

Employees' Retirement System of Milwaukee County



Annual Investment Review

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2009 Goals

1. Lower Risk in the Fixed Income Portfolio.
2. Reduce Overlap in the U.S. Equity Portfolio.
3. Diversify the International Equity Portfolio.
4. Lower Total Exposure to the Stock Market.
5. Increase Total Fund Diversification.
6. Improve the Investment Policy Guidelines.
7. Invest the Proceeds of the Pension Obligation Bond Efficiently.

A Tale of Two Markets

Calendar Year Returns (Gross of Fees)

	<u>Since 4/1</u>	<u>2009</u>	<u>2008</u>	<u>Asset Allocation</u>
ERS Total Fund	23.9%	18.7%	-22.4%	
<i>Peer Ranking</i>		43 rd	37 th	
Fixed Income Portfolio		15.4%	-1.4%	42%
<i>Benchmark – Barclays Agg.</i>		5.9%	5.2%	
U.S. Equity Portfolio		32.5%	-36.7%	
<i>Benchmark – Wilshire 5000</i>		28.3%	-37.2%	
International Equity Portfolio		29.1%	-43.9%	
<i>Benchmark – MSCI EAFE</i>		32.5%	-43.1%	
Real Estate Portfolio		36.1%	-38.0%	3%
<i>Benchmark – NAREIT</i>		37.7%	-15.7%	
Private Equity Portfolio	(as of 9-30)	7.6%	-21.6%	3%

Fixed Income Review

Calendar Year Returns (Gross of Fees)

Asset Allocation

	<u>2009</u>	<u>2008</u>	
Total Fixed Income Portfolio	15.4%	-1.4%	42%
Benchmark – Barclays Agg.	5.9%	5.2%	
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1. Core - Mellon	5.6%	5.6%	11%
2. Core – JP Morgan	8.7%	4.2%	12%
3. Core Plus Active - Loomis	23.2%	-8.0%	12%
4. High Yield - Loomis	51.2%	-22.1%	7%

Fixed Income Review

Calendar Year Returns (Gross of Fees)

	<u>2009</u>	<u>2008</u>
Total Fixed Income Portfolio	15.4%	-1.4%
Benchmark – Barclays Agg.	5.9%	5.2%

Asset Allocation

42%	32%
11%	16%
12%	16%

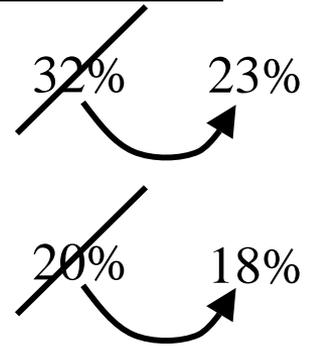
- Reduce Allocation by 10%
- Reduce overall Fixed Income Risk
- Add 7.5% to Infrastructure Investments
- Increase Real Estate Investments by 4%

Equity Review

Calendar Year Returns (Gross of Fees)

	<u>2009</u>	<u>2008</u>
Total U.S. Equity Portfolio	32.5%	-36.7%
Total International Equity Portfolio	29.1%	-43.9%

Asset Allocation



- Reduce Total Equity Allocation by 11%
- Eliminate 6 Redundant Strategies, Add Emerging Markets
 - Add 10% to Long-Short Equity

Summary of 2009 Actions

1. Asset Allocation / Investment Policy

- Reduced Overall Risk w/o Compromising Return Goals
 - Increased Diversification
 - Phase I Investment Policy Changes

2. Manager Searches

- Small Cap Value (One New Manager)
- Emerging Markets (One New Manager)
- Infrastructure (Two New Managers – Pending)
- Long-Short Equity (Two New Managers – Pending)

3. Terminations

- Core Plus Fixed Income (One Manager)
 - High Yield Fixed Income (One Manager)
 - U.S. Equity Large Cap Growth (One Manager)
 - U.S. Equity Mid-Cap Core (One Manager)
 - U.S. Equity Mid-Cap Value (One Manager)
 - U.S. Equity Small Cap Growth (One Manager)
 - International Small-Cap (One Manager)
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Receipt of Pension Obligation Bond

- The Fund received \$397,797,000 cash on April 2, 2009.
- Invested \$20 M each week starting April 4, 2009.
- Fully invested all cash by August 14, 2009.
- Part of the investment strategy was to utilize U.S. Equity, Intl. Equity, and Fixed Income futures program while multiple decisions were being made.
- As of 12-31-09, \$142,002,995 remained in S&P 500 Futures.
- Total Fund Return from 4-1-09 thru 12-31-09 = 23.9%.

Portfolio Assets as of 12-31-09

<u>Asset Class</u>	<u>Market Value</u>	<u>Allocation</u>	<u>Target</u>
Total Fixed Income	\$785,409,428	44.1%	32.0%
Total U.S. Equity	\$408,052,182	30.9%	23.0%
Total Intl. Equity	\$345,155,241	19.4%	18.0%
Total Long-Short Equity	\$0	0%	10.0%
Total Private Equity	\$21,264,371	1.2%	3.0%
Total Real Estate	\$42,676,430	2.4%	7.0%
Total Infrastructure	\$0	0%	7.0%
Total (including cash)	\$1,779,011,736		

1. Complete Outstanding Searches – Real Estate.
2. Phase II Update of the Investment Policy.
3. Complete the Funding of the new Target Allocations.