

January 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 \$1.55 billion at the end of January. The Total Fund declined 3.4% during the month, outpacing the Reference Index by 10 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, fell 6.0% during the month and small cap equity, as measured by the Russell 2000 Index, declined 6.8%. Reversing the recent trend, value outpaced growth in both the large and small cap spaces.

The international equity markets dropped 9.2% in January, as measured by the MSCI EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, declined 12.5%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, advanced 1.7% during the month. High yield issues lagged the broad market falling 1.3%, 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. Performance began with this report and a manager search is currently underway.
- Mercer recently lowered the rating of the GMO International Equity Allocation Strategy from A to A-. The change is based on similar rating changes to two of the underlying strategies: International Intrinsic Value and International Small Company. We believe that the firm's resources are being stretched to cope with its significant asset growth over the last several years, and we have the sense that the firm's energies have been directed away from its traditional quantitative products towards its newer products or simply spread too thinly across its extensive product suite. In our recent meeting, we did not hear about any meaningful research initiatives affecting the value, momentum, country, and currency models used in the strategy. We continue to monitor developments at GMO but are taking the precautionary step of adjusting the rating to reflect our qualified confidence.

MANAGER REPORTED PERFORMANCE

As of January 31, 2008

	Assets (\$ millions)	January	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,545.49	-3.4	-3.4	1.3	9.1	13.1	7.5	7.7	-	
vs. Composite Market Index		-3.5	-3.5	1.0	8.1	12.1	6.3	7.0	-	
CPI + 4% (1 Month in Arrears)		0.3	0.3	8.1	7.3	7.0	6.7	6.7	-	
<u>LARGE CAP VALUE EQUITY MANAGER</u>										
Boston Partners	123.39	-5.4	-5.4	-1.6	10.8	15.3	7.3	7.9	11.7	8/1/95
Boston Partners - Net		-5.4	-5.4	-1.8	10.6	15.0	7.1	7.7	11.5	
vs. Russell 1000 Value + 1%		-3.9	-3.9	-4.4	9.5	15.3	7.1	8.4	12.1	
S&P 500 + 1%		-5.9	-5.9	-1.3	8.3	13.0	2.9	6.1	10.3	
CPI + 6.5% (1 Month in Arrears)		0.5	0.5	10.6	9.8	9.5	9.2	9.2	9.1	
<u>LARGE CAP GROWTH EQUITY MANAGER</u>										
Mellon Capital Management - Ru 1000 Growth Index (2)	74.72	-7.8	-7.8	0.5	7.0	10.8	N/A	N/A	2.3	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell 1000 Growth		-7.8	-7.8	0.5	7.0	10.8	-1.9	2.7	2.3	
<u>LARGE CAP EQUITY INDEX</u>										
Mellon Capital Management - S&P 500 (2)	100.75	-6.0	-6.0	-2.3	7.3	12.0	1.9	5.1	10.6	4/13/95
Mellon Capital Management - S&P 500 - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. S&P 500		-6.0	-6.0	-2.3	7.3	12.0	1.9	5.1	10.6	
<u>MID CAP VALUE EQUITY MANAGER</u>										
iShares Russell Mid Cap Value	23.57	-4.5	-4.5	N/A	N/A	N/A	N/A	N/A	N/A	12/14/2007
iShares Russell Mid Cap Value - Net		-4.6	-4.6	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell Mid Cap Value + 1%		-4.5	-4.5	-7.7	10.3	18.5	11.6	10.9	N/A	
CPI + 5.7% (1 Month in Arrears)		0.4	0.4	9.8	9.0	8.7	8.4	8.4	N/A	
<u>MID CAP GROWTH EQUITY MANAGER</u>										
Artisan Partners	23.87	-9.4	-9.4	8.3	11.5	16.5	5.3	N/A	6.2	6/12/00
Artisan Partners - Net		-9.5	-9.5	7.4	10.5	15.5	4.5	N/A	5.4	
vs. Russell Mid Cap Growth +1%		-7.9	-7.9	0.0	10.3	17.2	3.0	7.9	0.4	
CPI + 5.7% (1 Month in Arrears)		0.4	0.4	9.8	9.0	8.7	8.4	8.4	8.4	

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

(2) Manager reported performance was not available at time of production. Index returns are shown in report.

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE
As of January 31, 2008

<u>MID CAP CORE EQUITY</u>	<u>Assets</u> <u>(\$ millions)</u>	<u>January</u>	<u>Year To</u> <u>Date</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>7 Yrs</u>	<u>10 Yrs</u>	<u>Since</u> <u>Inception</u>	<u>Inception</u> <u>Date</u>
EARNEST Partners	23.66	-5.1	-5.1	-0.2	N/A	N/A	N/A	N/A	9.4	2/18/05
EARNEST Partners - Net		-5.1	-5.1	-1.0	N/A	N/A	N/A	N/A	8.5	
vs. Russell Mid Cap Index + 1%		-6.4	-6.4	-3.5	10.5	18.1	8.7	10.4	9.7	
CPI + 5.7% (1 Month in Arrears)		0.4	0.4	9.8	9.0	8.7	8.4	8.4	9.0	
Reinhart Partners	22.06	-6.8	-6.8	-3.3	N/A	N/A	N/A	N/A	10.4	2/18/05
Reinhart Partners - Net		-6.8	-6.8	-3.9	N/A	N/A	N/A	N/A	9.7	
vs. S&P 400		-6.2	-6.2	-2.2	8.9	15.4	7.4	10.7	7.9	
CPI + 5.7% (1 Month in Arrears)		0.4	0.4	9.8	9.0	8.7	8.4	8.4	9.0	
<u>SMALL CAP EQUITY MANAGERS</u>										
Westfield Capital Management	37.38	-11.7	-11.7	-1.1	7.7	14.9	N/A	N/A	5.4	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		-9.2	-9.2	-4.5	6.3	14.9	1.9	3.5	4.1	
CPI + 5.9% (1 Month in Arrears)		0.4	0.4	10.0	9.2	8.9	8.6	8.6	8.5	
AQR	36.99	-1.2	-1.2	-12.9	N/A	N/A	N/A	N/A	-5.6	10/2/2006
AQR - Net (1)		-1.3	-1.3	-13.9	N/A	N/A	N/A	N/A	-6.6	
vs. Russell 2000 Value		-4.1	-4.1	-14.8	5.2	15.5	10.1	8.8	-4.3	
Russell 2000 + 2%		-6.7	-6.7	-7.8	7.8	17.3	8.3	8.5	1.9	
CPI + 5.9% (1 Month in Arrears)		0.4	0.4	10.0	9.2	8.9	8.6	8.6	8.1	
<u>INTERNATIONAL EQUITY MANAGERS</u>										
Baring (2)	90.92	-10.4	-10.4	--	--	--	--	--	-16.5	11/1/2007
Baring - Net		-10.8	-10.8	--	--	--	--	--	-14.2	
vs. EAFE + 1%		-9.1	-9.1	1.6	15.3	21.8	8.3	8.5	-13.9	
CPI + 6.7% (1 Month in Arrears)		0.5	0.5	10.8	10.0	9.7	9.4	9.4	2.4	
Grantham, Mayo	132.09	-8.2	-8.2	3.0	16.2	24.7	15.1	13.1	11.9	4/13/95
Grantham, Mayo - Net		-8.2	-8.2	2.3	15.4	23.8	14.3	12.3	11.1	
vs. EAFE + 1%		-9.1	-9.1	1.6	15.3	21.8	8.3	8.5	8.3	
CPI + 6.7% (1 Month in Arrears)		0.5	0.5	10.8	10.0	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 January 31, 2008

INTERNATIONAL SMALL CAP EQUITY MANAGER	Assets (\$ millions)	January	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Capital Guardian	64.68	-12.2	-12.2	-2.9	19.4	28.7	12.1	11.7	10.7	10/31/97
Capital Guardian - Net		-12.2	-12.2	-3.4	18.8	28.0	11.4	11.0	10.1	
vs. MSCI World Ex U.S. Small Cap + 1% CPI + 6.9% (1 Month in Arrears)		-9.7 0.5	-9.7 0.5	-9.2 11.0	10.2 10.2	22.9 9.9	11.9 9.6	9.5 9.6	8.5 9.5	
<u>CORE FIXED INCOME MANAGERS</u>										
JPMorganChase	114.95	1.9	1.9	9.1	N/A	N/A	N/A	N/A	6.9	11/1/05
JPMorganChase - Net		1.9	1.9	8.9	N/A	N/A	N/A	N/A	6.7	
vs. LB Aggregate + 0.5% CPI + 2.6% (1 Month in Arrears)		1.7 0.1	1.7 0.1	9.3 6.7	5.4 5.9	5.3 5.6	6.3 5.3	6.5 5.3	6.9 5.1	
Mellon Capital Management (2)	351.23	1.7	1.7	8.8	4.9	4.8	5.8	6.0	6.1	1/31/96
Mellon Capital Management - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. LB Aggregate		1.7	1.7	8.8	4.9	4.8	5.8	6.0	6.1	
Loomis, Sayles	99.27	0.4	0.4	8.5	5.9	7.9	8.9	8.0	9.8	6/30/91
Loomis, Sayles - Net		0.4	0.4	8.4	5.7	7.8	8.8	7.9	9.7	
vs. Fixed Income Reference Index + 0.5% (1) LB Aggregate + 0.5% CPI + 2.6% (1 Month in Arrears)		1.7 1.7 0.1	1.7 1.7 0.1	9.3 9.3 6.7	5.4 5.4 5.9	5.3 5.3 5.6	6.3 6.3 5.3	6.4 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.

(2) Manager reported performance was not available at time of production. Index returns are shown in report.

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE
As of January 31, 2008

HIGH YIELD FIXED INCOME MANAGER	Assets (\$ millions)	January	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Loomis, Sayles	119.50	-0.2	-0.2	1.2	5.3	10.9	8.9	7.6	12.0	11/30/82
Loomis, Sayles - Net		-0.3	-0.3	1.1	5.2	10.8	8.8	7.5	11.8	
vs. Merrill Lynch High Yield + 1.5%		-1.2	-1.2	1.3	6.5	11.2	8.6	7.0	N/A	
CPI + 5.0% (1 Month in Arrears)		0.3	0.3	9.1	8.3	8.0	7.7	7.7	N/A	
REAL ESTATE MANAGERS										
ING Clarion Real Estate Securities	53.97	-1.6	-1.6	-24.0	12.7	20.0	15.4	11.4	11.8	1/13/97
ING Clarion Real Estate Securities - Net		-1.6	-1.6	-24.3	12.3	19.5	15.0	11.0	11.4	
vs. Wilshire REIT Index + 1%		-0.4	-0.4	-23.7	12.7	19.9	16.1	12.1	12.7	
MSCI US REIT Index + 1%		-0.3	-0.3	-22.8	12.4	19.5	15.9	11.5	12.0	
CPI + 5.9% (1 Month in Arrears)		0.4	0.4	10.0	9.2	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 January 31, 2008

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Large Cap Equity	19.3 %	20.0 %	17.0 %	25.0 %
Boston Partners	8.0			
Mellon Capital Russell 1000 Growth	4.8			
Mellon Capital S&P 500	6.5			
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	2.4			
AQR	2.4			
Total International Equity	14.4 %	16.0 %	11.0 %	21.0 %
Baring	5.9			
Grantham, Mayo	8.5			
Int'l Small Cap Equity	4.2 %	4.0 %	0.0 %	7.0 %
Capital Guardian	4.2			
Venture Capital	2.1 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	50.9 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION
As of January 31, 2008

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Core Fixed Income	36.6 %	35.0 %	31.0 %	41.0 %
JP Morgan	7.4			
Mellon Capital	22.7			
Loomis, Sayles	6.4			
High-Yield Fixed Income	7.7 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	7.7 %			
Cash	1.3 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	45.6 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	3.5 %	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	B1

**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	B+	<i>High Yield Fixed</i>	
AQR	A	Loomis, Sayles	B (T)
<i>Int'l Eq</i>		<i>Real Estate</i>	
Baring	A-	ING Clarion	N
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	Artisan
16-April	Baring
21-May	Boston Partners
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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