



**City of Milwaukee**  
Employees' Retirement System

**Bernard J. Allen**  
Executive Director

**Thomas A. Rick, CFA**  
Chief Investment Officer

**Martin Matson**  
Deputy Director

May 12, 2011

**To:** Michael Murphy, Chairman  
Finance & Personnel Committee

**From:** Jerry Allen, Executive Director  
Tom Rick, Chief Investment Officer  
City of Milwaukee Employees' Retirement System

**Re:** Employers' Reserve Fund Investment

The adoption of Common Council File 101378 approved the guidelines for investment of City funds in the Employers' Reserve Fund. The approved resolution and the investment guidelines emphasize preservation of principal and liquidity of assets as the two primary objectives for investment of the Employers' Reserve Fund. In light of projected near-term contribution needs, the stated investment objectives appear consistent from an investment perspective.

The File also requested Employees' Retirement System (ERS) staff to review and recommend an investment manager capable of investing the assets of the Employers' Reserve Fund in a manner consistent with the approved objectives and guidelines.

ERS staff and their investment consultants identified three local investment managers with institutional capabilities and short term fixed income strategies consistent with the established objectives and guidelines. Staff preferred local managers who have investment clients similar to the City of Milwaukee (local government) and are prepared both administratively and operationally to invest assets in conformance with applicable WI state statutes.

ERS staff held meetings with the three managers to discuss the following investment-related topics:

- |  |                                   |   |
|--|-----------------------------------|---|
| * Investment Philosophy and Discipline | * Firm Organization and Ownership | * Portfolio Management and Team         |
| * Investment Process                   | * Short Term Investment Strategy  | * Strategy Performance and Track Record |
| * Investment Management Fees           | * Compliance and Trading          | * Reporting                             |

In addition, ERS staff received additional insight from their investment consultant, Callan and Associates, concerning the three investment managers and their ability to meet the investment objectives of the Employers' Reserve Fund.

Based on our discussions with the investment managers and our consultant, ERS staff believes R. W. Baird's Short Term Investment Fund strategy will provide a solid match for the requirements sent forth in File 101378. Their short-term fixed income strategy is consistent with the principal preservation and liquidity objectives of the Employers' Reserve Fund. In addition, the portfolio is a high quality, duration neutral, strategy that has some customization capabilities. R. W. Baird can construct the portfolio with securities that will provide a better cash flow match for projected City contribution needs. The strategy is competitive from a fee perspective.

The R. W. Baird portfolio team has previously managed fixed income assets in a different strategy for the Employees' Retirement System.

**Recommend**

ERS staff recommends investment manager R. W. Baird for the investment of Employers' Reserve Fund assets. Our recommendation is contingent upon final contract negotiations and the successful completion of an on-site due diligence conducted by ERS staff, which would begin with the concurrence of the Finance and Personnel Committee.

Cc: W. M. Morics  
Mark Nicolini