandate. Mr. Kryscio gave an overview of the firm; talked about the international growth equity portfolio management teams; and institutional client relationships. Ms. Braming talked about William Blair's investment philosophy: quality growth; decision process; stock selection process; international growth portfolio construction; portfolio characteristics; and sell disciplines. Discussion ensued throughout the presentation.

Mr. Murphy called for a break at 10:26 a.m. The Committee reconvened at 10:38 a.m.

Callan Associates – Introduction and Discussion. Mr. Dolsen and Mr. Joecken talked about the capital markets through time; stock market returns by calendar year; credit spreads widening from record lows to record highs; 2011 capital market projections; and

the economy and capital markets. Mr. Dolsen talked about 2011 efficient mixes. Discussion ensued throughout the presentation.

(Please note the Committee did not convene in closed session as noticed on the following item.)

Townsend Group Presentation. As a matter of information, Committee members received a presentation book, dated February 10, 2011. Mr. Rick handed out an updated performance chart. Mr. Kochis talked about the real estate markets stating that through December 31, 2010 the NCREIF Property Index returned 13 percent, which was a nice bounce off the bottom. He also talked about the correction and partial recovery in this market cycle. Specific to ERS' portfolio, Mr. Kochis said the data is only through September 30, 2010 and shows a return for the third quarter of 5.3 percent, which is above ERS' benchmark. Ms. Waxman-Lenz noted that a large part of this quarter's rebound is driven by the appreciation of funds that took severe write-downs during the financial crisis. She stated that prior to the global downturn ERS' portfolio did outperform its benchmark on a calendar basis. Ms. Waxman-Lenz noted that ERS' portfolio has met its strategic guidelines and is within the parameter of having at least 60 percent of the portfolio in core investments, also referred to as traditional. Townsend has also worked with ERS in keeping the portfolio well diversified across property types and geographic exposure.

Mr. Kochis talked about the property type diversification as of September 30, 2010, and property fundamentals. Ms. Waxman-Lenz talked about the geographic diversification as of September 30, 2010. Lengthy discussion ensued. Ms. Waxman-Lenz reported that Townsend has recently been able to put \$117 million from ERS to work in this downturn period by taking advantage of the market correction. She said of that amount, \$49 million has been invested during the downturn in the market. The immediate returns can be seen from such funds as Fortress Japan that provided a 12.8 percent return for this quarter alone. In addition, ERS' recent \$4 million investment in the GE Polish Retail Fund is another example of taking advantage of the lower pricing in the current market. Ms. Waxman-Lenz indicated that the assets for the GE Polish Retail Fund were acquired at 90 percent of an estimated 2011 valuation; and the nine assets are already generating a 9 percent current cash yield. Mr. Kochis stated that Townsend aggregated \$90 million across our client base, with \$4 million of that being ERS', allowing ERS to get into assets at 90 percent of current estimated value, so Townsend is expecting an immediate 10 percent pop in ERS' appreciation return. Ms. Waxman-Lenz indicated that because Townsend was able to aggregate capital from their clients for this investment in particular, there is a fee savings of about \$40,000 for ERS. Further discussion ensued.

Mr. Murphy noted that the Investment Committee will always notice the Townsend Group presentations for closed session in case the Committee has a specific question about one of the properties we invest in, and the information cannot be discussed publicly. Mr. Kochis stated that if the Committee would get into the discussion of market value of specific properties that can be detrimental to ERS' investment interests, it would be better to discuss those issues in closed session. Mr. Rick indicated that ERS has been talking to Townsend and the City Attorney's Office as we get data aggregators who come out and survey ERS and want to get data via open records so they can go sell it to people. He said ERS also has news reporters calling asking how much ERS paid for certain

properties; when did ERS invest in this property, what is the value and cost and it does not make a lot of sense for ERS to open ourselves up for providing private market data, which could work against ERS' financial interest if disclosed.

(During the above discussion, Mr. Murphy left at 11:47 a.m.)

The meeting convened as a sub-committee at 11:47 a.m. Mr. Barmore took over as Vice-Chair.

Mr. Rick continued to discuss the issues revolving around the open records requests. Mr. Kochis said the worse case scenario is someone asking for a market value on a specific property in the portfolio; a manager is carrying every investment in the real estate portfolio at some value, so when they go to sell that property and that value is known to the market no one will bid higher than that value. He said ERS hopes to get bids higher than the current carry value, so ERS and Townsend have to be cautious in terms of disclosing that type of information in public meetings. Mr. Kochis said also that every one of ERS' investments but for one is held in a commingled vehicle with other investors, so if ERS discloses information that harms the investment value of the whole fund, ERS may open themselves up to liability to the other investors. Mr. Rick asked Townsend to talk about potential conflicts of interest for the benefit of the newer Committee members. Mr. Kochis talked about an article featured several months ago in Pensions & Investments regarding investment managers that were complaining that some of the consultants, including Townsend, were getting into their business and competing for deal flow.

There being no further business, Mr. Barmore adjourned the meeting at 12:00 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.)