

October 2007

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 \$1.68 billion at the end of October. The Total Fund advanced 2.3% during the month, leading the Reference Index by 20 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, gained 1.7% during the month and small cap equity, as measured by the Russell 2000 Index, advanced 2.9%. Growth outpaced value in both the large and small cap spaces.

The international equity markets appreciated 3.9% in October, as measured by the MSCI EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, gained 11.2%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, advanced 0.9% during the month. High yield issues trailed the broad market gaining 0.6%, as measured by the Merrill Lynch High Yield Index.

Recommendations and Comments

- Capital Guardian's International Equity assets were transitioned to Baring Asset Management at the end of October. Performance for Baring will begin in November.
- The Trustees requested that Mercer recommend a source to add \$10 million to Reinhart Partners at the last Investment Committee meeting. Mercer recommends the ERS source the \$10 million needed for this transfer from the other components of the mid cap equity segment to keep the portfolio's structure in-line with policy; specifically, \$5 million from Artisan and \$5 million from EARNEST.
- Mercer recommends that the ERS source the cash needed for benefit payments at the end of November from the international equity segment of the Fund with \$10 million from GMO.
- Mercer recommends terminating Hotchkis and Wiley, with a request to the manager to liquidate the assets. The proceeds would be used to purchase a mid cap value index product in order to maintain market exposure during the search process.
- Mercer recommends investing the assets from the Hotchkis and Wiley liquidation in iShares (Russell Midcap Value).
- Mercer reviewed the cost of investing in iShares as compared to an index fund. This analysis is straight forward as iShares, which in most asset classes have higher management fees, are actually a basis point cheaper (25 basis points vs. 26 basis points) than the mid cap value index fund available from Vanguard. The major index providers do not offer passive mid cap value products.

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**MANAGER REPORTED PERFORMANCE
As of October 31, 2007**

	Assets (\$ millions)	October	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,682.42	2.3	9.8	13.3	13.4	15.1	8.7	8.8	--	
vs. Composite Market Index		2.1	9.3	12.6	12.2	13.8	7.4	8.1	--	
CPI + 4% (1 Month in Arrears)		0.6	6.3	6.8	7.2	6.9	6.6	6.6	--	
<u>LARGE CAP VALUE EQUITY MANAGER</u>										
Boston Partners	136.77	0.9	10.0	15.8	17.1	17.6	9.9	9.5	12.9	8/1/95
Boston Partners - Net		0.8	9.8	15.6	16.9	17.3	9.7	9.3	12.6	
vs. Russell 1000 Value + 1%		0.1	6.8	11.8	15.6	17.4	8.8	10.1	13.2	
S&P 500 + 1%		1.7	11.7	15.6	14.2	14.9	3.9	8.1	11.5	
CPI + 6.5% (1 Month in Arrears)		0.8	8.7	9.3	9.7	9.4	9.1	9.1	9.1	
<u>LARGE CAP GROWTH EQUITY MANAGER</u>										
Mellon Capital Management - Ru 1000 Growth Index (2)	84.42	3.4	16.5	19.2	12.9	12.6	N/A	N/A	--	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		--	--	--	--	--	N/A	N/A	--	
vs. Russell 1000 Growth		3.4	16.5	19.2	12.9	12.6	-1.9	4.8	--	
<u>LARGE CAP EQUITY INDEX</u>										
Mellon Capital Management - S&P 500 (2)	112.60	1.6	10.9	14.6	13.2	13.9	2.9	7.1	--	4/13/95
Mellon Capital Management - S&P 500 - Net		--	--	--	--	--	--	--	--	
vs. S&P 500		1.6	10.9	14.6	13.2	13.9	2.9	7.1	--	
<u>MID CAP VALUE EQUITY MANAGER</u>										
Hotchkis & Wiley	28.13	-0.1	-6.6	-2.4	N/A	N/A	N/A	N/A	7.7	2/18/05
Hotchkis & Wiley - Net		-0.2	-7.3	-3.2	N/A	N/A	N/A	N/A	6.8	
vs. Russell Mid Cap Value + 1%		0.5	6.1	10.7	17.5	21.4	14.4	12.7	14.7	
CPI + 5.7% (1 Month in Arrears)		0.7	8.0	8.5	8.9	8.6	8.3	8.3	9.0	
<u>MID CAP GROWTH EQUITY MANAGER</u>										
Artisan Partners	33.13	5.3	29.0	33.9	20.0	19.6	7.6	N/A	8.7	6/12/00
Artisan Partners - Net		5.2	28.1	32.8	19.0	18.6	6.7	N/A	7.8	
vs. Russell Mid Cap Growth +1%		2.6	17.1	20.7	17.7	20.2	2.8	9.3	2.1	
CPI + 5.7% (1 Month in Arrears)		0.7	8.0	8.5	8.9	8.6	8.3	8.3	8.4	

(1) Total Fund returns represent actual returns through 6/30/2007 and estimated performance thereafter.

(2) Manager reported performance was unavailable at the time of production. Index returns are shown in this report.

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE
As of October 31, 2007

<u>MID CAP CORE EQUITY</u>	<u>Assets</u> (\$ millions)	<u>October</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	31.22	3.4	13.5	15.6	N/A	N/A	N/A	N/A	14.1	2/18/05
EARNEST Partners - Net		3.4	12.9	14.7	N/A	N/A	N/A	N/A	13.3	
vs. Russell Mid Cap Index + 1%		1.7	12.1	16.2	17.9	21.1	10.5	12.0	15.6	
CPI + 5.7% (1 Month in Arrears)		0.7	8.0	8.5	8.9	8.6	8.3	8.3	9.0	
Reinhart Partners	14.95	3.0	13.5	18.2	N/A	N/A	N/A	N/A	17.0	2/18/05
Reinhart Partners - Net		3.0	12.8	17.3	N/A	N/A	N/A	N/A	16.3	
vs. S&P 400		2.6	13.9	17.0	16.0	17.8	9.5	12.4	13.6	
CPI + 5.7% (1 Month in Arrears)		0.7	8.0	8.5	8.9	8.6	8.3	8.3	9.0	
<u>SMALL CAP EQUITY MANAGERS</u>										
Westfield Capital Management	43.70	5.7	18.4	20.8	14.6	18.1	N/A	N/A	8.0	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		4.5	14.3	16.7	14.9	18.6	3.3	4.8	6.8	
CPI + 5.9% (1 Month in Arrears)		0.8	8.2	8.7	9.1	8.8	8.5	8.5	8.5	
AQR	40.00	0.6	-3.5	0.2	N/A	N/A	N/A	N/A	2.1	10/2/2006
AQR - Net		0.6	-3.5	0.2	N/A	N/A	N/A	N/A	2.1	
vs. Russell 2000 Value		1.1	-1.6	2.0	12.3	18.6	13.9	10.5	6.7	
Russell 2000 + 2%		3.0	7.8	11.3	15.7	20.7	10.9	10.0	16.3	
CPI + 5.9% (1 Month in Arrears)		0.8	8.2	8.7	9.1	8.8	8.5	8.5	8.0	
<u>INTERNATIONAL EQUITY MANAGERS</u>										
Baring (1)	105.81	--	--	--	--	--	--	--	--	11/1/2007
Baring - Net		--	--	--	--	--	--	--	--	
vs. EAFE + 1%		4.0	18.9	26.4	25.0	24.7	10.6	10.6	--	
CPI + 6.7% (1 Month in Arrears)		0.8	8.9	9.5	9.9	9.6	9.3	9.3	--	
Grantham, Mayo	172.29	4.0	21.6	29.2	26.6	28.8	18.8	15.1	13.6	4/13/95
Grantham, Mayo - Net		3.9	21.0	28.4	25.7	27.9	18.0	14.3	12.8	
vs. EAFE + 1%		4.0	18.9	26.4	25.0	24.7	10.6	10.6	9.8	
CPI + 6.7% (1 Month in Arrears)		0.8	8.9	9.5	9.9	9.6	9.3	9.3	9.3	

(1) Capital Guardian assets were transitioned to Baring at the end of October. Performance for Baring will begin 11/1/2007.

Policy Measures are Highlighted

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MANAGER REPORTED PERFORMANCE
As of October 31, 2007

	Assets (\$ millions)	October	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
INTERNATIONAL SMALL CAP EQUITY MANAGER										
Capital Guardian	80.03	9.2	21.1	30.9	33.4	34.5	14.4	13.4	13.4	10/31/97
Capital Guardian - Net		9.2	20.6	30.2	32.7	33.8	13.7	12.7	12.7	
vs. MSCI World Ex U.S. Small Cap + 1%		6.8	15.0	23.4	24.0	28.3	15.9	11.1	11.1	
CPI + 6.9% (1 Month in Arrears)		0.8	9.0	9.7	10.1	9.8	9.5	9.5	9.5	
CORE FIXED INCOME MANAGERS										
JPMorganChase	111.93	0.8	4.9	5.5	N/A	N/A	N/A	N/A	5.8	11/1/05
JPMorganChase - Net		0.8	4.8	5.3	N/A	N/A	N/A	N/A	5.6	
vs. LB Aggregate + 0.5%		0.9	5.2	5.9	4.4	4.9	6.5	6.4	5.8	
CPI + 2.6% (1 Month in Arrears)		0.5	5.5	5.4	5.8	5.5	5.2	5.2	5.0	
Mellon Capital Management (2)	338.07	0.9	4.8	5.4	3.9	4.4	6.0	5.9	--	1/31/96
Mellon Capital Management - Net		--	--	--	--	--	--	--	--	
vs. LB Aggregate		0.9	4.8	5.4	3.9	4.4	6.0	5.9	--	
Loomis, Sayles	99.77	2.1	7.2	7.9	6.2	9.1	9.8	8.0	9.9	6/30/91
Loomis, Sayles - Net		2.1	7.1	7.7	6.1	9.0	9.7	7.9	9.7	
vs. Fixed Income Reference Index + 0.5% (1)		0.9	5.2	5.9	4.4	4.9	6.5	6.4	7.9	
LB Aggregate + 0.5%		0.9	5.2	5.9	4.4	4.9	6.5	6.4	7.7	
CPI + 2.6% (1 Month in Arrears)		0.5	5.5	5.4	5.8	5.5	5.2	5.2	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 unavailable at the time of production. Index returns are shown in this report.

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE

As of October 31, 2007

HIGH YIELD FIXED INCOME MANAGER	Assets (\$ millions)	October	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Loomis, Sayles	123.25	1.0	3.1	5.8	7.0	13.7	10.0	8.0	12.2	11/30/82
Loomis, Sayles - Net		1.0	3.0	5.7	6.9	13.6	9.8	7.9	12.0	
vs. Merrill Lynch High Yield + 1.5%		0.7	5.2	8.3	8.5	14.1	9.8	7.7	N/A	
CPI + 5.0% (1 Month in Arrears)		0.7	7.5	7.8	8.2	7.9	7.6	7.6	N/A	
REAL ESTATE MANAGERS										
ING Clarion Real Estate Securities	75.54	1.9	-2.0	1.2	19.7	24.5	19.5	13.5	13.8	1/13/97
ING Clarion Real Estate Securities - Net		1.9	-2.3	0.8	19.3	24.1	19.1	13.0	13.4	
vs. Wilshire REIT Index + 1%		1.2	-2.7	-0.2	18.9	24.5	20.3	14.3	14.6	
MSCI US REIT Index + 1%		1.3	-3.0	0.7	18.3	23.9	20.0	13.5	13.9	
CPI + 5.9% (1 Month in Arrears)		0.8	8.2	8.7	9.1	8.8	8.5	8.5	8.5	
VENTURE CAPITAL MANAGERS										
Adams Street Partners (1)	29.41	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)	2.76	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 October 31, 2007

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Large Cap Equity	19.8 %	20.0 %	17.0 %	25.0 %
Boston Partners	8.1			
Mellon Capital Russell 1000 Growth	5.0			
Mellon Capital S&P 500	6.7			
Total Medium Cap Equity	6.4 %	6.0 %	4.0 %	7.5 %
Artisan Partners	2.0			
Hotchkis & Wiley	1.7			
EARNEST Partners	1.9			
Reinhart Partners	0.9			
Total Small Cap Equity	5.0 %	5.0 %	3.0 %	6.5 %
Westfield	2.6			
AQR	2.4			
Total International Equity	16.5 %	16.0 %	11.0 %	21.0 %
Baring	6.3			
Grantham, Mayo	10.2			
Int'l Small Cap Equity	4.8 %	4.0 %	0.0 %	7.0 %
Capital Guardian	4.8			
Venture Capital	1.9 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	54.4 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION
As of October 31, 2007

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Core Fixed Income	32.7 %	35.0 %	31.0 %	41.0 %
JP Morgan	6.7			
Mellon Capital	20.1			
Loomis, Sayles	5.9			
High-Yield Fixed Income	7.3 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	7.3 %			
Cash	1.1 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	41.1 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	4.5 %	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**

JPMorgan	AAA
Mellon Capital Management:	AA1/AA2
Loomis Investment Grade:	A1
Loomis High Yield:	Ba3

**Mercer Ratings for
Current Managers**

Large Cap Eq	Mercer Rating	Int'l Small Cap Eq	Mercer Rating
Boston Partners	A-	Cap. Guardian	N
Mellon Russell 1000 Growth	N ¹		
Mellon S&P 500	N ¹		
Mid & Small Cap Eq		Core Fixed	
Artisan	B+	JP Morgan	B
Hotchkis & Wiley	A (T)	Mellon	N ¹
EARNEST Partners	B+	Loomis, Sayles	B (T)
Reinhart & Mahoney	N		
Westfield	B+	High Yield Fixed	
AQR	A	Loomis, Sayles	B (T)
Int'l Eq		Real Estate	
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 2007**

<u>Date</u>	<u>Managers Invited to Present</u>
17-January	Hotchkis & Wiley
14-February	EARNEST Partners
21-February	Reinhart & Mahoney
21-March	Artisan*
18-April	
16-May	Boston Partners
20-June	Adam Street Partners
18-July	ING Clarion
15-August	AQR
19-September	Capital Guardian
17-October	GMO and Westfield (TBD)
14-November	Loomis Sayles (both Core and High Yield)
29-December	JP Morgan

* Subject to additional performance review at the Investment Committee meeting prior to the Pension Board meeting. Managers are not required to attend Investment Committee meetings.

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). The middle of the year has been deliberately left less crowded to allow manager presentations to be brought forward should issues arise. This would also serve to free up the final quarter of the year.

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Mercer Investment Consulting, Inc.
10 South Wacker Drive, Suite 1700
Chicago, IL 60606
312 902 7500

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