

Employees' Retirement System of the County of Milwaukee
Minutes of the July 6, 2006 Investment Committee Meeting

1. Call to Order

John Martin called the meeting to order at 2:35 p.m. in the third floor conference room of the City Campus Building at 2711 West Wells St., Milwaukee, WI.

2. Roll Call

Members Present:

John Martin
Marilyn Mayr
Dean Roepke

Members Excused:

Walter Lanier
Michael Ostermeyer
Linda Bedford

Others Present:

John Parish, ERS Board Member
Michael Howden, Retiree
Jack Hohrein, ERS Manager
Mark Grady, Principal Assistant Corporation Counsel
Patrick Race, Mercer Investment Consulting
Kristin Finney-Cooke, Mercer Investment Consulting
Brad Blalock, Mercer Investment Consulting-by Telephone

3. Review of Small Cap Value Investment Manager Due Diligence Trips

Mr. Parish joined this meeting because he had attended the due diligence trips even though he was not a member of this Committee.

The Mercer representatives reviewed the three managers AQR Capital Management, Integrity Asset Management, and Opus Capital Management. They noted that Integrity Management and Westfield Management were similar in the way that they manage. Opus is more concentrated in a few stocks with limit of 5% in any one stock. They stick with their methodology and the portfolio contains 55 to 75 stocks. Principal and major owner are husband and wife. AQR was hedge manager who expanded to small cap and was similar to manager LSV. Mercer also noted that all three managers were near to closing their fund for additional investments and that all were good managers. The fees were: Integrity \$375,000, Opus \$320,000, and AQR \$385,000.

Mr. Martin stated he was impressed with AQR and their ability to move into different markets from hedge fund management. He felt that Integrity had a lack of structure. Mr. Race noted that AQR had the highest fees and probably would not negotiate them. Their portfolio was well diversified with 200-400 stocks. Mr. Roepke stated he favored AQR.

The members discussed how to proceed to prepare for the pension board. The Committee decided to present one or two recommendations. The Committee

decided to not recommend Integrity. They would recommend AQR and Opus.

Mr. Blalock noted that AQR traded stocks directly on the floor, which he felt was good for small cap stocks. He stated that Mercer would recommend AQR for the following seasons:

1. Greater diversity in small cap value.
2. Better compliment with Westfield as a manager
3. Less key person risk when considering a better team approach
4. Advantage with better trades

Mr. Howden asked about minority firm participation. Dean replied the decision must be made on what is best for the fund. Opus was a minority firm with the wife owning 51% of the company. AQR with 120 employees was not a minority firm. Opus was noted as being the smallest firm and posed some risk with only two principals. Mr. Howden questioned why at the last meeting Mercer favored Opus not AQR. Ms. Finney-Cooke answered that each person provided an opinion and a new report was prepared for the due diligence trips.

Mr. Martin requested that Mercer prepare a summary of the two managers for the July 19, 2006 pension board meeting. None of the managers were to be notified until after they had the opportunity to discuss the finalists.

4. Future Topics

Three topics were discussed for future meetings. Proxy Voting, Commission Recapture and Sudan Divestment. Mr. Howden provided a handout on Sudan.

The Committee considered canceling the August Investment Meeting.

5. Adjournment

The meeting was adjourned at 3:55 p.m.

Submitted by
Jack L. Hohrein
Pension Board Secretary