

February 2008

Flash Report

The Employees' Retirement System of the County of Milwaukee

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Consulting. Outsourcing. Investments.

Trustees' Summary

The Total Fund had an aggregate market value of just under \$1.52 billion at the end of February. The Total Fund declined 0.4% during the month, outpacing the Reference Index by 20 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, fell 3.1% during the month and small cap equity, as measured by the Russell 2000 Index, declined 3.7%. Growth outpaced value in both the large and small cap spaces.

The international equity markets rebounded and gained 1.5% in February, as measured by the MSCI EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, returned 7.4%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, advanced 0.1% during the month. High yield issues lagged the broad market declining 1.2%, as measured by the Merrill Lynch High Yield Index.

Recommendations and Comments

- The termination of Hotchkis & Wiley and subsequent investment in Russell Mid Cap Value iShares took place in mid December. A manager search is currently underway, with Artisan Partners and WEDGE Capital Management as the finalists. On-site due diligence for the two finalists is scheduled in early April.
- Mercer recently raised the rating of the Westfield Small Cap Growth Strategy from B+ (T) to A- (T). Prior research was concerned with the impact leadership had on analyst turnover. However, at the most recent meeting, Mercer was impressed with how the situation has improved. While we are aware that Muggia is a tough minded leader that uses a tight leash to control his analysts, we believe that his ability to motivate analysts and have them focus on producing winning stock ideas is a separating quality at Westfield. The equity research that the analysts perform is of the highest quality, and we have confidence that the analysts are fully capable of providing sound investment insight.
- On March 13, ING will begin transitioning assets from the U.S. Real Estate Securities strategy to the Global Real Estate Securities strategy.

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MANAGER REPORTED PERFORMANCE
As of February 29, 2008

	Assets (\$ millions)	February	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,517.10	-0.4	-3.9	0.6	8.1	13.0	8.1	7.3	-	
vs. Composite Market Index		-0.6	-4.1	0.1	7.3	12.0	6.9	6.5	-	
CPI + 4% (1 Month in Arrears)		0.8	0.8	8.3	7.4	7.0	6.7	6.7	-	
<u>LARGE CAP VALUE EQUITY MANAGER</u>										
Boston Partners	118.62	-3.8	-8.9	-3.5	8.4	15.1	7.0	6.9	11.3	8/1/95
Boston Partners - Net		-3.8	-9.0	-3.7	8.1	14.9	6.8	6.7	11.0	
vs. Russell 1000 Value + 1%		-4.1	-7.9	-6.9	6.8	14.9	6.8	7.2	11.6	
S&P 500 + 1%		-3.2	-8.9	-2.6	6.4	12.6	3.8	5.1	9.9	
CPI + 6.5% (1 Month in Arrears)		1.0	1.0	10.8	9.9	9.5	9.2	9.2	9.1	
<u>LARGE CAP GROWTH EQUITY MANAGER</u>										
Mellon Capital Management - Ru 1000 Growth Index	73.23	-2.0	-9.6	0.4	5.9	10.5	N/A	N/A	0.7	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		-2.0	-9.6	0.4	5.9	10.5	N/A	N/A	0.7	
vs. Russell 1000 Growth		-2.0	-9.6	0.4	5.9	10.5	0.5	1.7	0.7	
<u>LARGE CAP EQUITY INDEX MANAGER</u>										
Mellon Capital Management - S&P 500	97.48	-3.2	-9.0	-3.5	5.4	11.7	2.9	4.1	9.7	4/13/95
Mellon Capital Management - S&P 500 - Net		-3.2	-9.0	-3.5	5.4	11.7	2.8	4.1	9.6	
vs. S&P 500		-3.2	-9.1	-3.6	5.4	11.6	2.8	4.1	9.6	
<u>MID CAP VALUE EQUITY MANAGER</u>										
iShares Russell Mid Cap Value	22.81	-3.2	-7.7	N/A	N/A	N/A	N/A	N/A	N/A	12/14/2007
iShares Russell Mid Cap Value - Net		-3.2	-7.8	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell Mid Cap Value		-3.3	-7.7	-12.3	6.8	17.1	10.1	8.8	N/A	
<u>MID CAP GROWTH EQUITY MANAGER</u>										
Artisan Partners	23.47	-1.6	-10.9	7.3	10.3	16.4	6.4	N/A	5.9	6/12/00
Artisan Partners - Net		-1.7	-11.0	6.4	9.4	15.5	5.5	N/A	5.1	
vs. Russell Mid Cap Growth +1%		-1.4	-9.2	-1.3	8.9	17.0	5.6	6.8	0.2	
CPI + 5.7% (1 Month in Arrears)		1.0	1.0	10.0	9.1	8.7	8.4	8.4	8.4	

(1) Total Fund returns represent actual returns through 9/30/2007 and estimated performance thereafter.

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE
As of February 29, 2008

MID CAP CORE EQUITY MANAGERS	Assets (\$ millions)	February	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
EARNEST Partners	23.18	-1.9	-7.0	-0.6	N/A	N/A	N/A	N/A	8.4	2/18/05
EARNEST Partners - Net		-1.9	-7.0	-1.4	N/A	N/A	N/A	N/A	7.6	
vs. Russell Mid Cap Index + 1%		-2.2	-8.5	-5.8	8.6	17.9	9.3	9.3	8.6	
CPI + 5.7% (1 Month in Arrears)		1.0	1.0	10.0	9.1	8.7	8.4	8.4	9.0	
Reinhart Partners	21.71	-1.4	-8.1	-4.6	9.7	N/A	N/A	N/A	9.6	2/18/05
Reinhart Partners - Net		-1.6	-8.2	-5.1	9.1	N/A	N/A	N/A	8.9	
vs. S&P 400		-1.9	-7.9	-4.7	7.0	15.5	8.1	9.6	7.0	
CPI + 5.7% (1 Month in Arrears)		1.0	1.0	10.0	9.1	8.7	8.4	8.4	9.0	
SMALL CAP EQUITY MANAGERS										
Westfield Capital Management	37.45	0.2	-11.5	-1.7	7.5	15.8	N/A	N/A	5.3	2/6/01
Westfield Capital Management - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell 2000 Growth		-3.5	-12.3	-7.6	4.6	14.7	3.6	2.2	3.6	
CPI + 5.9% (1 Month in Arrears)		1.0	1.0	10.2	9.3	8.9	8.6	8.6	8.6	
AQR	35.77	-3.3	-4.5	-14.0	N/A	N/A	N/A	N/A	-8.7	10/2/2006
AQR - Net (1)		-3.4	-4.7	-15.0	N/A	N/A	N/A	N/A	-9.7	
vs. Russell 2000 Value		-4.0	-7.9	-17.1	3.1	15.3	9.5	7.7	-6.7	
Russell 2000 + 2%		-3.5	-9.9	-10.4	5.9	17.1	8.7	7.3	-0.7	
CPI + 5.9% (1 Month in Arrears)		1.0	1.0	10.2	9.3	8.9	8.6	8.6	8.4	
INTERNATIONAL EQUITY MANAGERS										
Baring (2)	95.50	5.0	-6.3	N/A	N/A	N/A	N/A	N/A	-12.1	11/1/2007
Baring - Net		5.0	-6.4	N/A	N/A	N/A	N/A	N/A	-12.3	
vs. EAFE + 1%		1.5	-7.7	2.3	14.2	22.7	9.7	8.0	-12.6	
CPI + 6.7% (1 Month in Arrears)		1.0	1.0	11.0	10.1	9.7	9.4	9.4	2.9	
Grantham, Mayo	132.57	0.4	-7.8	2.5	14.6	25.1	15.4	12.4	11.9	4/13/95
Grantham, Mayo - Net		0.4	-7.9	1.8	13.8	24.3	14.6	11.6	11.1	
vs. EAFE + 1%		1.5	-7.7	2.3	14.2	22.7	9.7	8.0	8.4	
CPI + 6.7% (1 Month in Arrears)		1.0	1.0	11.0	10.1	9.7	9.4	9.4	9.3	

(1) The AQR net numbers were calculated by Mercer, based off AQR's fee schedule.

(2) Capital Guardian assets were transitioned to Baring at the end of October.

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE
As of February 29, 2008

<u>INTERNATIONAL SMALL CAP EQUITY MANAGER</u>	<u>Assets (\$ millions)</u>	<u>February</u>	<u>Year To Date</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>7 Yrs</u>	<u>10 Yrs</u>	<u>Since Inception</u>	<u>Inception Date</u>
Capital Guardian	55.61	1.7	-10.7	-2.9	18.0	29.3	13.7	11.1	10.8	10/31/97
Capital Guardian - Net		1.7	-10.8	-3.4	17.4	28.7	13.1	10.5	10.2	
vs. MSCI World Ex U.S. Small Cap + 1% CPI + 6.9% (1 Month in Arrears)		4.7 1.1	-5.4 1.1	-6.6 11.2	10.4 10.3	24.2 9.9	13.0 9.6	9.1 9.6	8.9 9.5	
<u>CORE FIXED INCOME MANAGERS</u>										
JPMorganChase	115.09	0.5	2.4	7.9	N/A	N/A	N/A	N/A	6.9	11/1/05
JPMorganChase - Net		0.5	2.3	7.7	N/A	N/A	N/A	N/A	6.7	
vs. LB Aggregate + 0.5% CPI + 2.6% (1 Month in Arrears)		0.2 0.7	1.9 0.7	7.8 6.9	5.7 6.0	5.0 5.6	6.2 5.3	6.5 5.3	6.8 5.2	
Mellon Capital Management	351.90	0.2	1.9	7.5	5.3	4.6	5.8	6.1	6.2	1/31/96
Mellon Capital Management - Net		0.2	1.9	7.5	5.2	4.5	5.7	6.1	6.2	
vs. LB Aggregate		0.1	1.8	7.3	5.2	4.5	5.7	6.0	6.1	
Loomis, Sayles	99.01	0.2	0.6	6.2	5.9	7.4	8.8	8.0	9.7	6/30/91
Loomis, Sayles - Net		0.2	0.5	6.0	5.8	7.3	8.6	7.9	9.6	
vs. Fixed Income Reference Index + 0.5% (1) LB Aggregate + 0.5% CPI + 2.6% (1 Month in Arrears)		0.2 0.2 0.7	1.9 1.9 0.7	7.8 7.8 6.9	5.7 5.7 6.0	5.0 5.0 5.6	6.2 6.2 5.3	6.5 6.5 5.3	8.0 7.8 5.4	

(1) The Fixed Income Reference Index consists of the 50/50 benchmark until May 1999 and the Lehman Brothers Aggregate Index thereafter.

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HIGH YIELD FIXED INCOME MANAGER	Assets (\$ millions)	February	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Loomis, Sayles	117.62	-0.6	-0.9	-1.6	4.3	10.4	8.7	7.4	11.9	11/30/82
Loomis, Sayles - Net		-0.6	-0.9	-1.7	4.2	10.3	8.6	7.3	11.8	
vs. Merrill Lynch High Yield + 1.5%		-1.0	-2.2	-1.3	5.6	10.6	8.2	6.8	N/A	
CPI + 5.0% (1 Month in Arrears)		0.9	0.9	9.3	8.4	8.0	7.7	7.7	N/A	
REAL ESTATE MANAGER										
ING Clarion Real Estate Securities	51.94	-3.4	-4.9	-24.3	10.5	18.6	15.3	11.2	11.4	1/13/97
ING Clarion Real Estate Securities - Net		-3.4	-5.0	-24.6	10.0	18.1	14.9	10.8	11.0	
vs. Wilshire REIT Index + 1%		-3.7	-4.1	-24.8	10.1	18.5	15.8	11.9	12.2	
MSCI US REIT Index + 1%		-3.7	-4.0	-23.8	9.9	18.2	15.6	11.2	11.5	
CPI + 5.9% (1 Month in Arrears)		1.0	1.0	10.2	9.3	8.9	8.6	8.6	8.5	
VENTURE CAPITAL MANAGERS										
Adams Street Partners (1)	29.61	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (2)	--	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (1)	2.77	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	7/1/95

(1) Consists of the most recently available custody Market Value to account for the cash the manager does not include in their values.

(2) The assets invested with Adams Street Partners is aggregated to account for the custody cash.

Policy Measures are Highlighted

ASSET ALLOCATION
As of February 29, 2008

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Large Cap Equity	19.1 %	20.0 %	17.0 %	25.0 %
Boston Partners	7.8			
Mellon Capital Russell 1000 Growth	4.8			
Mellon Capital S&P 500	6.4			
Total Medium Cap Equity	6.0 %	6.0 %	4.0 %	7.5 %
Artisan Partners	1.5			
iShares	1.5			
EARNEST Partners	1.5			
Reinhart Partners	1.4			
Total Small Cap Equity	4.8 %	5.0 %	3.0 %	6.5 %
Westfield	2.5			
AQR	2.4			
Total International Equity	15.0 %	16.0 %	11.0 %	21.0 %
Baring	6.3			
Grantham, Mayo	8.7			
Int'l Small Cap Equity	3.7 %	4.0 %	0.0 %	7.0 %
Capital Guardian	3.7			
Venture Capital	2.1 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	50.7 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION
As of February 29, 2008

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Core Fixed Income	37.3 %	35.0 %	31.0 %	41.0 %
JP Morgan	7.6			
Mellon Capital	23.2			
Loomis, Sayles	6.5			
High-Yield Fixed Income	7.8 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	7.8 %			
Cash	0.8 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	45.8 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	3.4 %	3.0 %	0.0 %	7.5 %
ALTERNATIVE INVESTMENTS	0.0 %	0.0 %	0.0 %	0.0 %
TOTAL	100.0 %	100.0 %		

**AVERAGE CREDIT QUALITY
OF CURRENT FIXED INCOME MANAGERS**

JP Morgan	AAA
Mellon Capital Management	AAA
Loomis Investment Grade	A1
Loomis High Yield	Ba3

**Mercer Ratings for
Current Managers**

<i>Large Cap Eq</i>	Mercer Rating	<i>Int'l Small Cap Eq</i>	Mercer Rating
Boston Partners	A-	Cap. Guardian	N
Mellon Russell 1000 Growth	N ¹		
Mellon S&P 500	N ¹		
<i>Mid & Small Cap Eq</i>		<i>Core Fixed</i>	
Artisan	B+	JP Morgan	B
iShares	N	Mellon	N ¹
EARNEST Partners	B+	Loomis, Sayles	B (T)
Reinhart & Mahoney	N		
Westfield	A- (T)	<i>High Yield Fixed</i>	
AQR	A	Loomis, Sayles	B (T)
<i>Int'l Eq</i>		<i>Real Estate</i>	
Baring	A-	ING Clarion	B+
Grantham, Mayo Intl Intrinsic Value	A-		
Grantham, Mayo Intl Small Company	A-		

¹ Mercer no longer rates index funds, however, Mercer considers Mellon to be a top tier index provider.

**The Employees' Retirement System of the County of Milwaukee
Proposed Investment Manager Due Diligence 2008**

<u>Date</u>	<u>Managers Invited to Present</u>
16-January	Westfield
13-February	EARNEST Partners
20-February	Loomis Sayles
19-March	Boston Partners
16-April	Baring
21-May	Artisan
18-June	Adam Street Partners
16-July	ING Clarion
20-August	AQR
17-September	Capital Guardian
15-October	GMO
12-November	JP Morgan
17-December	Reinhart Partners

Notes:

The format and timings of all investment manager presentations are to be dictated by the Pension Board. Suggested discussion outline attached for all but venture capital, real estate managers and Loomis Sayles (who have to present two strategies under management).

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