

Prepared for

Employes' Retirement System of the City of Milwaukee

June 27, 2012

Representing Baird Advisors

Mary Ellen Stanek, CFA

Managing Director

Chief Investment Officer

Charles Groeschell

Managing Director

Senior Portfolio Manager

Overview of Baird

Baird has been helping clients achieve their asset management, investment banking and private equity goals for over 90 years.

1919

Founded in Milwaukee

2004

Baird becomes employee-owned

\$87 billion

Assets under management

\$925 million

Revenue

2,700

Employees

100+

Office locations on three continents*

9

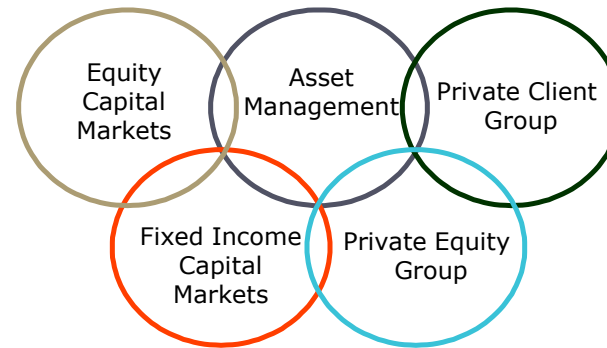
Number of consecutive years Baird has been recognized as one of the FORTUNE 100 Best Companies to Work For®

1

Ranked No. 1 “most trusted” research in Greenwich Associates survey 2004-2012

“Investment Banking Firm of the Year” for 2011 - *The M&A Advisor*

A Comprehensive Financial Services Firm



Baird Advisors Highlights

- Dedicated team focused on fixed income
- Over **\$16.6 billion** of assets under management as of May 31, 2012
- Disciplined, research driven approach
- Focus on superior customer service

Baird’s International Presence

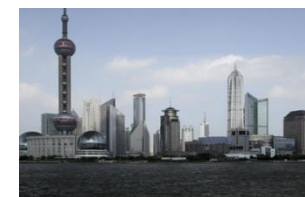
United States



Europe



Asia



Milwaukee Chicago New York London Frankfurt Hamburg Hong Kong San Francisco Palo Alto
Atlanta Boston Philadelphia Tampa Washington, D.C. Beijing Shanghai Stamford Charlotte

1) Greenwich Associates U.S. Equity Investors – Small/Mid-Cap Funds, April 2012. Surveys conducted with 94 U.S. small-cap and mid-cap fund managers. Rankings based on top 10 research firms in survey. Baird ranked No. 1 for “Most Trusted” Research and No. 1 for “Top Five” Research Firms for Importance.

* Baird and its operating affiliates have offices in the United States, Europe and Asia. Robert W. Baird Ltd. and Baird Capital Partners Europe are authorized and regulated in the UK by the Financial Services Authority.

Baird Advisors - Representative Clients

BAIRD

Client relationships average 14 years

The image displays a large collection of logos for representative clients, organized into four main categories around a central logo. The central logo is **MILWAUKEE ERS** (Employees' Retirement System).

- Insurance & Healthcare:** Includes logos for Broward Health, Meriter, Premiera, Blue Cross, Mary Greeley Medical Center, Wellpoint, Great River Health Systems, Gundersen Lutheran, Harris County Hospital District, Guthrie, Froedtert Health, Texas Mutual, Hamilton Health Care System, WPS Health Insurance, WCRB, Boulder Community Hospital, CFSE, Baylor Health Care System, and University of Colorado Boulder.
- Retirement Plans:** Includes logos for ATI, CERA, LACERS (Los Angeles City Employees' Retirement System), ThysenKrupp, MedStar Health, Johnson Controls, North Central States Regional Council of Carpenters' Benefit Funds, and the NBA.
- Foundation / Endowment:** Includes logos for University Health Systems of Eastern Carolina, Make-A-Wish, MDA (Muscular Dystrophy Association - Fighting Muscle Disease), Fort HealthCare, The Catholic Community Foundation, The University of New Hampshire, C-SPAN, Wayne State University, Helen Bader Foundation, Marquette University, and Medical College of Wisconsin.
- Customized / Other:** Includes logos for Dearborn Partners, Summa Health System, Christian Brothers Services, Ascension Health, Alexian Brothers Health System, WELS, Children's Hospital of Wisconsin, West Bend, Alliant Health Plans, Catholic Healthcare Partners, Aurora Health Care, NASDAQ OMX, Local 139, My God and My All, Diocese of St. Ignace - In - Illinois, BloodCenter of Wisconsin, Gavi Alliance, and the City of Vision and Progress.

Note: The clients listed above represent various industry groups and geographic locations and were not selected based upon performance. Their appearance is not an indication of approval or disapproval of the investment management services provided.

Baird Bond Funds

Net Returns as of May 31, 2012



	2012 YTD	2011	2010	Since Inception*	Since Inception Lipper Rank & Percentile
Baird Core Plus Bond Fund - Institutional	3.57%	7.89%	9.81%	7.19%	13 of 237
Barclays Capital U.S. Universal Bond Index	<u>2.61%</u>	<u>7.40%</u>	<u>7.16%</u>	<u>6.40%</u>	5%
<i>Difference</i>	+0.96%	+0.49%	+2.65%	+0.79%	
Baird Aggregate Bond Fund - Institutional	3.70%	7.85%	8.34%	6.54%	37 of 237
Barclays Capital U.S. Aggregate Bond Index	<u>2.33%</u>	<u>7.84%</u>	<u>6.54%</u>	<u>6.24%</u>	16%
<i>Difference</i>	+1.37%	+0.01%	+1.80%	+0.30%	
Baird Intermediate Bond Fund - Institutional	3.00%	6.14%	7.54%	6.09%	81 of 237
Barclays Capital Intermediate Govt/Credit Bond Index	<u>2.02%</u>	<u>5.80%</u>	<u>5.89%</u>	<u>5.72%</u>	34%
<i>Difference</i>	+0.98%	+0.34%	+1.65%	+0.37%	
Baird Short-Term Bond Fund - Institutional	1.89%	2.08%	4.39%	3.50%	43 of 144
Barclays Capital 1-3 Year Govt/Credit Bond Index	<u>0.55%</u>	<u>1.59%</u>	<u>2.80%</u>	<u>3.42%</u>	30%
<i>Difference</i>	+1.34%	+0.49%	+1.59%	+0.08%	
Baird Intermediate Municipal Bond Fund - Institutional	1.63%	8.55%	2.42%	5.21%	2 of 74
Barclays Capital 7 Year G.O. Bond Index	<u>1.75%</u>	<u>10.58%</u>	<u>4.35%</u>	<u>5.46%</u>	3%
<i>Difference</i>	-0.12%	-2.03%	-1.93%	-0.25%	

Lipper Rankings and Percentiles are as of May 31, 2012.

* The Baird Core Plus, Aggregate, and Intermediate Bond Funds Since Inception net returns are based on performance from September 30, 2000 through May 31, 2012. The Baird Intermediate Municipal Bond Fund Since Inception net return is based on performance from March 31, 2001 through May 31, 2012. The Baird Short Term Bond Fund Since Inception net return is based on performance from August 31, 2004 through May 31, 2012.

Background/purpose of new reserve investment strategy*

- Manage the impact of pension contributions on the City budget
- Provide principal preservation and liquidity of assets to meet projected payouts
- A secondary objective is to provide competitive investment returns over time

*File 101378, adopted April 12, 2011

Two Fold Investment Process

✓ *Structure portfolio to achieve return of benchmark for each client*

Add incremental value through multi-step, risk-controlled process

Complete Understanding of Benchmark

- Purchase only U.S. dollar denominated securities
- Quantify duration, sector, and sub sector weightings
- Evaluate pricing, turnover and projected changes to benchmarks

Control Portfolio Risk by Remaining Duration Neutral

- Average duration precisely matched to index at all times
- Immediate adjustment to portfolio as contributions and withdrawals occur
- Month-end rebalancing to match benchmark changes

Maintain Strict Adherence to Portfolio Guidelines

- Constant monitoring of risk control measures
- Use of “what-if” modeling techniques
- Compliance systems for all portfolio trades

Emphasis on Security Structure and Credit Research

- Specific security covenants, cash flow and liquidity concerns
- Assessment of company financials and management
- Prospects for sector and position in industry

Achieve benchmark returns through duration neutral discipline

Two Fold Investment Process

Structure portfolio to achieve return of benchmark for each client

✓ **Add incremental value through multi-step, risk-controlled process**

Our goal is to add incremental return of 15-50 basis points through multiple investment strategies

Yield Curve Positioning

- Optimize yield and “roll down”
- Analyze yield curve on a continual basis
- Dynamic process

Sector Allocation

- Long-term decisions to overweight and underweight
- Focus on relative value of different sectors
- Yield spreads and underlying risks change constantly

Security Selection

- Structure
- Attributes
- Liquidity

Competitive Execution

- Capitalize on market inefficiencies
- Timely market information
- Long-standing dealer relationships

Performance is consistent and competitive over complete market cycles

Employees' Retirement System of the City of Milwaukee

Investment Objective and Portfolio Guidelines

The logo for BAIRD is a blue parallelogram with the word "BAIRD" in white, uppercase, sans-serif font.

Investment Objective

To provide a rate of return that matches the total return of the benchmark represented by the Merrill Lynch 3 Month Treasury Bill Index. In addition, it is our expectation is to exceed the index over complete market cycles.

Allowable assets

U.S. Treasury and Agency obligations; approved money market and short-term bond funds; Agency Mortgage-Backed securities including Collateralized Mortgage Obligations; Mortgage and Asset-Backed securities rated AAA; U.S. Dollar denominated Corporate notes and bonds, including 144a.

Portfolio Guidelines

- Maximum effective duration shall be two years.
- Portfolio may be invested in securities having a rating that is the highest or second-highest rating category as defined by a nationally recognized rating agency. If a security is downgraded below the minimum quality allowed, the Investment Manager shall notify the client with a recommendation and provide ongoing updates on the security.
- No single issuer, excluding U.S. Treasury and Agency obligations, should compromise more than 5% of the portfolio.
- No limitations with regard to cash or short-term bond funds.

Liquidity Requirements

Required projected payouts are anticipated to begin in January 2013 and continue at least through December 2014. These liquidity needs shall be reviewed on a regular basis.

Prohibited Assets and Transactions

Convertibles, Options, Futures or other derivative instruments.

City of Milwaukee

Reserve Portfolio Characteristics as of May 31, 2012

	Reserve Portfolio	Merrill Lynch 3 Month Treasury Bill Index
Yield to Maturity	1.35%	0.07%
Duration	1.35 years	0.25 years
Average Maturity	0.89 years	0.25 years
Quality Breakdown		
U.S. Treasury	7%	100%
U.S. Govt Agency	24	0
Aaa	11	0
Aa	58	0
A	0	0
Baa	0	0
	100%	100%
Sector Breakdown		
U.S. Treasury	7%	100%
U.S. Govt Agency	24	0
Other Govt Related	0	0
Industrials	1	0
Utility	0	0
Finance	10	0
Mortgages/CMOs	0	0
Asset-Backed	3	0
Cash	5	0
Baird Short-Term Bond Fund	50	0
	100%	100%
Number of Issues	27	1
Market Value of Fund	\$55,883,218	

City of Milwaukee Reserve Portfolio



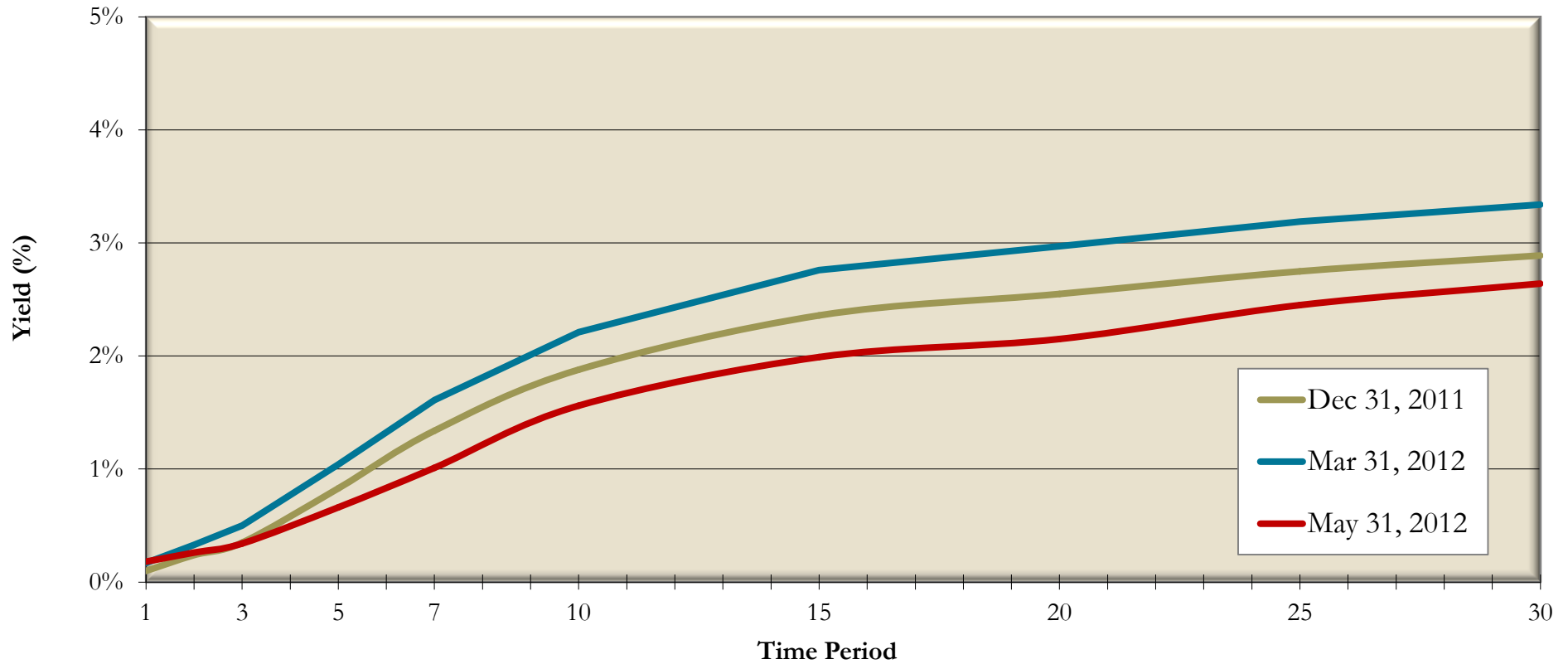
	Reserve Portfolio Net of Fees	Merrill Lynch 3 Month Treasury Bill Index	SWIB Local Govt Investment Pool Index
2011 (Oct-Dec)	0.36%	0.00%	0.04%
2012 (1st Qtr)	0.93%	0.01%	0.04%
(Apr)	0.18%	0.00%	0.01%
(May)	-0.01%	0.01%	0.01%
Year-to-Date	1.11%	0.03%	0.06%
Since Inception			
Cumulative Return	1.47%	0.03%	0.09%

The performance is presented on a cumulative compound and annualized basis. All returns are calculated on a time weighted, total return basis. The results shown should not be considered representative of future investment returns. The Merrill Lynch 3 Month T-Bill is an unmanaged portfolio of specific securities. The portfolio does not invest in all the securities traded in the index. Direct investment in the index is not available. Client should review all account statements provided by its custodian and compare those account statements to any account statement provided by Baird Advisors. Baird Advisors relies on securities valuations provided by client's custodian for purposes of performance reports.

Portfolio performance began calculating on October 5, 2011.

The Baird Advisors Brochure, which serves as a substitute for Form ADV Part II, is available upon request..

Treasury Yields



<u>Maturity</u>	<u>Dec 31, 2011</u>	<u>Mar 31, 2012</u>	<u>May 31, 2012</u>	<u>YTD Change</u>
1	0.10%	0.17%	0.18%	+0.08
2	0.24%	0.33%	0.26%	+0.02
3	0.35%	0.50%	0.34%	-0.01
5	0.83%	1.04%	0.66%	-0.17
7	1.34%	1.61%	1.01%	-0.33
10	1.88%	2.21%	1.56%	-0.32
30	2.89%	3.34%	2.64%	-0.25

Additional outperformance expected

- Yield spreads have tightened in recent months, but still see attractive opportunities
- Portfolio yield advantages over benchmarks still wide
- Current prices on many securities are below fundamental fair value

Portfolio Positioned to Benefit from Steep Yield Curve

- Duration neutral overall
- Emphasize securities with attractive yield curve “rolldown”

Portfolio Positioned to Benefit from Spread Sector Outperformance

- Maintain significant underweight to U.S. Treasury sector
- Greater opportunities across spread sectors

Risk control discipline critical in a higher risk environment

Experienced investment team and risk controlled process key to strategy’s long-term success

Benefits for Employes' Retirement System of the City of Milwaukee

- Long-term relationships focused on client and direct communication
- Experienced management team implementing proven investment discipline
- Total focus on fixed income management
- Culture and resources key to future success
- Importance of the relationship to Baird Advisors

We believe our team, our entrepreneurial environment and substantial resources enable us to provide our clients with the best possible fixed income investment management services available