

August 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 \$1.62 billion at the end of August. The Total Fund advanced 0.4% during the month, trailing the Reference Index by 30 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, gained 1.4% during the month and small cap equity, as measured by the Russell 2000 Index, advanced 2.3%. Growth outpaced value in both the large and small cap spaces.

The international equity markets declined 1.5% in August, as measured by the MSCI EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, fell 2.1%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, advanced 1.2% during the month. High yield issues slightly lagged the broad market gaining 1.1%, as measured by the Merrill Lynch High Yield Index.

Recommendations and Comments

- Performance for the non-funded managers in the mid cap segment, LSV and Franklin Portfolio Associates, is included on page 6.
- The ERS was rebalanced back to the Policy Target in early September by transferring \$20 million from GMO to the Mellon Fixed Income Index and \$19 million from the Mellon Large Cap S&P 500 Index to the Mellon Fixed Income Index.
- Mercer recommends that the ERS source the \$10 million needed for benefit payments at the end of September from the small cap segment of the Fund with \$8 million from Westfield and \$2 million from AQR.
- Mercer recommends using a transition manager to implement the new international equity portfolio with Baring. We recommend using the lowest cost provider as determined by comparing bids from some of the top firms available.

MANAGER REPORTED PERFORMANCE

As of August 31, 2007

	Assets (\$ millions)	August	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,618.48	0.4	4.4	12.1	13.0	13.4	7.3	8.5	--	
vs. Composite Market Index		0.7	4.3	11.5	11.7	12.2	6.0	7.8	--	
CPI + 4% (1 Month in Arrears)		0.3	3.9	6.4	7.2	7.0	6.7	6.6	--	
<u>LARGE CAP VALUE EQUITY MANAGER</u>										
Boston Partners	131.24	1.2	5.2	16.4	16.6	15.0	10.0	9.1	12.6	8/1/95
Boston Partners - Net		1.2	5.0	16.1	16.4	14.8	9.8	8.8	12.4	
vs. Russell 1000 Value + 1%		1.2	2.7	13.9	15.5	15.5	8.8	10.1	13.1	
S&P 500 + 1%		1.6	5.4	16.1	13.2	13.0	2.3	7.7	11.2	
CPI + 6.5% (1 Month in Arrears)		0.5	4.8	8.9	9.7	9.5	9.2	9.1	9.1	
<u>LARGE CAP GROWTH EQUITY MANAGER</u>										
Mellon Capital Management - Ru 1000 Growth Index	78.34	1.6	8.1	17.7	11.1	10.5	N/A	N/A	--	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		--	--	--	--	--	N/A	N/A	--	
vs. Russell 1000 Growth		1.6	8.1	17.7	11.0	10.5	-5.0	4.1	--	
<u>LARGE CAP EQUITY INDEX</u>										
Mellon Capital Management - S&P 500 (2)	106.83	1.6	5.3	15.2	12.2	12.0	1.3	6.8	--	4/13/95
Mellon Capital Management - S&P 500 - Net		--	--	--	--	--	--	--	--	
vs. S&P 500		1.5	5.2	15.1	12.2	12.0	1.3	6.7	--	
<u>MID CAP VALUE EQUITY MANAGER</u>										
Hotchkis & Wiley	28.44	-3.9	-5.9	4.5	N/A	N/A	N/A	N/A	8.5	2/18/05
Hotchkis & Wiley - Net		-4.0	-6.4	3.6	N/A	N/A	N/A	N/A	7.6	
vs. Russell Mid Cap Value + 1%		-0.2	2.6	13.4	18.4	18.9	14.4	12.7	14.4	
CPI + 5.7% (1 Month in Arrears)		0.4	4.6	8.1	8.9	8.7	8.4	8.3	9.2	
<u>MID CAP GROWTH EQUITY MANAGER</u>										
Artisan Partners	29.90	1.4	16.3	27.3	19.0	17.0	5.4	N/A	7.3	6/12/00
Artisan Partners - Net		1.3	15.7	26.2	18.0	16.1	4.5	N/A	6.5	
vs. Russell Mid Cap Growth		0.5	9.1	19.3	16.9	17.5	-0.8	7.6	0.2	
CPI + 5.7% (1 Month in Arrears)		0.4	4.6	8.1	8.9	8.7	8.4	8.3	8.4	

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

(2) Market value reflects recent rebalancing.

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE

As of August 31, 2007

MID CAP CORE EQUITY	Assets (\$ millions)	August	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
EARNEST Partners	29.47	-0.6	6.9	14.6	N/A	N/A	N/A	N/A	12.5	2/18/05
EARNEST Partners - Net		-0.6	6.5	13.7	N/A	N/A	N/A	N/A	11.7	
vs. Russell Mid Cap Index + 1%		0.3	6.2	17.2	18.3	18.8	9.3	11.7	14.4	
CPI + 5.7% (1 Month in Arrears)		0.4	4.6	8.1	8.9	8.7	8.4	8.3	9.2	
Reinhart & Mahoney	14.08	1.0	6.8	16.7	N/A	N/A	N/A	N/A	15.4	2/18/05
Reinhart & Mahoney - Net		1.0	6.2	15.8	N/A	N/A	N/A	N/A	14.7	
vs. S&P 400		0.9	8.1	16.5	15.7	15.6	8.1	11.9	12.2	
CPI + 5.7% (1 Month in Arrears)		0.4	4.6	8.1	8.9	8.7	8.4	8.3	9.2	
<u>SMALL CAP EQUITY MANAGERS</u>										
Westfield Capital Management	47.38	1.7	7.2	15.0	13.2	15.0	N/A	N/A	6.6	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		2.5	6.3	16.4	15.1	16.3	0.3	4.2	5.8	
CPI + 5.9% (1 Month in Arrears)		0.5	4.7	8.3	9.1	8.9	8.6	8.5	8.6	
AQR	41.68	0.0	-4.2	N/A	N/A	N/A	N/A	N/A	1.4	10/2/2006
AQR - Net		0.0	-4.2	N/A	N/A	N/A	N/A	N/A	1.4	
vs. Russell 2000 Value		2.0	-3.1	6.6	13.8	16.8	13.5	10.7	5.6	
Russell 2000 + 2%		2.4	1.9	13.4	16.5	18.6	9.0	9.8	12.4	
CPI + 5.9% (1 Month in Arrears)		0.5	4.7	8.3	9.1	8.9	8.6	8.5	8.1	
<u>INTERNATIONAL EQUITY MANAGERS</u>										
Capital Guardian	99.08	-2.1	7.6	17.4	21.3	19.1	5.8	10.6	11.1	9/1/94
Capital Guardian - Net		-2.2	7.3	16.9	20.7	18.5	5.3	10.1	10.6	
vs. EAFE + 1%		-1.5	8.0	20.2	23.7	21.0	8.1	9.4	8.8	
CPI + 6.7% (1 Month in Arrears)		0.5	4.9	9.1	9.9	9.7	9.4	9.3	9.3	
Grantham, Mayo (1)	162.80	-1.3	10.4	21.6	25.2	24.8	16.7	13.9	12.9	4/13/95
Grantham, Mayo - Net		-1.3	9.9	20.8	24.3	23.9	15.8	13.1	12.1	
vs. EAFE + 1%		-1.5	8.0	20.2	23.7	21.0	8.1	9.4	9.1	
CPI + 6.7% (1 Month in Arrears)		0.5	4.9	9.1	9.9	9.7	9.4	9.3	9.3	

(1) Market value reflects recent rebalancing.

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The Employees' Retirement System of the County of Milwaukee

MANAGER REPORTED PERFORMANCE
As of August 31, 2007

INTERNATIONAL SMALL CAP EQUITY MANAGER	Assets (\$ millions)	August	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Capital Guardian	70.25	-7.3	6.3	19.5	30.2	28.6	8.8	N/A	12.1	10/31/97
Capital Guardian - Net		-7.3	5.9	18.9	29.6	27.9	8.2	N/A	11.5	
vs. MSCI World Ex U.S. Small Cap + 1% CPI + 6.9% (1 Month in Arrears)		-5.3 0.5	5.2 4.9	17.3 9.3	23.0 10.1	23.9 9.9	12.4 9.6	9.4 9.5	10.3 9.5	
<u>CORE FIXED INCOME MANAGERS</u>										
JPMorganChase	111.10	1.0	3.3	5.5	N/A	N/A	N/A	N/A	5.4	11/1/05
JPMorganChase - Net		1.0	3.2	5.3	N/A	N/A	N/A	N/A	5.2	
vs. LB G/C + 0.5% LB Aggregate + 0.5% CPI + 2.6% (1 Month in Arrears)		1.3 1.3 0.2	3.4 3.2 3.9	5.9 5.8 5.0	4.0 4.2 5.8	5.0 4.8 5.6	6.6 6.5 5.3	6.6 6.5 5.2	5.2 5.3 5.2	
Mellon Capital Management (2)	332.50	1.3	3.1	5.3	3.7	4.3	6.0	6.1	--	1/31/96
Mellon Capital Management - Net		--	--	--	--	--	--	--	--	
vs. LB Aggregate		1.2	3.1	5.3	3.7	4.3	6.0	6.0	--	
Loomis, Sayles	97.07	0.9	3.5	6.6	5.8	8.2	9.2	8.0	9.7	6/30/91
Loomis, Sayles - Net		0.9	3.4	6.5	5.7	8.1	9.1	7.9	9.6	
vs. Fixed Income Reference Index + 0.5% (1) LB Aggregate + 0.5% CPI + 2.6% (1 Month in Arrears)		1.3 1.3 0.2	3.2 3.2 3.9	5.8 5.8 5.0	4.2 4.2 5.8	4.8 4.8 5.6	6.5 6.5 5.3	6.7 6.5 5.2	7.9 7.7 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) Market value reflects recent rebalancing.

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE

As of August 31, 2007

HIGH YIELD FIXED INCOME MANAGER	Assets (\$ millions)	August	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Loomis, Sayles	120.96	2.2	0.2	5.9	7.4	12.5	9.4	7.9	12.1	11/30/82
Loomis, Sayles - Net		2.2	0.1	5.8	7.2	12.4	9.2	7.8	12.0	
vs. Merrill Lynch High Yield + 1.5%		1.2	1.3	8.0	8.5	12.9	8.8	7.6	N/A	
CPI + 5.0% (1 Month in Arrears)		0.4	4.4	7.4	8.2	8.0	7.7	7.6	N/A	
REAL ESTATE MANAGERS										
ING Clarion Real Estate Securities	71.15	5.9	-8.4	2.3	19.1	20.8	18.4	13.4	13.3	1/13/97
ING Clarion Real Estate Securities - Net		5.8	-8.7	1.9	18.7	20.4	18.0	13.0	12.9	
vs. Wilshire REIT Index + 1%		6.0	-8.0	2.8	18.9	21.0	19.4	14.4	14.3	
MSCI US REIT Index + 1%		6.7	-8.2	3.3	18.2	20.4	18.8	13.6	13.5	
CPI + 5.9% (1 Month in Arrears)		0.5	4.7	8.3	9.1	8.9	8.6	8.5	8.5	
VENTURE CAPITAL MANAGERS										
Adams Street Partners (1)	27.63	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

NON-FUNDED MANAGER REPORTED PERFORMANCE
As of June 30, 2007*

<u>MID CAP VALUE MANAGER</u>	<u>Quarter</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>
LSV	3.8	19.6	17.8	17.1
vs. Russell Midcap Value Index	3.7	22.1	19.3	17.2
 <u>MID CAP CORE MANAGERS</u>				
Franklin Portfolio Associates	5.4	13.5	13.8	14.1
vs. Russell Midcap Index	5.3	20.8	17.2	16.4

*Performance is gross of fees and represents the quoted composite returns of each manager,

ASSET ALLOCATION
As of August 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	19.6 %	20.0 %	17.0 %	25.0 %
Boston Partners	8.1			
Mellon Capital Russell 1000 Growth	4.8			
Mellon Capital S&P 500 (1)	6.6			
Total Medium Cap Equity	6.3 %	6.0 %	4.0 %	7.5 %
Artisan Partners	1.8			
Hotchkis & Wiley	1.8			
EARNEST Partners	1.8			
Reinhart & Mahoney	0.9			
Total Small Cap Equity	5.5 %	5.0 %	3.0 %	6.5 %
Westfield	2.9			
AQR	2.6			
Total International Equity	16.2 %	16.0 %	11.0 %	21.0 %
Capital Guardian	6.1			
Grantham, Mayo (1)	10.1			
Int'l Small Cap Equity	4.3 %	4.0 %	0.0 %	7.0 %
Capital Guardian	4.3			
Venture Capital	1.9 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	53.7 %	54.0 %	37.0 %	74.0 %

(1) Reflects recent portfolio rebalancing.

ASSET ALLOCATION
As of August 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	33.4 %	35.0 %	31.0 %	41.0 %
JP Morgan	6.9			
Mellon Capital (1)	20.5			
Loomis, Sayles	6.0			
High-Yield Fixed Income	7.5 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	7.5 %			
Cash	1.0 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	41.9 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	4.4 %	3.0 %	0.0 %	7.5 %
ALTERNATIVE INVESTMENTS	0.0 %	0.0 %	0.0 %	0.0 %
TOTAL	100.0 %	100.0 %		

(1) Reflects recent portfolio rebalancing.

**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**

<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
Hotchkis & Wiley	A (T)	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>	
Cap. Guardian	B+	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	Westfield Capital & AQR
19-September	Capital Guardian and GMO
17-October	
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.

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