

July 2008

Flash Report
The Employees' Retirement System of the
County of Milwaukee

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Consulting. Outsourcing. Investments.

Flash Report

Trustees' Summary

The Total Fund had an aggregate market value of just over \$1.46 billion at the end of July. The Total Fund depreciated 1.3% during the month, trailing the Reference Index by 20 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, declined 1.2% during the month and small cap equity, as measured by the Russell 2000 Index, gained 3.7%. Value outpaced growth in both the large and small cap spaces.

The international equity market dropped 3.2% in July, as measured by the MSCI EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, depreciated 3.7%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, declined 0.1% during the month. High yield issues lagged the broad market falling 1.6%, as measured by the Merrill Lynch High Yield Index.

Recommendations and Comments

- Mercer recommends that the ERS source the cash needed for benefit payments as the end of August from the fixed income segment of the Fund with \$10 million from Mellon Capital Management.

Flash Report

The Employees' Retirement System of the County of Milwaukee

**MANAGER REPORTED PERFORMANCE
As of July 31, 2008**

	Assets (\$ millions)	July	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,463.44	-1.3	-6.6	-4.4	5.8	9.9	7.7	6.8	-	-
vs. Composite Market Index		-1.1	-6.6	-4.4	5.1	8.7	6.6	6.0	-	-
CPI + 4% (1 Month in Arrears)		1.3	6.2	9.0	8.0	7.6	7.0	7.0	-	-
LARGE CAP VALUE EQUITY MANAGER										
Boston Partners	111.79	0.2	-13.3	-12.0	4.7	10.5	5.9	6.7	10.5	8/1/95
Boston Partners - Net		0.2	-13.4	-12.2	4.5	10.3	5.6	6.4	10.3	
vs. Russell 1000 Value + 1%		-0.3	-13.3	-14.1	3.4	9.5	5.7	6.1	10.7	
S&P 500 + 1%		-0.8	-12.1	-10.1	3.9	8.0	3.5	3.9	9.3	
CPI + 6.5% (1 Month in Arrears)		1.5	7.4	11.5	10.5	10.1	9.5	9.5	9.3	
LARGE CAP GROWTH EQUITY MANAGER										
Mellon Capital Management - Ru 1000 Growth Index	72.29	-1.9	-10.8	-6.3	3.6	6.4	1.2	N/A	0.5	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		-1.9	-10.8	-6.3	3.6	6.4	1.2	N/A	0.5	
vs. Russell 1000 Growth		-1.9	-10.8	-6.3	3.6	6.4	1.2	0.8	0.5	
LARGE CAP EQUITY INDEX MANAGER										
Mellon Capital Management - S&P 500	93.66	-0.8	-12.6	-11.0	2.9	7.1	2.5	3.0	9.0	4/13/95
Mellon Capital Management - S&P 500 - Net		-0.8	-12.6	-11.0	2.9	7.1	2.5	2.9	9.0	
vs. S&P 500		-0.8	-12.7	-11.1	2.9	7.0	2.5	2.9	9.0	
MID CAP VALUE EQUITY MANAGER										
Artisan Partners - Mid Cap Value (2)	21.98	-1.8	N/A	N/A	N/A	N/A	N/A	N/A	-1.8	6/26/2008
Artisan Partners - Mid Cap Value - Net		-1.9	N/A	N/A	N/A	N/A	N/A	N/A	-1.9	
vs. Russell Mid Cap Value + 1%		-1.1	-9.1	-12.2	4.0	13.1	10.2	9.9	-1.1	
CPI + 5.7% (1 Month in Arrears)		1.5	7.0	10.7	9.7	9.3	8.7	8.7	1.5	
MID CAP GROWTH EQUITY MANAGER										
Artisan Partners - Mid Cap Growth	23.03	-1.5	-12.4	-6.8	7.7	11.7	6.6	N/A	5.4	6/12/00
Artisan Partners - Mid Cap Growth - Net		-1.6	-12.8	-7.6	6.8	10.8	5.7	N/A	4.6	
vs. Russell Mid Cap Growth + 1%		-3.7	-9.8	-6.9	5.8	11.7	6.5	6.7	0.1	
CPI + 5.7% (1 Month in Arrears)		1.5	7.0	10.7	9.7	9.3	8.7	8.7	8.7	

(1) Total Fund returns represent actual returns through 6/30/2008 and estimated performance thereafter. Policy Measures are Highlighted

Flash Report

**MANAGER REPORTED PERFORMANCE
As of July 31, 2008**

	Assets (\$ millions)	Year To		1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
		July	Date							
MID CAP CORE EQUITY MANAGERS										
EARNEST Partners	23.56	-2.8	-5.0	-3.7	N/A	N/A	N/A	N/A	8.0	2/18/05
EARNEST Partners - Net		-2.8	-5.4	-4.5	N/A	N/A	N/A	N/A	7.2	
vs. Russell Mid Cap Index + 1% CPI + 5.7% (1 Month in Arrears)		-2.5 1.5	-9.3 7.0	-9.1 10.7	5.1 9.7	12.8 9.3	9.1 8.7	9.4 8.7	7.2 9.7	
SMALL CAP EQUITY MANAGERS										
Reinhart Partners	21.61	0.6	-8.2	-7.4	7.5	N/A	N/A	N/A	8.3	2/18/05
Reinhart Partners - Net		0.4	-8.6	-8.0	6.8	N/A	N/A	N/A	7.7	
vs. S&P 400 CPI + 5.7% (1 Month in Arrears)		-1.9 1.5	-5.7 7.0	-5.0 10.7	5.0 9.7	11.4 9.3	7.9 8.7	10.1 8.7	6.9 9.7	
INTERNATIONAL EQUITY MANAGERS										
Westfield Capital Management	39.50	0.1	-6.6	1.7	6.3	10.5	7.5	N/A	5.8	2/6/01
Westfield Capital Management - Net		0.0	-7.1	0.7	5.3	9.5	6.5	N/A	5.0	
vs. Russell 2000 Growth CPI + 5.9% (1 Month in Arrears)		2.3 1.5	-6.8 7.1	-3.8 10.9	4.5 9.9	9.3 9.5	4.7 8.9	3.9 8.9	4.2 8.9	
AQR	34.54	4.8	-7.8	-13.0	N/A	N/A	N/A	N/A	-11.8	10/2/2006
AQR - Net (1)		4.7	-8.4	-14.0	N/A	N/A	N/A	N/A	-12.8	
vs. Russell 2000 Value Russell 2000 + 2% CPI + 5.9% (1 Month in Arrears)		5.1 3.9 1.5	-5.2 -4.9 7.1	-9.9 -4.7 10.9	1.2 4.9 9.9	10.0 11.8 9.5	8.8 9.0 8.9	8.9 8.8 8.9	-3.7 2.4 9.8	
INTERNATIONAL EQUITY MANAGERS										
Baring	88.22	-6.7	-13.4	N/A	N/A	N/A	N/A	N/A	-18.8	11/1/2007
Baring - Net		-6.8	-13.8	N/A	N/A	N/A	N/A	N/A	-19.3	
vs. EAFE + 1% CPI + 6.7% (1 Month in Arrears)		-3.1 1.5	-12.9 7.5	-10.7 11.7	12.0 10.7	16.8 10.3	10.2 9.7	6.8 9.7	-17.4 9.9	
Grantham, Mayo	123.62	-3.3	-12.4	-11.3	12.2	18.7	15.3	11.1	11.0	4/13/95
Grantham, Mayo - Net		-3.4	-12.8	-11.9	11.5	17.9	14.5	10.3	10.2	
vs. EAFE + 1% CPI + 6.7% (1 Month in Arrears)		-3.1 1.5	-12.9 7.5	-10.7 11.7	12.0 10.7	16.8 10.3	10.2 9.7	6.8 9.7	7.7 9.5	

(1) Net performance calculated by Mercer, based off fee schedule. Policy Measures are Highlighted

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The Employees' Retirement System of the County of Milwaukee

**MANAGER REPORTED PERFORMANCE
As of July 31, 2008**

	Assets (\$ millions)	July	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
INTERNATIONAL SMALL CAP EQUITY MANAGER										
Capital Guardian	48.29	-5.7	-22.4	-24.6	10.7	19.8	14.0	8.8	8.9	10/31/97
Capital Guardian - Net		-5.8	-22.7	-25.1	10.1	19.2	13.3	8.1	8.3	
vs. MSCI World Ex U.S. Small Cap + 1% CPI + 6.9% (1 Month in Arrears)		-5.1	-15.1	-21.8	5.8	16.1	12.3	8.2	7.4	
		1.6	7.6	11.9	10.9	10.5	9.9	9.9	9.8	
CORE FIXED INCOME MANAGERS										
JPMorganChase	110.84	-0.3	0.7	5.4	N/A	N/A	N/A	N/A	5.2	11/1/05
JPMorganChase - Net		-0.3	0.6	5.2	N/A	N/A	N/A	N/A	5.0	
vs. LB Aggregate + 0.5% CPI + 2.6% (1 Month in Arrears)		0.0	1.3	6.7	4.9	5.1	5.6	6.2	5.5	
		1.2	5.5	7.6	6.6	6.2	5.6	5.6	6.2	
Mellon Capital Management	349.44	-0.1	1.2	6.4	4.5	4.6	5.2	5.7	6.0	1/31/96
Mellon Capital Management - Net		-0.1	1.2	6.4	4.5	4.6	5.1	5.7	5.9	
vs. LB Aggregate		-0.1	1.0	6.2	4.4	4.6	5.1	5.7	5.9	
Loomis, Sayles	94.10	-1.6	-2.3	2.9	4.7	6.6	7.7	7.3	9.3	6/30/91
Loomis, Sayles - Net		-1.6	-2.4	2.8	4.5	6.5	7.6	7.2	9.2	
vs. Fixed Income Reference Index + 0.5% (1) LB Aggregate + 0.5% CPI + 2.6% (1 Month in Arrears)		0.0	1.3	6.7	4.9	5.1	5.6	6.0	7.8	
		0.0	1.3	6.7	4.9	5.1	5.6	6.2	7.6	
		1.2	5.5	7.6	6.6	6.2	5.6	5.6	5.6	

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

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**MANAGER REPORTED PERFORMANCE
As of July 31, 2008**

	Assets (\$ millions)	Year To		1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
		July	Date							
HIGH YIELD FIXED INCOME MANAGER										
Loomis, Sayles	112.54	-1.7	-2.3	1.6	3.5	8.0	8.4	7.1	11.6	11/30/82
Loomis, Sayles - Net		-1.7	-2.3	1.5	3.4	7.9	8.3	7.0	11.5	
vs. Merrill Lynch High Yield + 1.5% CPI + 5.0% (1 Month in Arrears)		-1.5	-1.9	1.0	5.0	8.3	8.3	6.5	N/A	N/A
		1.4	6.6	10.0	9.0	8.6	8.0	8.0	N/A	N/A
REAL ESTATE MANAGER										
ING Clarion Real Estate Securities	51.43	1.7	-4.4	-6.5	3.7	14.3	14.0	12.4	11.0	1/13/97
ING Clarion Real Estate Securities - Net		1.7	-4.7	-7.0	3.2	13.9	13.6	12.0	10.6	
vs. Reference Index 1 + 1% (1) Reference Index 2 + 1% (2) CPI + 5.9% (1 Month in Arrears)		0.3	-5.9	-10.1	2.2	13.6	13.9	12.7	11.5	
		0.3	-5.9	-8.7	2.3	13.2	13.7	12.0	10.9	
		1.5	7.1	10.9	9.9	9.5	8.9	8.9	8.7	
VENTURE CAPITAL MANAGERS										
Adams Street Partners (3)	30.01	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (4)	--	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (3)	2.67	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	7/1/95

- (1) Consists of the Wilshire REIT Index from inception to March 2008 and the S&P/Citigroup World Property Index forward.
- (2) Consists of the MSCI US REIT Index from inception to March 2008 and the S&P/Citigroup World Property Index forward.
- (3) Consists of the most recently available custody Market Value to account for the cash the manager does not include in their values.
- (4) The assets invested with Adams Street Partners is aggregated to account for the custody cash.

Policy Measures are Highlighted

ASSET ALLOCATION
As of July 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	19.0 %	20.0 %	17.0 %	25.0 %
Boston Partners	7.6			
Mellon Capital Russell 1000 Growth	4.9			
Mellon Capital S&P 500	6.4			
Total Medium Cap Equity	6.2 %	6.0 %	4.0 %	7.5 %
Artisan Partners	1.6			
iShares	1.5			
EARNEST Partners	1.6			
Reinhardt Partners	1.5			
Total Small Cap Equity	5.1 %	5.0 %	3.0 %	6.5 %
Westfield	2.7			
AQR	2.4			
Total International Equity	14.5 %	16.0 %	11.0 %	21.0 %
Baring	6.0			
Grantham, Mayo	8.4			
Int'l Small Cap Equity	3.3 %	4.0 %	0.0 %	7.0 %
Capital Guardian	3.3			
Venture Capital	2.2 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	50.2 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION
As of July 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	37.9 %	35.0 %	31.0 %	41.0 %
JP Morgan	7.6			
Mellon Capital	23.9			
Loomis, Sayles	6.4			
High-Yield Fixed Income	7.7 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	7.7 %			
Cash	0.7 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	46.3 %	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	AA+
Mellon Capital Management	AA1/AA2
Loomis Investment Grade	A2
Loomis High Yield	Ba3

Mercer Ratings for Current Managers

	Mercer Rating		Mercer Rating
Large Cap Eq			
Boston Partners	A-	Cap. Guardian	N
Mellon Russell 1000 Growth	N ¹	Core Fixed	
Mellon S&P 500	N ¹	JP Morgan	B
Mid & Small Cap Eq			
Artisan MCG	B+	Mellon	N ¹
Artisan MCV	A	Loomis, Sayles	B+(T)
EARNEST Partners	B+	High Yield Fixed	
Reinhart & Mahoney	N	Loomis, Sayles	B+(T)
Westfield	A-(T)	Real Estate	
AQR	A	ING Clarion	B+
Int'l Eq			
Baring	B+		
Grantham, Mayo Intl Intrinsic Value	A-		
Grantham, Mayo Emerging Markets	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	None - Meeting Cancelled
17-September	AQR, 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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