

**PRIVATE EQUITY
STATEMENT OF INVESTMENT POLICY
December 2010**

**THE MILWAUKEE EMPLOYEES'
RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**
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Individual manager guidelines are updated upon Annuity and Pension Board Approval

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**THE MILWAUKEE EMPLOYEES'
RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**

STATEMENT OF INVESTMENT POLICY

This policy applies to the Private Equity assets within the Milwaukee Employees' Retirement System of the City of Milwaukee ("ERS").

PURPOSE OF THIS STATEMENT OF INVESTMENT POLICY

This policy provides the broad strategic framework for managing the Private Equity assets.

GOALS AND OBJECTIVES

A. The Role of Private Equity

The primary role of private equity is:

- Enhance ERS long-term total risk-adjusted return
- Provide diversification to the ERS overall investment program

B. Allocation

The total allocation to private equity (measured as actual Private Equity Net Asset Value) is 2% of total Plan assets, with a permissible range of 0% - 5% of Plan assets. The permissible range is designed to accommodate fluctuations in the valuation of the Program or the total Plan and the illiquid nature of private equity.

C. Performance Benchmark

ERS Private Equity performance is benchmarked on a long-term, 7-10 year, rolling basis against the Russell 3000 stock index plus 300 basis points on a quarter lag, net of fees and expenses.

RISK MANAGEMENT POLICIES

A. Private Equity Sectors and Diversification

Asset allocation is a critical driver for the long-term success of the private equity program. The private equity portfolio will achieve diversification beyond geographic focus by investing in partnerships that are complementary in nature regarding fund size, sector and strategic focus. Investments can be in any industry or geography and may include, but are not limited to:

- Buyouts
- Venture Capital
- Restructuring / Distressed Securities
- Secondary Investments
- Special Situations

B. Investment Vehicles

This policy authorizes commitments to private equity partnerships, fund of funds partnerships and separate accounts investing in private equity partnerships. These investments may be in any type of security throughout the capital structure. This policy also allows for structures which may not conform precisely to the previous list but whose intent is to capture private equity exposure and returns while insulating the Funds from liability in excess of the amounts invested.

C. Liquidity

Private equity investments are illiquid and typically have expected holding periods of 10-12 years. Investments are typically held until maturity and selling prior to maturity generally results in a discount to fair market value. Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation exposure limits. The Board recognizes that lowering the private equity target allocation may result in forced sales and increased exposure to liquidity risk.

D. Vintage Risk

Vintage refers to the year of first capital draw and vintage risk refers to the variability of private equity commitments over time

E. Derivatives

ERS may invest in Fund-of-Funds whose strategy includes the use of derivative instruments for purposes of minimizing risks and enhancing returns and shall comply with ERS Derivatives Policy. Staff shall endeavor to secure provisions in investment agreements that the partnerships conform to these limitations.

F. Real Estate

Real estate is not within the scope of this policy and investment in partnerships targeted primarily to real estate equity and/or debt is prohibited.

INVESTMENT PROCEDURES

The Program shall be implemented and monitored as follows:

1. Role of the Board:
 - Set the allocation to Private Equity;
 - Establish goals and objectives for the Private Equity program; and
 - Monitor the Private Equity performance and compliance at Board meetings
 - Approve the selection of the private equity manager.

2. Role of the Investment Staff:
 - Assist the Board in establishing the private equity allocation along with goals and objectives;
 - Prepare funding procedures and coordinate the receipt and distribution of capital through the Board's custodian with respect to funding of new and/or existing private equity investments or dispositions of investments; and
 - Monitor the Private Equity performance and compliance

3. Role of the Independent Consultant
 - Regularly review the private equity portfolio for which the Independent Consultant has been retained, and evaluate such portfolio's investment strategy, as it relates to the overall Fund;
 - Provide the Board and Staff with relevant, reliable and timely research and information requests to fulfill their responsibilities;
 - Regularly review and discuss the investment strategy and other relevant issues with Staff;
 - Assist the Board and Staff in establishing appropriate asset allocation targets and ranges; and
 - Monitor and review existing partnerships and vehicles on an ongoing basis for adherence to objectives and guidelines.