

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

Minutes of the Investment Committee Meeting
held May 19, 2011

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

Committee Members Present: John Barmore
 Konrad Ellenberger
 W. Martin Morics
 Michael J. Murphy
 Gust Petropoulos

Committee Members Not Present: William C. Carey
 Larry Holland (excused)
 Ron Walter

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; Michael Joecken, Callan Associates; Thomas Hynes, Thomas Galuhn and Michael Barrett, Mesirow Financial; and Charles van Horne and Jonathan Roth, Abbott Capital.

Q1 2011 Fund Performance. As a matter of information, Committee members received copies of the Callan Associates Investment Measurement Service Quarterly Review, dated March 31, 2011, and the ERS 1st Quarter Performance Report, dated May 19, 2011. Mr. Joecken talked about the Capital Markets review: broad market quarterly returns; economic sector exposure and quarterly returns; U.S. equity index; U.S. fixed income quarterly returns; non-U.S. equity; and real estate. He stated that the Fund increased in value ending at \$4.43 billion as of March 31, 2011. Mr. Joecken talked about ERS' actual asset allocation versus the target asset allocation. He reported that for the last quarter the total Fund returned 4.5 percent and beat the passive benchmark, which was at 3.77 percent. Mr. Joecken briefly talked about the return analysis; risk analysis; and relative attribution as of March 31, 2011. He also talked about the manager returns and peer group rankings. Mr. Rick noted that this book will be what the Board members receive every quarter.

Using the 1st Quarter Performance Report, dated May 19, 2011, Mr. Rick briefly talked about ERS' asset allocation as of March 31, 2011. He reported that as of March 31, 2011 the Fund's asset value was \$4.431 billion or \$125 million more than when we started the

year. Mr. Rick updated the Committee on the first quarter market value change; total Fund performance; total Fund 5-year performance and statistics; total Fund versus universe. Mr. Silber updated the Committee on the domestic equity performance; domestic equity 5-year performance and statistics; domestic equity versus universe; and the relative investment performance – domestic equity managers as of March 31, 2011. He also reported on the international equity performance; international equity 5-year performance and statistics; international equity versus universe; and the relative investment performance – international equity managers as of March 31, 2011.

Mr. Thomas reported on the global equities relative investment performance as of March 31, 2011. He also updated the Committee on the fixed income performance; fixed income 5-year performance and statistics; fixed income versus universe; and the relative investment performance – fixed income managers as of March 31, 2011. Mr. Thomas stated that the estimated market value as of April 30, 2011 is \$4.54 billion, with ERS returning 4.5 percent versus the benchmark return of 3.8 percent for the first quarter. Estimated April returns for ERS are 3.2 percent versus the benchmark return of 3.3 percent.

Mesirow Financial Private Equity Presentation. As a matter of information, Committee members received a presentation book, dated May 19, 2011. Mr. Thomas provided some background information on Mesirow Financial. Mr. Hynes gave an overview of Mesirow and talked about their competitive advantages; the private equity investment team; and their client list. Mr. Barrett provided a quick refresher on the investment strategy, and the private equity sub-asset classes. He talked about ERS' portfolio stating the fund size was \$841.4 million with ERS' commitment being \$75 million and Mesirow has drawn down \$9 million. Mr. Barrett stated the portfolio is off to a very strong start driven by the secondary purchases that have increased in value. Mr. Barrett talked about the portfolio level diversification by industry and geography. He briefly talked about the 2008 – 2011 commitments. Mr. Galuhn talked about the portfolio value as of December 31 2010 stating Mesirow has taken contributions of \$48.5 million; received distributions from various funds of \$3.3 million, and the net asset value of those total investments is \$64.3 million. He noted that was a gain of \$19 million. Discussion ensued. Mr. Galuhn went over the investment summaries for the Accel Growth Fund L.P.; Apax Europe VII – B L.P.; Spectrum Equity Investors V, L.P.; Thoma Bravo Fund IX, L.P.; and potential commitments for 2011 - 2012.

Mr. Barrett talked about the partnership investment due diligence process and manager selection and various investment commitments. Mr. Hynes briefly talked about the trends in the private equity industry. Lengthy discussion ensued.

Mr. Murphy called for a break at 10:37 a.m. The Committee reconvened at 10:50 a.m.

Abbott Capital Private Equity Presentation. As a matter of information, Committee members received a presentation book “AP Fund Investor Review”, dated May 19, 2011. Mr. Silber briefly talked about the Abbott Capital fund. Mr. van Horne talked about the background of the firm and the organization. Mr. Roth talked about Abbott's fully

integrated and monitoring processes. Mr. van Horne briefly talked about the fund summary and investment diversification. Mr. Roth walked the Committee through the drawdown; commitments; the portfolio funds: venture capital and growth equity and special situations. Mr. van Horne talked about AP2011 Fund commitments. Mr. Roth talked about how Abbott builds these portfolios for long-standing investors. Discussion ensued.

Approval of Abbott Capital AP 2011 Contract. As a matter of information, Committee members received a copy of a Side Letter. Mr. Silber handed out a memorandum from the City Attorney's Office, dated May 17, 2011. Ms. Cleary stated the memorandum indicates their office has reviewed the documentation for the Board approved additional funding of \$55 million. She stated that everything looks fine. The Side Letter is before the Committee and is substantially the same as what was before you for the initial investments. Mr. Rick recommended approval of this contract. It was moved by Mr. Morics, seconded by Mr. Petropoulos, and unanimously carried, to approve the Abbott Capital AP 2011 contract.

Blackrock (Barclays) Due Diligence Report. As a matter of information, Committee members received a copy of a memorandum from Mr. Silber, dated May 19, 2011. Mr. Silber briefly talked about the services provided by Blackrock. He indicated his comments would be specifically for the Alpha Tilts strategy. Mr. Silber noted there have been a number of organizational and structural changes with the strategy as Blackrock acquired what was formerly Barclays and the strategy ERS is in has seen about an 80 percent decline in assets in the last few years. He stated that discussions were held on new themes that Blackrock was trying to incorporate in the models to help going forward and he talked about those models. Mr. Silber stated while there are performance issues with the alpha tilts strategy, ERS is also having performance issues with the other two large cap active managers, Bernstein, and Turner. Callan and ERS staff are discussing options. Discussion ensued. It was moved by Mr. Barmore, seconded by Mr. Morics, and unanimously carried, to accept the due diligence report and place on file.

Large Cap Equity Discussion Update. As a matter of information, Committee members received a copy of a memorandum from Callan Associates, dated May 12, 2011. Mr. Joecken updated the Committee on the large cap domestic equity structure. Discussion ensued.

SEC Pay to Play Letter and Legal Update. As a matter of information, Committee members received a copy of a draft letter from Mr. Rick. Ms. Cleary provided a handout "Federal Legislation Update", dated May 19, 2011. Mr. Rick talked about the draft letter that he requested Ms. Cleary to help draft regarding the pay to play issues within regards to a rule and regulation by the SEC. He indicated that he believed this letter should be sent to each of ERS' investment managers, as well as consultants. Mr. Rick talked about this regulation noting that Russell, who is one of our transition managers and whose parent is Northwestern Mutual Life has given a contribution to one of ERS' plan sponsor alderman, and NML plans to continue to give contributions. He noted that Russell is trying to create some work around to it under a different contract, which staff and Ms.

Cleary have talked about, but have not had time to analyze. Discussion ensued. Ms. Cleary talked about the Dodd-Frank Act; SEC Pay to Play Rule and Public Employee Pension Transparency Act. Lengthy discussion ensued.

There being no further business, Mr. Murphy adjourned the meeting at 12:07 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.)