Milwaukee County Employees' Retirement System (ERS)

Investment Committee Meeting

MINUTES

Members: Sarah Peck, Dean Roepke, Linda Bedford, Jeffery Mawicke

1. Call to Order:

Chairman Sarah Peck called the meeting to order at 2:50pm,on 6-2-08, in Room 203-P of the Milwaukee County Courthouse, 901 N. 9th St., Milwaukee, WI. 53233.

2. Roll Call:

Members Present:	Members Excused	Others Present	
Sarah Peck	Dean Roepke	Gerry Schroeder	John Maier
Linda Bedford		Mark Grady	Kristin Finney-Cooke
Jeffery Mawicke			

3. Topic: **Mercer-Risk Education**

The presentation began with a summary of topics to be addressed. These included Tracking Error, Standard Deviation, Information Ratio, Style Bias, Sharpe Ratio, and Value at Risk.

Tracking error measures the active risk of a portfolio, or the difference in the portfolio's return compared to the benchmark. Passive risk stays close to the benchmark. Low tracking error indicates the portfolio is closely tracking the benchmark, while high tracking error indicates the opposite. Passively-managed portfolios would be expected to have very low tracking error. Actively-managed portfolios would have higher tracking error.

Standard deviation measures volatility of a portfolio's returns over a period of time, as well as the risk. Low standard deviation can be considered less risky, as returns more closely track the expected return. High standard deviation indicates the opposite. Large cap equity, should have a lower standard deviation, than small cap or international equities. Fixed income should have an even lower standard deviation than the large cap equity.

Information Ratio measures the excess return, over the benchmark, of a portfolio divided by the amount of active risk. A higher information ratio is desirable and shows the portfolio is generating more excess return per unit of active risk. This measure is not appropriate for passive strategies. An example of this is Boston Partner's information ratio over the past five years (vs. the Russell 1000 Index) is 0.5. The Mercer US Equity Large Cap Value Universe median is 0.2 over the same period. Boston Partners generated more excess return per unit of active risk than the average manager in the universe.

Managers can have distinct style bias vs. the benchmark. These biases can help explain out/underperformance by a strategy. Sharp ratio is also a measure of excess return per unit of risk. The Sharpe ratio measures excess return over risk-free rate divided by standard deviation of the portfolio. Using the average of the U.S. Treasury Bills yields on 12-31-07, the risk-free rate would be 3.4%.

Value at Risk (VaR) is a measure that considers the liabilities relative to the structure of the Plan.VaR is an important long term planning tool in the corporate defined benefit plan space. VaR is defined as the amount of funded status that could be lost in one year at a 5% probability. This is a sensitive tool for public plans due to a lack of control over Plan contributions. The objective is to minimize the VaR for a given level of expected return. Milwaukee County is more conservative in our portfolio than others.

Slides from the Mercer handout (pages 14-16) addressed the trends relating to:
- Standard Deviation, Tracking Error and Information Ratio Charts: 5 years.
- Boston Partners Vs. Russell 1000, as of 12-31-07: Style Chart.

4.Topic: **Generation Growth Capital**

The Mercer memo on Generation Growth Capital Funds 1, Limited Partnership, was Summarized as part of a discussion on the topic. GLG is a newly formed private Equity fund with the intent of making investments in Wisconsin-based small businesses.

The Benefits include participation in private equity markets, potential attractive returns, allowing Milwaukee firms to target investments in geographical areas, investing in minority and low economic communities and forming regional networks.

The Risks relate to lack of a track record, untested partnership, having other corporate responsibilities, difficulty in liquidating investments and experienced firms that may not have a Wisconsin focus.

Mercer stated that there is a potential to generate private equity-like returns, while investing in the Wisconsin community. Mercer recommends that such an investment not go beyond 10-20% of the overall GLG committed capital.

The Investment Committee Chairperson (Sarah Peck), stated the Mercer should research other potential firms, that might have the background and interest in such an investment project. Further research needs to be done to provide context in evaluating this investment opportunity. It would be good to have a larger pool to consider for investing in GLG.

5.Topic: **Discussion-Barings Situation**

Mercer stated that they were comfortable with the portfolio manager and recommends holding the issue for 6-9 months. The subject should then be revisited with a review of provisional rating changes in the methodology and process.

6.Future Topics: **None identified**

7.Adjournment: **The meeting was adjourned at 4:23pm.**

Submitted by
Gerald J. Schroeder
Acting ERS Manager