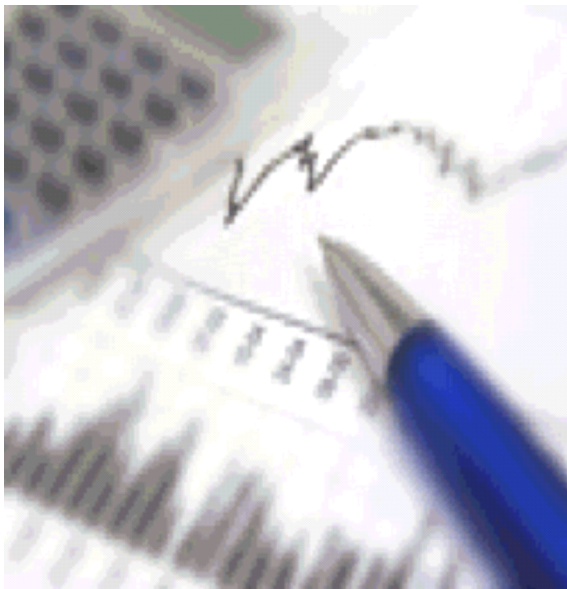


# MERCER

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## City of Milwaukee Employees' Retirement System Board Report Periods Ending September 30, 2010

Services provided by Mercer Investment Consulting, Inc.

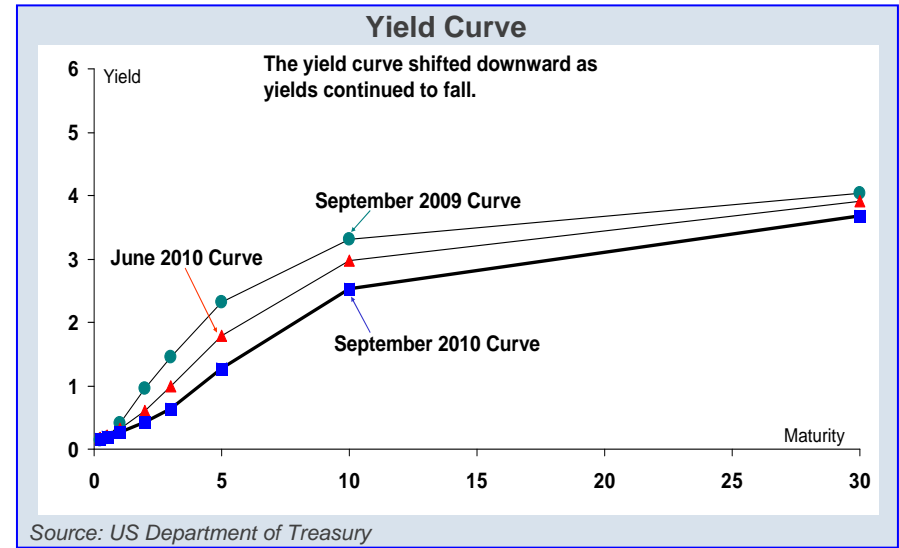
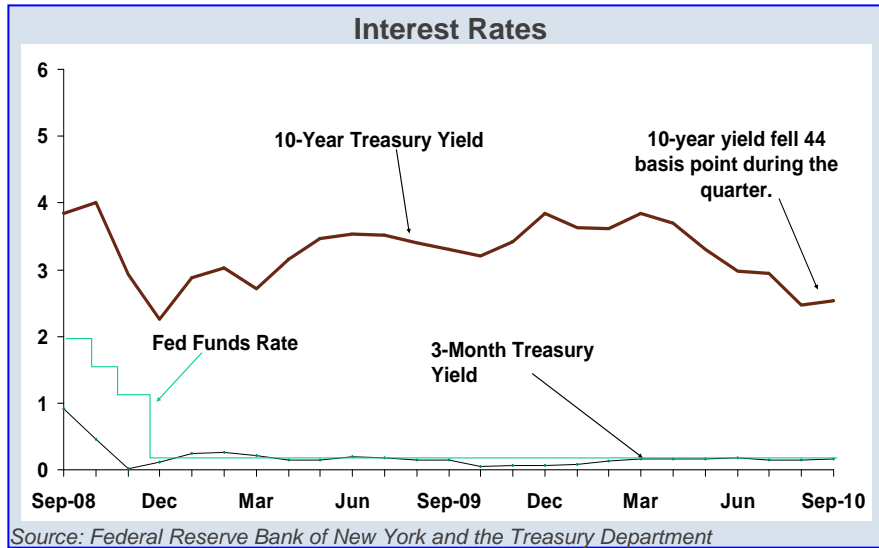
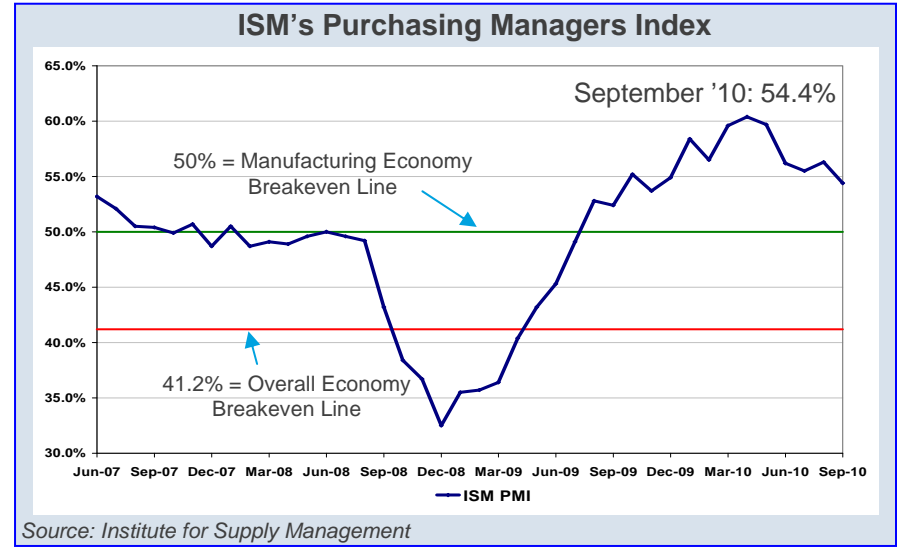
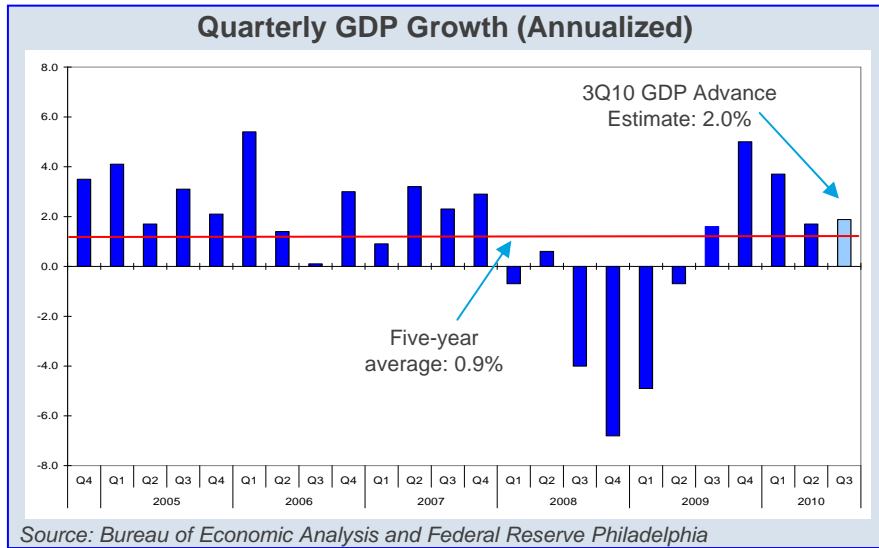
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# Capital Markets Commentary

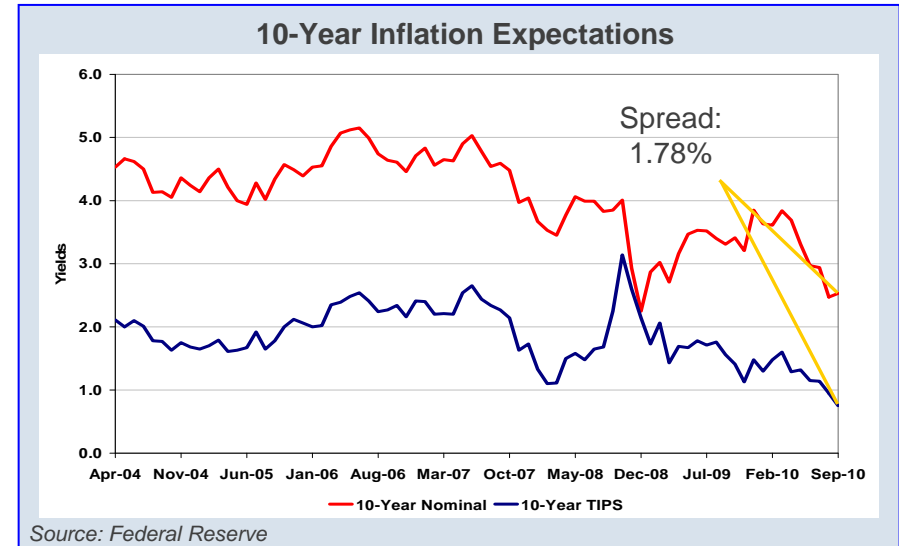
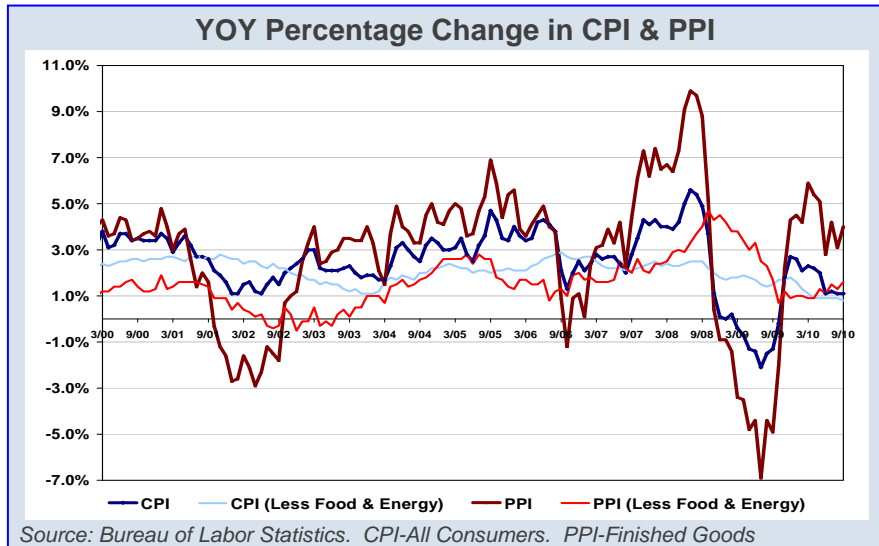
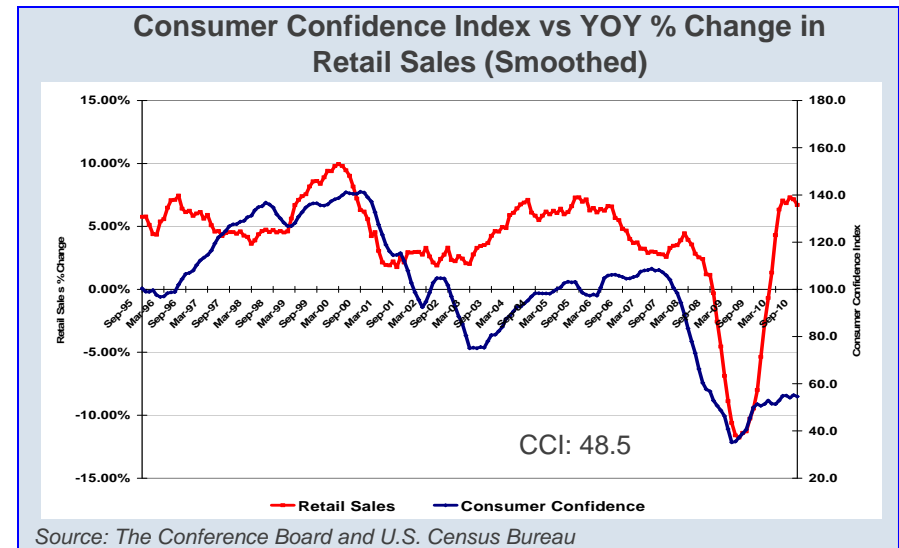
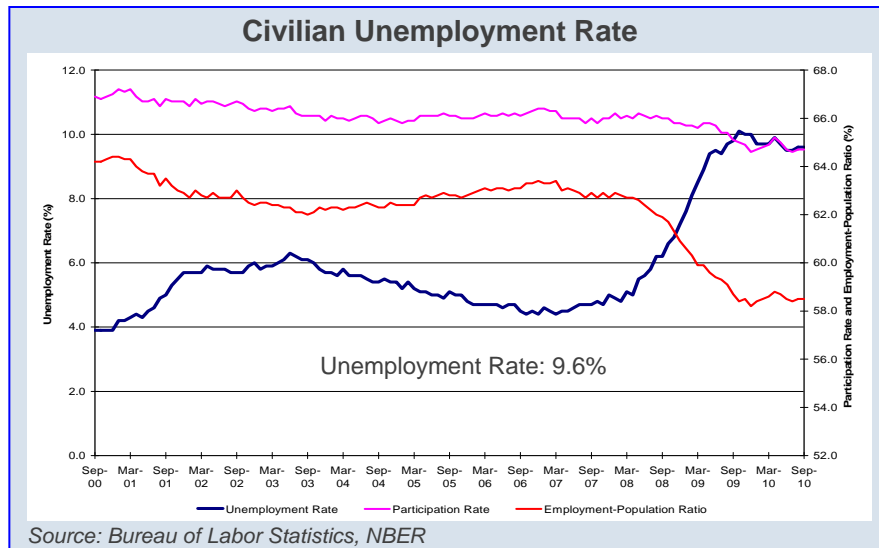
# U.S. Capital Markets and Macroeconomic Conditions

## Economy



# U.S. Capital Markets and Macroeconomic Conditions

## Economy



# Domestic Equity

## Style and Market Capitalization Comparison

### 3Q2010

	Growth	Core	Value
Large	13.0%	11.6%	10.1%
Mid	14.6%	13.3%	12.1%
Small	12.8%	11.3%	9.7%

### YTD Returns

	Growth	Core	Value
Large	4.4%	4.4%	4.5%
Mid	10.9%	11.0%	11.1%
Small	10.2%	9.1%	7.9%

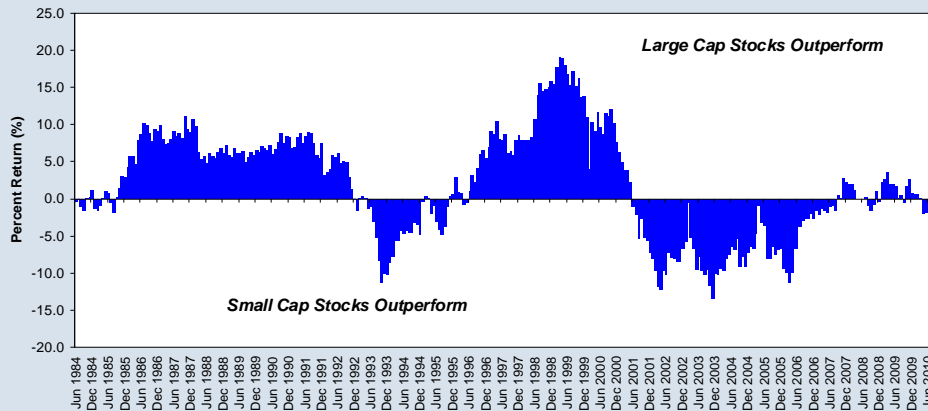
### 1 Year Returns

	Growth	Core	Value
Large	12.7%	10.8%	8.9%
Mid	18.3%	17.5%	16.9%
Small	14.8%	13.3%	11.8%

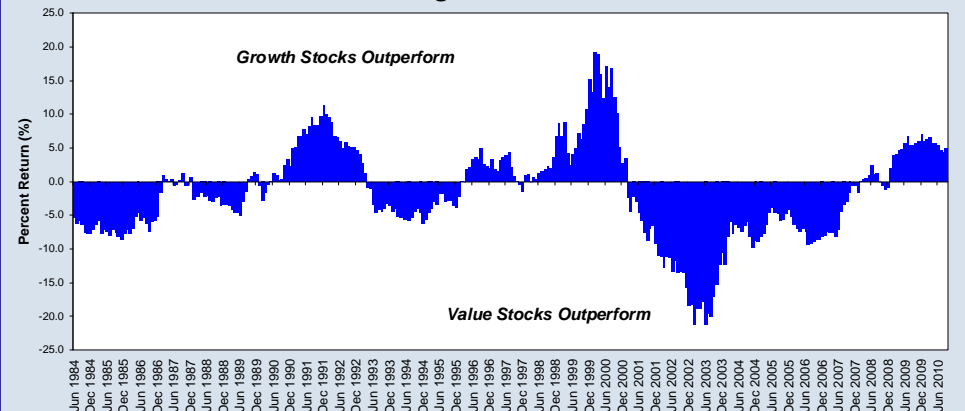
### 3 Year Returns

	Growth	Core	Value
Large	-4.4%	-6.8%	-9.4%
Mid	-3.9%	-4.2%	-4.8%
Small	-3.7%	-4.3%	-5.0%

Russell 1000 Index Minus Russell 2000 Index for Rolling Three-Year Periods



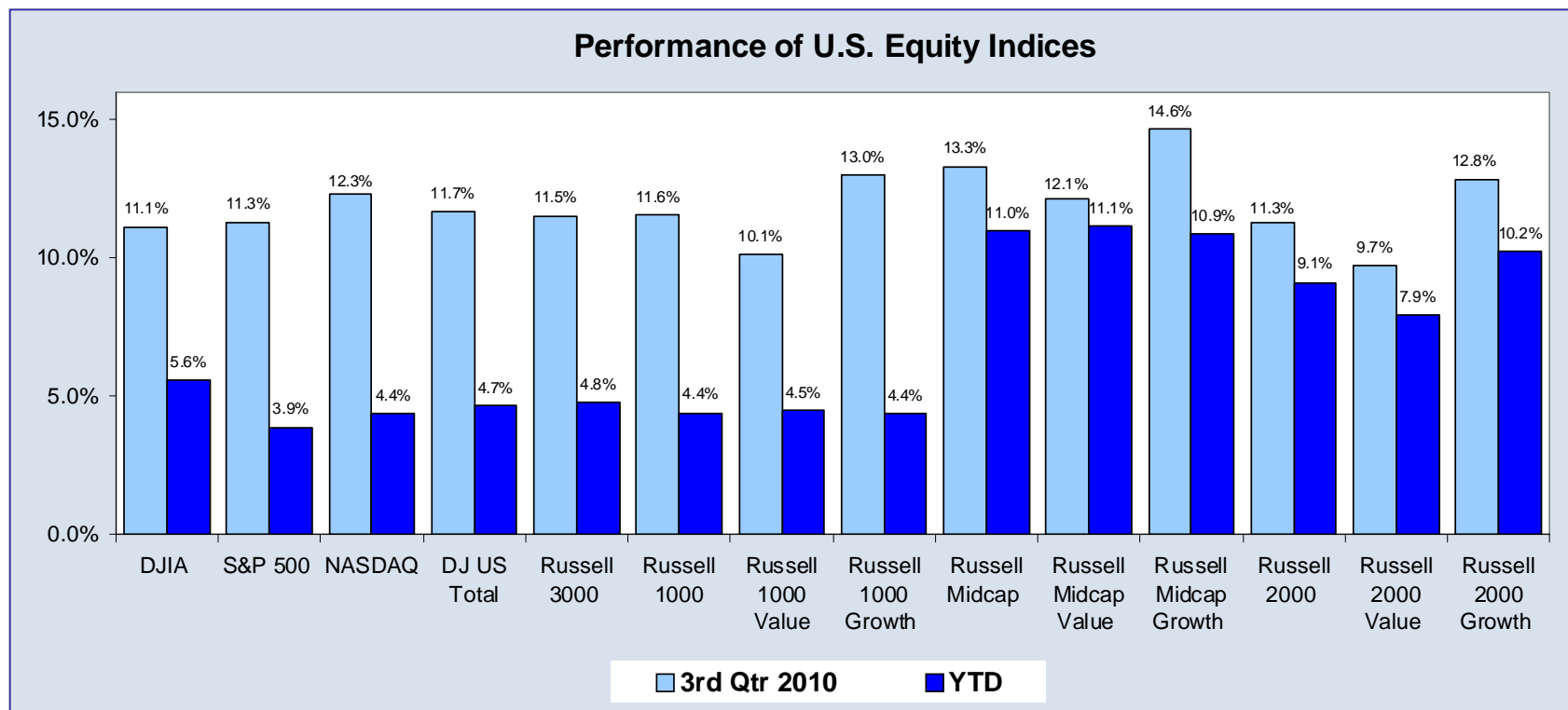
Russell 1000 Growth Index Minus Russell 1000 Value Index for Rolling Three-Year Periods



## Domestic Equity

### Large Cap outperforms Small Cap

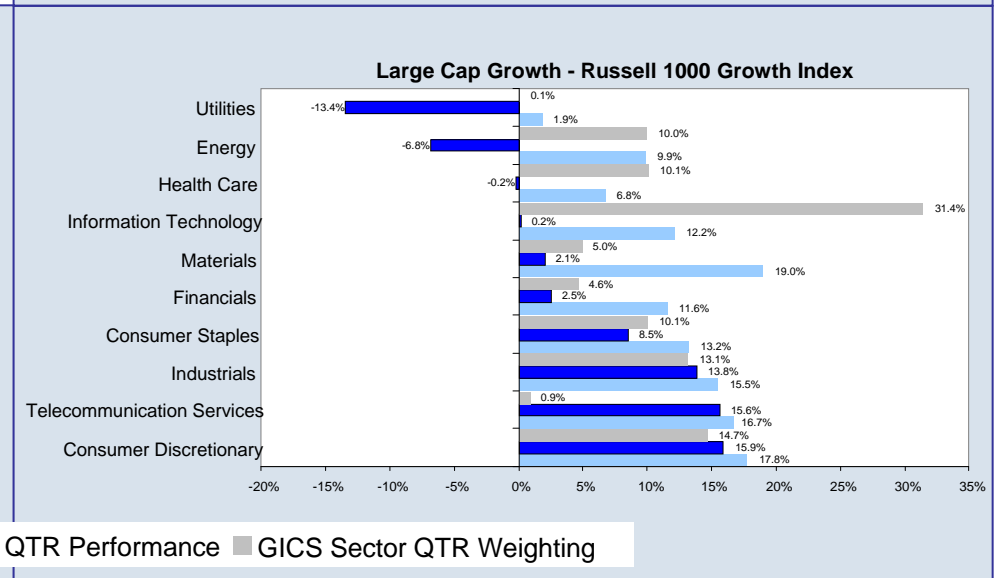
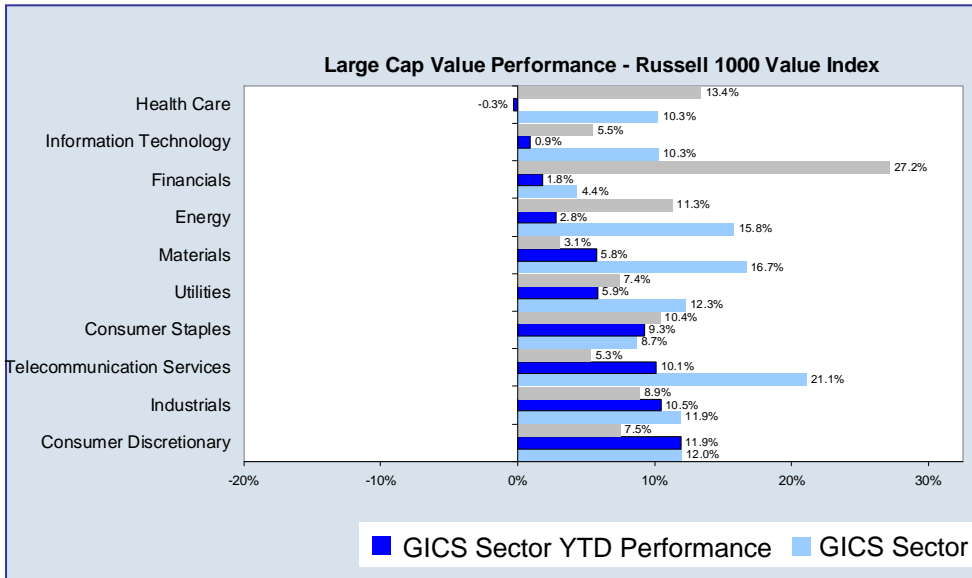
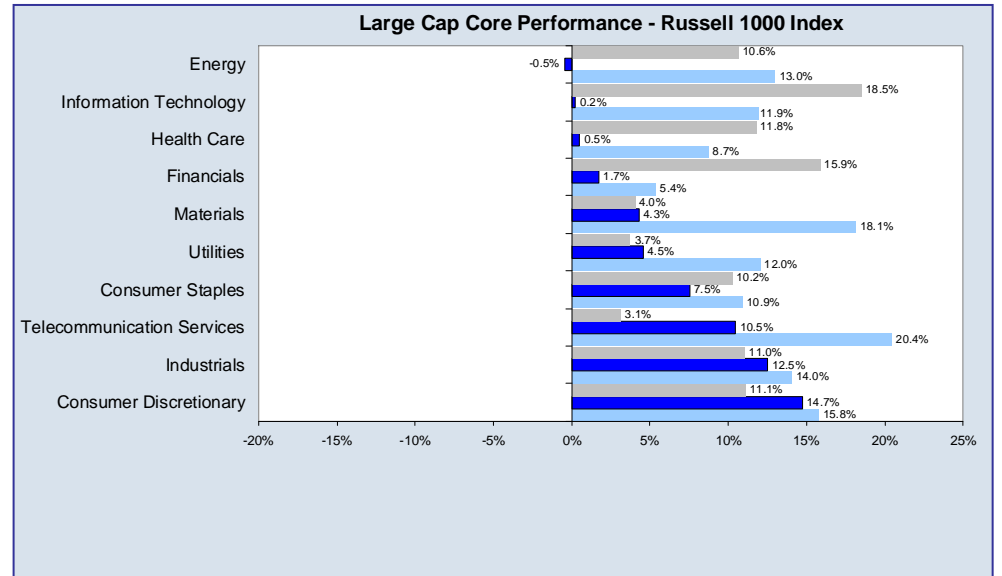
- During the third quarter the US capital markets surged, fueled by strong corporate earnings and despite sustained high unemployment and soft housing prices. US stocks performed positively across all market caps (large, mid, small) and investment styles (value, core, growth)
- In a reversal from the second quarter, growth oriented stocks outpaced their value counterparts across all market caps
- Large cap stocks outperformed small cap stocks during the quarter, however mid cap stocks performed the best



# Domestic Equity – Large Cap

## Growth Outperforms Value

- All of the ten sectors of the Russell 1000 indices reported positive returns for the quarter
- Telecommunication services and materials were the strongest performing sectors in the large cap space for the quarter
- Financials and health care reported the weakest returns

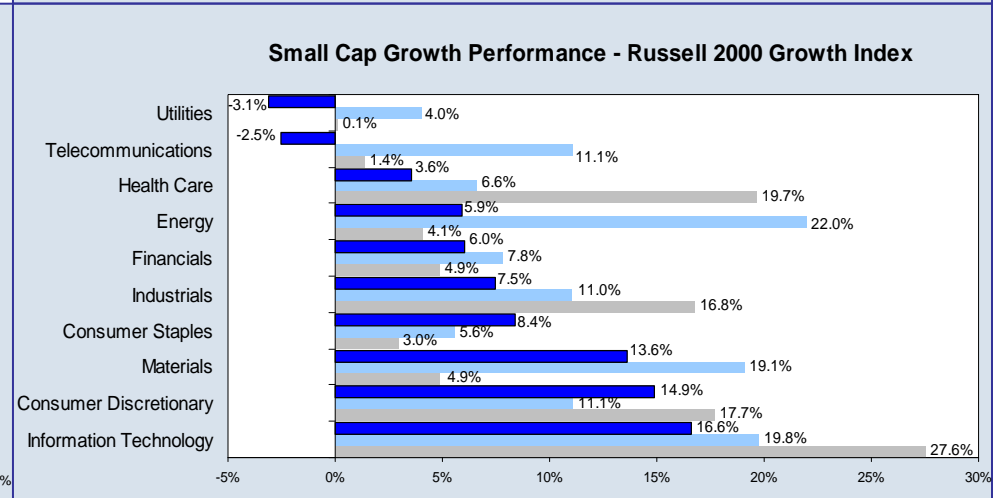
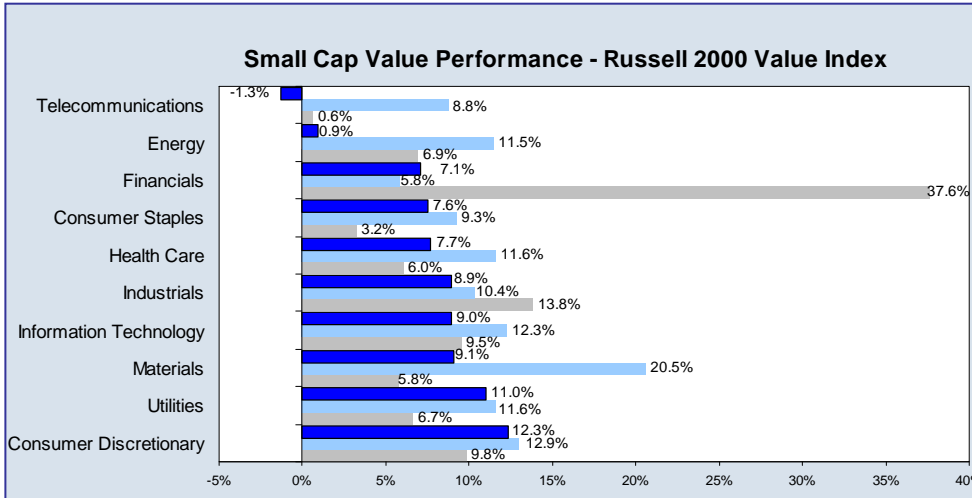
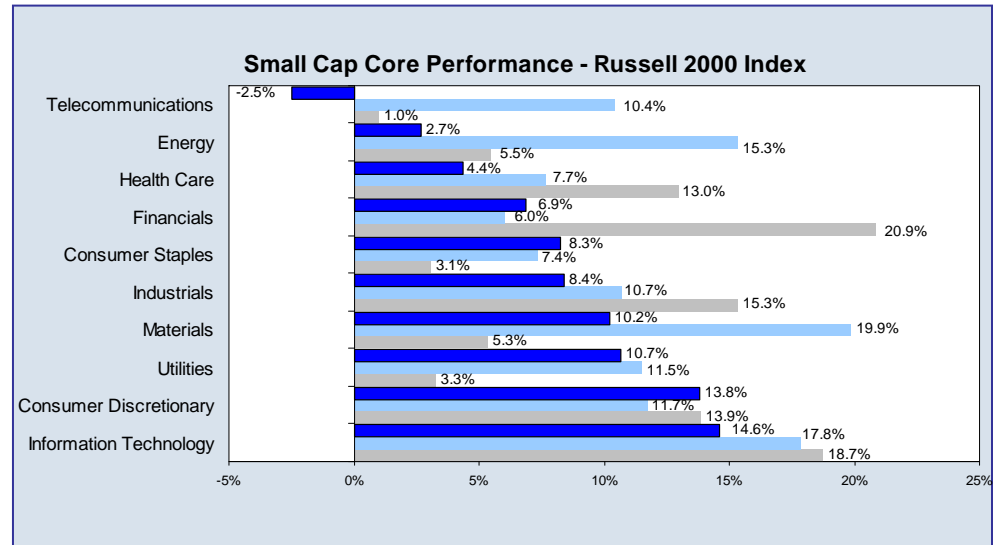


■ GICS Sector YTD Performance ■ GICS Sector QTR Performance ■ GICS Sector QTR Weighting

# Domestic Equity – Small Cap

## All Sectors Gain for the Quarter

- Seven of the ten sectors posted double digit returns for the quarter, as materials and information technology had the strongest performance
- Growth outperformed Value stocks (12.8% vs. 9.7%, respectively)
- Stocks with higher beta and larger market cap performed the strongest during the quarter



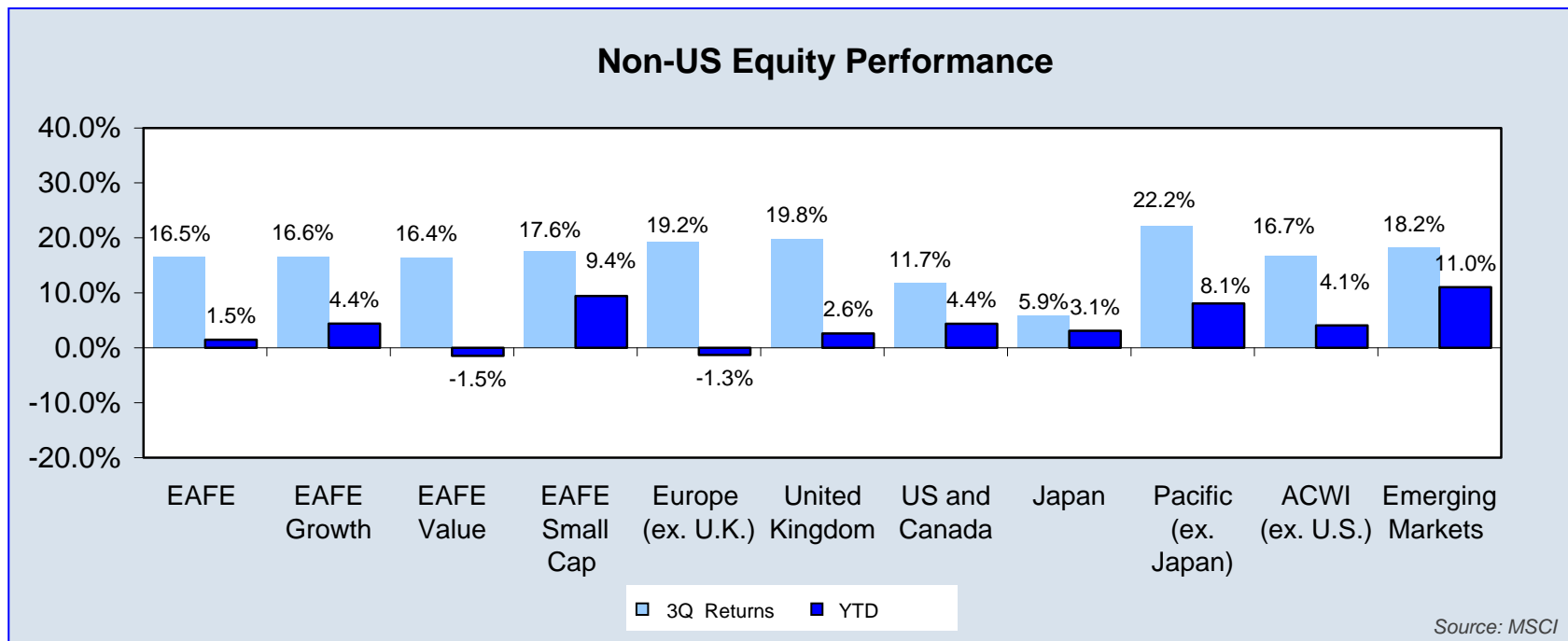
Source: Russell and Bank of America Merrill Lynch

■ GICs Sector YTD Performance 
 ■ GICs Sector QTD Performance 
 ■ GICs Sector QTR Weighting

## International Equity

### Developed Markets: Non-U.S. Equities Performance

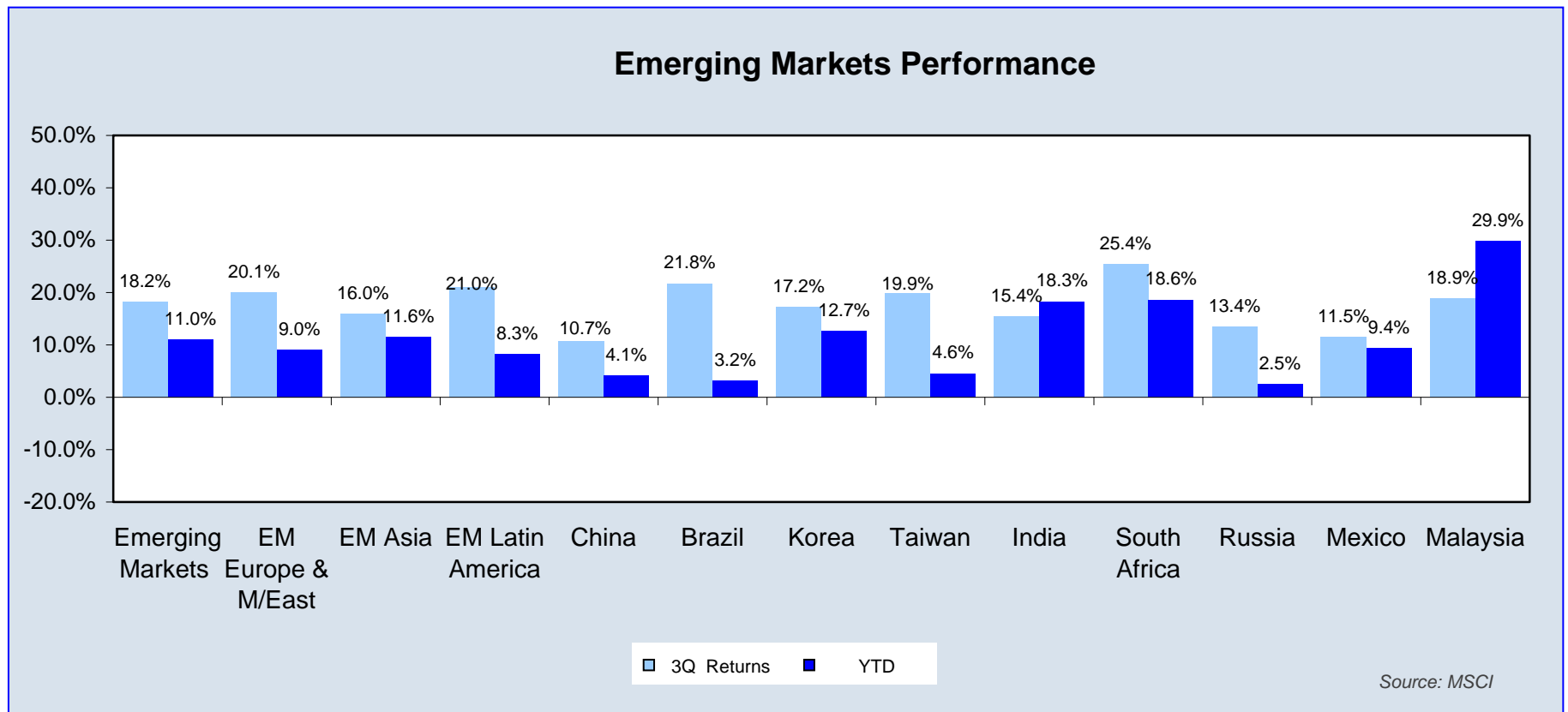
- MSCI EAFE gained 16.5% (gross) in the third quarter
  - In local currency terms, MSCI EAFE gained 7.2% for the quarter
- Japan, which represents 21.1% of the index, posted a 5.9% return. In local currency terms, Japan posted a 0.0% return
- The UK, which represents 21.5% of the index, posted a 19.8% return. In local currency terms, UK posted a 13.7% gain
- MSCI All Country World Index ex U.S. gained 16.7% (gross) in the third quarter
  - In local currency terms, MSCI All Country World Index ex U.S. gained 8.6% for the quarter



## International Equity

### Emerging Markets: Performance

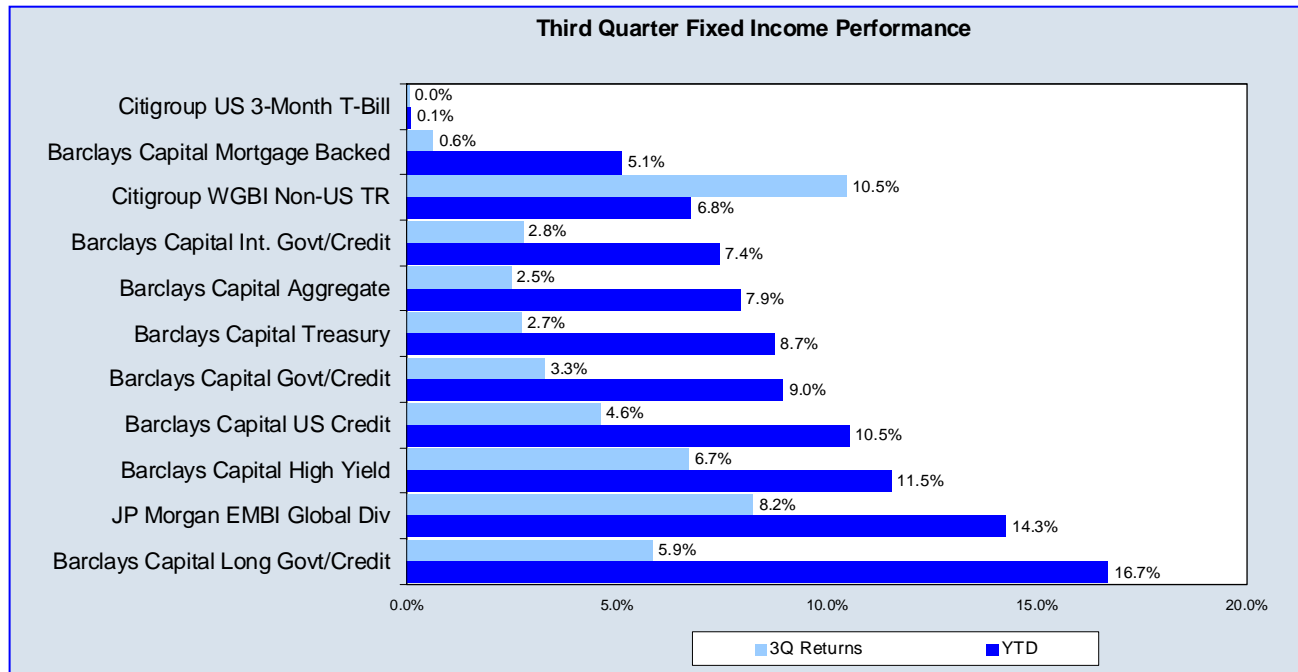
- MSCI Emerging Markets Index gained 18.2% in the third quarter
- Brazil, which represents 16.5% of the index, gained 21.8% for the quarter. China and Russia, which represent 18.0% and 6.0% of the index, posted quarterly returns of 10.7% and 13.4%, respectively



## Fixed Income – US

### Government Intervention Negatively Affects MBS Market

- The Federal Reserve implies a commitment to dealing with the persistent economic weakness through quantitative easing
- Barclays Aggregate Index grew again this quarter and returned 2.5% and 7.9% year-to-date
  - MBS suffers in anticipation of another round of quantitative easing, pullback from expired tax breaks, and the Fed's decision to maintain its balance sheet by reinvesting payments from its mortgage portfolio into Treasuries
  - CMBS has another strong quarter, its 6.4% is again the highest return of any sector within the Barclays Aggregate Index
  - Corporates gained 4.7% during the quarter and were again lead by financial companies which posted 5.1% gains
- Barclays US High Yield Index grew 6.7% for the quarter as risk tolerance returns to the market
  - The prospects for high yield corporates remain favorable and default rates continue to decline, fueling demand



# Market Returns

For Periods Ending September 30, 2010

		QTR	YTD	1 YR	3 YRS*	5 YRS*	10 YRS*
<b>Equity</b>	S&P 500	11.3	3.9	10.2	-7.2	0.6	-0.4
	Russell 1000 Value	10.1	4.5	8.9	-9.4	-0.5	2.6
	Russell 1000 Growth	13.0	4.4	12.7	-4.4	2.1	-3.4
	Russell MidCap	13.3	11.0	17.5	-4.2	2.6	4.9
	Russell MidCap Value	12.1	11.2	16.9	-4.8	2.0	7.8
	Russell MidCap Growth	14.7	10.9	18.3	-3.9	2.9	-0.9
	Russell 2000	11.3	9.1	13.4	-4.3	1.6	4.0
	Russell 2000 Value	9.7	7.9	11.8	-5.0	0.7	7.7
	Russell 2000 Growth	12.8	10.2	14.8	-3.8	2.4	-0.1
	Russell 3000	11.5	4.8	11.0	-6.6	0.9	0.1
	<i>Mercer Large Cap Value Equity Peer Group median**</i>	10.5	3.1	8.4	-7.4	0.8	4.1
	<i>Mercer Large Cap Growth Equity Peer Group median**</i>	12.4	4.1	11.3	-4.9	2.2	-1.1
	<i>Mercer Small Cap Value Equity Peer Group median**</i>	10.5	9.8	14.7	-2.4	3.3	10.2
<i>Mercer Small Cap Growth Equity Peer Group median**</i>	11.9	9.6	15.2	-5.1	2.6	2.4	
<b>Fixed Income</b>	Citigroup 3-Month T-Bill	0.0	0.1	0.1	1.0	2.5	2.4
	Barclays Capital Int. Govt/Credit	2.8	7.4	7.8	6.9	6.0	6.1
	Barclays Capital Govt/Credit	3.3	9.0	8.7	7.5	6.2	6.5
	Barclays Capital Aggregate	2.5	7.9	8.2	7.4	6.2	6.4
	Barclays Capital Intermediate Government	2.1	6.6	6.2	6.7	5.9	5.7
	Barclays Capital Long Govt/Credit	5.9	16.7	13.6	10.2	7.3	8.4
	Barclays Capital MBS	0.6	5.1	5.7	7.5	6.4	6.3
	Barclays Capital TIPS	2.5	7.0	8.9	6.9	5.5	7.5
	Barclays Capital High Yield	6.7	11.5	18.4	8.8	8.4	8.0
	<i>Mercer Core Fixed Income Peer Group median**</i>	3.1	9.0	10.0	8.2	6.8	6.9
<b>International</b>	MSCI EAFE	16.5	1.5	3.7	-9.1	2.5	3.0
	MSCI Emerging Markets	18.2	11.0	20.5	-1.2	13.1	13.8
	Citigroup Non-US Govt Bond	10.5	6.8	4.5	8.4	7.3	8.0
	Citigroup Non-US Govt Bond - Hedged	1.9	4.6	4.8	5.7	4.8	5.2
	<i>Mercer International Equity Universe median**</i>	16.5	3.4	6.8	-7.6	4.0	4.6
<b>Miscellaneous</b>	NCREIF Property Index***	3.3	1.9	-1.5	-4.7	3.8	7.2
	FTSE NAREIT (Equity REITS)	12.8	19.1	30.3	-6.1	1.9	10.4
	BofA Merrill Lynch Inv. Grade Convertible	5.8	2.9	6.4	3.7	5.8	3.2
	Goldman Sachs Commodity Index	8.3	-3.9	4.2	-13.3	-10.2	1.2
<b>Inflation</b>	CPI	0.2	1.1	1.1	1.5	1.9	2.3
<b>Index at 6/30/10</b>	<b>Dow Jones</b>	<b>NASDAQ</b>	<b>S&amp;P 500</b>	<b>Russell 2000</b>	<b>Wilshire 5000</b>		
	9,774.02	2,109.24	1,030.71	609.49	10,823.31		
<b>Index at 9/30/10</b>	<b>Dow Jones</b>	<b>NASDAQ</b>	<b>S&amp;P 500</b>	<b>Russell 2000</b>	<b>Wilshire 5000</b>		
	10,788.05	2,368.62	1,141.20	676.14	12,020.91		

\* Annualized

\*\* Preliminary

\*\*\* The NCREIF Property returns are one quarter in arrears.

# Executive Summary

### Total Fund

#### Asset Allocation

- At the end of the third quarter, the Total Fund held approximately \$4.1 billion in assets (including cash), representing an increase of \$294 million as compared to the previous quarter end.
- At the end of the quarter, the Domestic Equity Composite represented 33.9% of the Total Fund (including cash), while the Global Equity and International Equity segments accounted for 10.0% and 22.6% of the Plan, respectively.
- The Fixed Income portion of the Plan represented 27.8% of the Total Fund and the Private Equity portfolio accounted for 0.1% of the Plan (including cash).
- The Real Estate segment accounted for 5.2% of the Plan assets (including cash) at the end of the third quarter.
- Due to the implementation of the interim asset allocation, the International Equity component held an overweight allocation, while the Domestic Equity, Fixed Income and Real Estate Composites ended the quarter with underweight exposures relative to current targets.
  - Over the last two quarters, the Plan has been transitioning to the interim asset allocation. Beginning October 1, 2010 the Total Fund benchmark and asset allocation targets and target ranges will be changed to reflect the interim allocation.

#### Performance

- The Total Plan advanced 9.9% over the quarter, leading the custom benchmark by 40 basis points and ranking in the 14th percentile of the peer universe.
  - Outperformance was driven by overweight allocations to the International Equity and Global Equity segments, as well as an underweight exposure to the Real Estate sector.
  - Relative performance of the Global Equity and Fixed Income components of the Plan contributed positively.
- The Domestic Equity, International Equity and Real Estate Composites trailed their reference indices and peer universe medians.
- Year-to-date, the Total Plan gained 6.6%, outperformed its reference index by 140 basis points and ranked in the 61st percentile of the peer universe.
- Over the one-year period, the Plan advanced 10.0%, leading its reference index by 170 basis points and ranking in the 60th percentile of the peer group.
  - The International Equity and Fixed Income segments of the Plan outperformed their benchmarks over the one-year period, while the Domestic Equity and Real Estate Composites lagged their reference indices.
- Over the three-year period, the Total Fund returned -3.3%, underperforming the benchmark by 70 basis points and trailing the universe median by 150 basis points annually.
- Over the five-year period, the Plan advanced 3.0%, lagging its custom benchmark by 20 basis points and ranking in the 83rd percentile of the peer universe.
- Since inception, the Plan posted a 9.7% return annually.

### Domestic Equity

#### ***(Northern Trust, BlackRock, Turner, AllianceBernstein, EARNEST, DFA, and Allianz)***

The start of the third quarter was marred by pessimism due to the continued uncertainty about the general direction of the US economy; this pessimism largely stemmed from concerns related to sovereign debt. The economy continued to be weak amid low consumer confidence, along with the fear of a slowing recovery and price deflation. Oil prices increased marginally over the quarter while housing data was mixed. The employment picture worsened marginally during the third quarter, with a general decline in payroll employment. The unemployment rate rose by 0.1% over the period to 9.6% in September 2010. The Federal Funds Rate remained at a target range of 0.00% to 0.25%. The Commerce Department reported that the US economy grew at an annualized GDP rate of 2.0% in the third quarter. Surprisingly, and in stark contrast to the weak economic data that was produced over this period, the third quarter of 2010 experienced double-digit gains in the domestic equity markets, as measured by the S&P 500 Index.

The Consumer Price Index (CPI) increased at a seasonally adjusted annual rate of 2.7% during the third quarter, and increased by 1.1% for the 12 months ending September 30, 2010. The CPI, excluding volatile food and energy prices, rose at an annualized rate of 0.7% over the quarter, and increased by 0.8% during the past 12 months. The Producer Price Index (PPI) for finished goods rose at a seasonally adjusted rate of 1.0% from the level reported in June 2010, and has risen by 4.0% since September 30, 2009. Preliminary production capacity utilization increased 0.6% from the level reported in June 2010 to 74.7%. This level was 4.2% higher than the rate realized a year earlier, but 5.9% lower than the average for the period 1972 through 2009. The Consumer Confidence Index (CCI) improved in August before falling in September to 48.5, the lowest level since the beginning of the year. The CCI is measured relative to 1985 as the base year with a value of 100. The figure is calculated based on a monthly survey of 5,000 US households determining their degree of optimism on the state of the economy.

Oil prices turned around and increased from \$78/barrel at the end of the second quarter to approximately \$80/barrel at the end of the third quarter. In July 2010, home prices, as measured by the S&P/Case-Shiller 20-City Composite Home Price Index, increased by 3.2% over the trailing 1-year period. The National Association of Home Builders/Wells Fargo Housing Market Index declined over the quarter from 16 in June to 13 in September; readings below 50 are considered a negative indicator. The yields on 3-month Treasuries decreased slightly to 0.16% in September from the 0.18% level reported at the end of June 2010. 10-year Treasury yields continued to decline over the quarter from 2.97% at the end of June to 2.53% at the end of September.

#### **Markets**

The third quarter of 2010 was characterized by positive performance in most segments of the US equity market. The S&P 500 experienced double-digit gains after a difficult second quarter, rising by 11.3% over the past 3 months. In contrast to the previous quarter, the consumer discretionary and materials sectors were among the strongest performing sectors during the third quarter. The information technology and telecommunication services sectors also exhibited strong performance. Additionally, unlike the second quarter, growth outperformed value by a healthy margin across the capitalization spectrum.

During the third quarter, large cap stocks outperformed small cap stocks. Micro cap stocks lagged over the past 3 and 12 months despite experiencing an impressive rally in September. Mid cap growth stocks and SMID cap growth stocks saw their best absolute returns in the past year. In addition, within large cap growth and large cap core, managers with exposure to higher beta and cyclical sectors performed the strongest during the third quarter, while deeper value and low price-to-earnings stocks in the large cap value space also performed strongly during the period.

## Executive Summary

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Finalized second quarter corporate earnings showed a healthy increase from the prior quarter, from \$17.48 per share at the end of March to \$19.68 per share at the end of June. During the third quarter, about 81% of companies within the S&P 500 Index reported earnings that exceeded analysts' second quarter estimates. Corporations within the materials, energy and financials sectors were estimated to be among the top contributors in year-over-year earnings.

### Major Events

On August 10, 2010, the Federal Reserve chairman, Ben Bernanke, announced that the central bank would purchase modest amounts of long-term Treasury securities using the proceeds from its mortgage-bond portfolio. Consequently, yields on intermediate Treasuries and Fannie Mae and Freddie Mac mortgage securities plunged to record-low rates.

The following day, on August 11, 2010, Japan's Nikkei Index fell more than 2% over fears of a slowing economy both in the US and abroad. In addition, China reported that its fast-growing economy was experiencing a slow-down. Later that day, the Bank of England reduced its already-diminished forecast for the British economy, and new trade figures from Washington showed that American exports were faltering. These reports sent the Dow Jones Industrial Average tumbling in a 265-point decline of 2.5%, the NASDAQ falling by almost 3%, and the broad market down by 2.8%.

There are fears that the Irish economy may fall into a double-dip recession after an announcement on September 23, 2010 that the economy shrank 1.2% in the second quarter of 2010. This falter comes after a strong first quarter in which Ireland posted its first growth since 2007. The financial crisis left the country with vast amounts of debt caused by a banking and property collapse. The Irish government has yet to prove that the austerity measures they have taken will help or further hurt the struggling economy.

### *Domestic Equity Composite*

- The Domestic Equity segment of the Plan advanced 11.3% over the quarter, underperforming the Russell 3000 Index by 20 basis points and ranking in the 52nd percentile of the peer universe.
  - Of the Domestic Equity managers, Turner, AllianceBernstein, Earnest and Allianz underperformed their reference indices and peer universe medians over the quarter, while BlackRock and DFA outperformed their benchmarks and peer group medians.
  - Northern Trust tracked the return of the S&P 500 Index by 10 basis points over the quarter.
- Year-to-date, the Composite gained 5.2% and outperformed its reference index by 40 basis points.
- Over the one-year period, the Domestic Equity segment advanced 10.8%, trailing its reference index by 20 basis points and ranking in the 61st percentile of the peer universe.
- Over the three- and five-year periods, the Domestic Equity component of the Plan returned -7.6% and -0.1% respectively and underperformed both its reference index and peer universe median.
- On a since-inception basis, the Domestic Equity portion of the Plan gained 9.7% and outperformed its reference index by 10 basis points annually.

## Executive Summary

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### **Northern Trust**

- The Northern Trust Equity Index Fund advanced 11.2% over the third quarter, trailing the return of the S&P 500 Index by 10 basis points and ranking in the 54th percentile of the peer universe.
- Over the one-year period, Northern Trust advanced 10.3% and outpaced the S&P 500 Index by 10 basis points.
- The fund has tracked its reference index within 10 basis points over the longer periods measured.

### **BlackRock**

- Performance:
  - The BlackRock Alpha Tilts strategy gained 11.7% over the quarter, leading the Russell 1000 Index by 10 basis points and ranking in the 28th percentile of the peer universe.
  - Year-to-date and over the one-, three- and five-year periods, the portfolio has underperformed the Russell 1000 Index.
  - BlackRock has trailed its reference index by 40 basis points annually on a since-inception basis.
- Positive impact on performance over the quarter:
  - An overweight exposure to McAfee (technology).
  - An overweight allocation to AGCO (industrials).
- Negative impact on performance over the quarter:
  - An overweight exposure to Intuitive Surgical (health care).
  - A position in Medco Health (health care).

### **Turner**

- Performance:
  - Turner advanced 11.7% over the third quarter, underperforming the Russell 1000 Growth Index by 130 basis points and ranking in the 65th percentile of the peer universe.
  - Year-to-date, the portfolio returned 4.7%, outperforming its reference index by 30 basis points and leading the peer universe median by 70 basis points.
  - Over the one-, three- and five-year periods, the manager trailed its reference index and peer universe median.
  - On a since-inception basis, Turner gained 3.5% and underperformed the Russell 1000 Growth Index by 160 basis points annually.
- Positive impact on performance over the quarter:
  - Stock selection within the industrials and consumer discretionary sectors.
  - Positions within the information technology sector.
  - The holdings of Las Vegas Sands Corp. (consumer discretionary), Apple Inc. (technology) and Cummins Inc. (producer durables).
- Negative impact on performance over the quarter:
  - An underweight allocation to the materials sector.
  - Stock selection within the consumer staples, health care and financials sectors.
  - The holdings of Intel Corp. (technology), Monsanto Co. (materials) and Southwestern Energy Co. (energy).
- Turner manages their portfolio with an emphasis on stock selection.

## Executive Summary

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### **AllianceBernstein**

- Performance:
  - AllianceBernstein posted an 8.8% return, underperforming the Russell 1000 Value Index by 130 basis points and ranking in the 90th percentile of the peer universe over the third quarter.
  - Year-to-date, AllianceBernstein advanced 1.4%, lagging its reference index and peer universe median by 310 basis points and 180 basis points, respectively.
  - Over the one-year period, AllianceBernstein advanced 5.8%, trailing the reference index by 310 basis points and ranking in the fourth quartile of the peer universe.
  - Over the three-year, five-year and since-inception periods, the strategy has underperformed its reference index.
- Positive impact on performance over the quarter:
  - Stock selection within the materials and information technology sectors.
  - An underweight exposure to the financials sector.
- Negative impact on performance over the quarter:
  - Stock selection within the energy, industrials and consumer discretionary sectors.
  - Security selection within the financials and telecommunications sectors.

### **Earnest**

- Performance:
  - Over the third quarter, Earnest advanced 12.0%, underperforming the Russell Mid cap Index by 130 basis points and trailing the peer group median by 80 basis points.
  - Year-to-date, the portfolio advanced 12.3%, outperforming its reference index by 130 basis points and ranking in the top quartile of the peer universe.
  - Over the one-year period, Earnest gained 19.1%, outpacing its reference index by 160 basis points and ranking in the 22nd percentile of the peer universe.
  - Over the three-year, five-year and since-inception periods, Earnest has outperformed its benchmark.
- Positive impact on performance over the quarter:
  - Stock selection within the materials and industrials sectors.
  - Security selection within the information technology sector.
  - The holdings of Cummins Inc. (industrials), Joy Global (industrials) and Intuit Inc. (information technology).
- Negative impact on performance over the quarter:
  - Positions within the energy and consumer discretionary sectors.
  - Stock selection within the health care sectors.
  - The holdings of Beckman Coulter (health care), IntercontinentalExchange (financials) and Covance (health care).

## Executive Summary

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### **DFA**

- Performance:
  - DFA returned 12.3% over the quarter, leading the Russell 2000 Value Index and the peer universe median by 260 basis points and by 170 basis points, respectively.
  - Year-to-date and over the one-year period, DFA has outperformed both its reference index and peer group median.
  - Over the three-year period, the manager returned -3.5% and trailed both its benchmark.
  - Over the five-year term and on a since-inception basis, the portfolio has outperformed the Russell 2000 Value Index by 120 basis points and 300 basis points, respectively.
- Positive impact on performance over the quarter:
  - An underweight allocation and stock selection within the financials sector.
  - Stock selection within the industrials and materials sectors.
  - An overweight exposure to the consumer discretionary sector.
  - The holdings of Westlake Chemical Corp. (materials), TRW Automotive Holdings (consumer discretionary) and Vishay Intertechnology Inc. (information technology).
- Negative impact on performance over the quarter:
  - Stock selection within the utilities sector.
  - The holdings of Exterran Holdings Inc. (energy), Skechers USA Inc. (consumer discretionary) and Winn-Dixie Stores Inc. (consumer staples).

### **Allianz**

- Performance:
  - Allianz advanced 9.9% over the last three months, lagging the Russell 2000 Growth Index by 290 basis points and ranking in the 81st percentile of the peer group.
  - On a since-inception basis, Allianz posted a -1.5% return and underperformed its benchmark by 390 basis points.
- Positive impact on performance over the quarter:
  - An overweight allocation to the energy sector.
  - Stock selection within the consumer discretionary and financials sectors.
  - The holdings of Netsuite (technology), MGIC Investment Corp. (financials) and Goodrich Petroleum (energy).
- Negative impact on performance over the quarter:
  - Stock selection within the energy, health care and information technology sectors.
  - The holdings of AMAG pharmaceuticals (health care), American Public Education (consumer discretionary) and Aegean Marine Petroleum Network (industrials).

### Global Equity

#### ***(GMO, T. Rowe Price)***

##### ***GMO***

- Performance:
  - GMO advanced 14.1% over the third quarter, leading the MSCI World Index by 30 basis points and ranking in the 48th percentile of the peer universe.
  - Since inception, the strategy returned -1.0% and trailed its reference index by 40 basis points.
- Positive impact on performance over the quarter:
  - An overweight allocation to the United Kingdom.
  - Positions in Japan, Germany and Canada.
  - Exposure to emerging markets.
  - Stock selection within the energy, health care and information technology sectors.
  - The holdings of Banco do Brazil (financials), Qualcomm (information technology) and RTI International Metals (materials).
- Negative impact on performance over the quarter:
  - Underweight exposures to Australia and Spain.
  - Investments in the United States.
  - Stock selection within the materials and industrials sectors.
  - The holdings of Exterran Holdings (energy) and Navistar International (industrials).

##### ***T. Rowe Price***

- Performance:
  - T. Rowe Price gained 15.7% over the last three months, leading the MSCI AC World Index by 140 basis points and ranking in the top quartile of the peer universe.
- Positive impact on performance over the quarter:
  - Stock selection within the information technology and consumer discretionary sectors.
  - Security selection in the United States and China.
  - An underweight exposure to Japan.
  - The holdings of QUALCOMM (telecommunications), Juniper Networks (telecommunications) and Telefonica (telecommunications).
- Negative impact on performance over the quarter:
  - Stock selection within the energy sector.
  - Security selection in the Europe ex-U.K. region, primarily in France.
  - The holdings of Bank of America (financials), EOG Resources (energy) and Toyota Motor (consumer discretionary).

### International Equity

#### ***(Brandes, William Blair, DFA)***

The international equity markets also posted positive double-digit returns during the third quarter. Within the MSCI EAFE Index, growth stocks performed slightly better than value stocks. Emerging markets outperformed developed markets, as the MSCI Emerging Markets Index rose by 18.2% while the MSCI EAFE Index increased by 16.5% over the quarter. During the third quarter, the US dollar depreciated against most currencies including the euro, the Australian dollar and the yen with little change during the quarter relative to the British pound. The US dollar also depreciated against many emerging market currencies.

#### ***International Equity Composite***

- The International Equity Composite advanced 15.5% over the third quarter, lagging the MSCI EAFE Index by 100 basis points and trailing the peer universe median by 90 basis points.
- All three International Equity managers, Brandes, William Blair and DFA, underperformed their reference indexes over the quarter.
- The International Equity segment has outperformed its reference index over all longer time periods measured.

#### ***Brandes***

- Performance:
  - Over the third quarter, Brandes gained 14.0%, underperforming the MSCI EAFE Index by 250 basis points and ranking in the bottom quartile of the peer universe.
  - Year-to-date and over the one-year period, Brandes has lagged both its reference index and peer group median.
  - Over the three-, five-year and since-inception periods, the manager has outperformed its reference index.
- Positive impact on performance over the quarter:
  - Security selection within the consumer staples sector.
  - An overweight exposure to the telecommunications sector.
  - Investments in the United Kingdom.
  - The holdings of ENI (energy), Volkswagen (consumer discretionary) and Telecom Italia (telecommunications).
- Negative impact on performance over the quarter:
  - An underweight allocation and stock selection within the financials sector.
  - An overweight allocation to the information technology sector.
  - The holdings of Ericsson (information technology), STMicroelectronics (information technology) and Electrobras (utilities).

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### **William Blair**

- Performance:
  - William Blair posted a 16.6% return over the last quarter, lagging the MSCI AC World ex US Index by 10 basis points and outperforming the universe median by 20 basis points.
  - Year-to-date and over the one-year period, the strategy has outperformed its reference index and ranked in the top decile of the peer universe.
  - Over the three-year period, the manager returned -7.5%, underperforming the reference index by 50 basis points and leading the peer group median by 90 basis points.
  - Over the five-year period, William Blair has led its reference index and peer universe median.
  - On a since-inception basis, the portfolio trailed the MSCI AC World Index by 120 basis points.
- Positive impact on performance over the quarter:
  - Stock selection within the industrials and utilities sectors.
  - An overweight allocation and stock selection within the consumer discretionary sector.
  - Positions in Japan and Emerging markets.
  - The holdings of Compagnie Financiere Richemont (consumer discretionary), BHP Billiton (materials) and Canon (technology).
- Negative impact on performance over the quarter:
  - Stock selection and an underweight exposure to the financials sector.
  - Investments in Latin America.
  - The holdings of Yahoo Japan Corp. (technology), Smith & Nephew (health care) and Teva Pharmaceutical (health care).

### **DFA**

- Performance:
  - DFA returned 15.4% over the quarter, lagging the MSCI EAFE Small Cap Price Index by 140 basis points and ranking in the 83rd percentile of the peer universe.
  - Year-to-date and over the one-year period, DFA has lagged both its reference index and peer universe median.
  - The strategy has led its benchmark over the three-year and since-inception periods.
- Positive impact on performance over the quarter:
  - An overweight allocation and stock selection within the materials sector.
  - Stock selection within the consumer staples sector.
  - An underweight exposure to Japan.
- Negative impact on performance over the quarter:
  - Stock selection within the energy and financials sectors.
  - Security selection in Japan.

### Fixed Income

#### ***(BlackRock, Loomis, Reams)***

Within the fixed income space, lower-quality and longer-duration indices were the best performers during the third quarter. However, the almost parallel downward shift in the yield curve to nearly historic lows contributed to a rally across sectors, duration and quality. Improved corporate balance sheets have resulted in improved credit quality for US corporate issuers across the investment-grade and high-yield space. Consequently, corporate bonds outperformed Treasuries during the quarter. European sovereign spreads widened significantly due to sovereign debt worries as well as issues with the Irish banking system. On the other hand, Credit Default Swaps (CDS) spreads for emerging markets narrowed relative to Japan and the US.

#### ***Fixed Income Composite***

- Over the third quarter, the Fixed Income portfolio advanced 4.4%, leading the Barclays Capital Aggregate Index by 190 basis points and ranking in the 26th percentile of the peer universe.
- Loomis and Reams outperformed their respective reference indexes over the quarter, while BlackRock approximated the return of its benchmark.
- The Fixed Income Composite has outperformed its reference index over all longer periods measured.

#### ***BlackRock***

- The BlackRock fixed income portfolio gained 2.1% over the quarter, approximating the Barclays Capital Intermediate Aggregate Index and ranking in the 88th percentile of the peer universe.
- The strategy has tracked its reference indices within 20 basis points over the longer periods measured.

#### ***Reams***

- Performance:
  - Reams advanced 2.9% over the third quarter, outperforming the Barclays Capital Aggregate Index by 40 basis points and ranking in the 89th percentile of the peer universe.
  - The portfolio has outpaced its benchmark over all longer periods measured.
- The three-year tracking error remained high compared to Reams' peers.
- Positive impact on performance over the quarter:
  - Positions in investment-grade holdings.
  - Overweight exposures to high yield and asset-based securities.
  - An underweight allocation to mortgage-backed securities (MBS).
- Negative impact on performance over the quarter:
  - Shorter portfolio duration relative to the index.
  - Positions in commercial mortgage-backed securities (CMBS).

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### ***Loomis***

- Performance:
  - Loomis advanced 6.7% over the quarter, leading the Barclays Capital Aggregate Index by 420 basis points and ranking in the 4th percentile of the peer group universe.
  - Over the year-to-date, one-, three- and five-year periods, Loomis outperformed both its reference index and peer group median.
  - On a since-inception basis, the manager advanced 10.2% and outperformed its reference index by 270 basis points.
- The three-year tracking error of the portfolio remained high compared to Loomis' peers.
- Positive impact on performance over the quarter:
  - Longer portfolio duration relative to the index.
  - Security selection of investment-grade and high yield corporate holdings.
- Negative impact on performance over the quarter:
  - Selection of high yield utility securities.

### Private Equity

*(Abbott, Mesirow)*

***Private Equity Composite***

- Abbott and Mesirow were added to the portfolio in June 2010 and represented 0.1% of the Total Fund at quarter end.

# Manager Comments

## ***BlackRock / BGI***

### **Changes to Scientific Active Equity Platform**

BlackRock has announced changes to its Scientific Active Equity (SAE) platform affecting the firm's Alpha Tilts strategies as a result of Ken Kroner's new leadership. Kroner assumed the position of Chief Investment Officer and Head of SAE in May 2010 and will be implementing the changes effective immediately. The highlights of BlackRock's announcement include:

- More fully incorporating macroeconomic and market-wide views into the investment process
- Understanding cross-border linkages and exploiting these insights
- Increasing interaction between the Global Markets Strategy Group (GMSG) and the Fundamental Active Equity teams
- Reorganizing the seven current investment teams into two teams. Raffaele Savi will lead the North America/Europe/Developed Cross-Border team and Jeff Shen will lead the Asia Pacific/Emerging Markets team
- Blake Grossman will continue to be an advisor to the SAE business, but has fully given oversight responsibilities to Kroner. Kroner will now report directly to Rich Kushel, Global Head of the Portfolio Management Group. Grossman will be focusing on his role as Vice-Chairman, working closely with Larry Fink and other Global Executive Committee members on firm-wide leadership and completing the BGI integration.

### ***Research Meeting (October 6, 2010)***

#### **Rating expectation**

- Mercer does not expect any rating changes to BlackRock's Scientific Active Equities (SAE) strategies (legacy BGI Alpha Tilts strategies) as a result of this meeting.

#### **Meeting highlights**

- Ken Kroner, who assumed the role of Chief Investment Officer and Head of SAE in May 2010, walked Mercer through his plans for BlackRock's SAE platform. Mercer first communicated these changes in September 2010. The two most significant changes include reorganizing the team and incorporating a theme overlay to the research process. Overall, Mercer believes that Kroner's plan is a positive one for the SAE strategies. Mercer believes his success in managing the Global Markets Strategy Group (GMSG) and his long tenure with the former BGI will give him a good chance of successfully implementing the proposed changes. That said, Mercer is cautious about these initiatives because the SAE platform has experienced a number of changes over the last several years, oscillating between regional and global structures. Mercer would like to see stability return to the platform and its leadership before reassessing the current ratings on the SAE strategies.
- The first significant change was re-organizing from a structure with seven regional teams to a two team structure. Raffaele Savi will lead the North America/Europe/Developed Cross-Border team and Jeff Shen will lead the Asia Pacific/Emerging Markets team. According to Kroner, it made sense to separate out the Asia Pacific/Emerging Markets team as those regions are differentiated enough from the other developed regions to warrant more focused research. Ron Kahn will retain his role as Global Head of Equity Research, which should provide consistency in the research process.

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- The second most significant change is the incorporation of a theme overlay to the research process. BlackRock believes that more unique alpha sources in smaller segments of the equity market are necessary to add value going forward because crowded trades have reduced the value of broader quantitative signals. This research will revolve around identifying attractive themes based on market conditions and developing baskets of securities to take advantage of those themes. An example of a theme would be the market favoring local cyclical growth companies, which would entail SAE putting together a basket of stocks most sensitive to local cyclical growth, and trading the basket as a function of yield curve steepness. Kroner stressed that there is no change to the investment process at the individual stock level and it will continue to focus on relative valuation, earnings quality, and sentiment, but there will now be a fourth source of alpha from the theme overlay. Mercer believes BlackRock is well positioned to identify themes given its experience with GMSG and Kroner's leadership of both areas should help SAE leverage this potential alpha source. Kroner estimates that one-third to one-half of the research effort, and approximately 20% of the risk budget, will be spent on new sources of alpha. However, no changes are expected to the alpha expectations, risk parameters, or portfolio level characteristics of the SAE strategies.
- Kroner is also expecting to improve the usage of dynamic risk budgeting. One way Kroner has already begun to implement this change is by requiring all SAE research reports to identify the market conditions in which a signal will outperform and underperform. This will also help in determining future research projects.
- Mercer is confident that Kroner will be able to successfully balance his dual role of managing both GMSG and SAE. Kroner has a track record of managing multiple business lines, including GMSG, the Client Solutions Group and the firm's Fund of Funds business. In addition, there has been little turnover within the GMSG leadership team that reports to Kroner, which should allow Kroner to initially put more of his attention on implementing his SAE changes. Eventually, Kroner would expect roughly a 50/50 split of his time to both business units.
- SAE implemented a ten percent (17 people) global reduction in late September 2010, bringing the team to 160 people with 35 members in the research function. Kroner and Koesterich attributed the reduction in global headcount to redundancies in moving from seven to two regional teams as well as to removing those members who were not able to buy into Kroner's new plan. Even with the reduction, BlackRock continues to hire within SAE, largely in the research and portfolio management roles. While the firm still plans to hire from academia, it now will have more of a focus on hiring people with a demonstrated passion for the equity markets.
- The team's compensation due in February 2011 will not be altered based on the new structure, but it is expected to change the following year. While there will continue to be one single global bonus pool, the way it will be allocated is likely to change effective February 2012. Kroner expects incentives to have a greater degree of alignment with alpha generation and create shared accountability across regions.

### **Issues to watch**

- SAE has experienced several structural iterations over recent years. Will the team be committed to and successful in implementing Kroner's structure?
- Will SAE be able to tap into the GMSG to source alpha generating themes and develop baskets of securities to exploit those themes?
- Will the firm be able to align its compensation structure to properly incent the team and deliver on Kroner's goals?

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### ***Update on Scientific Active Equity (October 18, 2010 Meeting)***

#### **Meeting highlights**

This meeting was a general catch-up with Raffaele Savi, head of North America/Europe/Developed Cross Border team. Mercer did not discuss specific products but rather concentrated on the direction they are going with the Active Scientific Equity processes. If served to confirm, as Mercer would expect, previous communications and the meetings Mercer has had with Ken Kroner. This note records some of the salient points coming out of this meeting.

- Savi confirmed that the SAE team has gone through something of a culture change and that this had been harder to implement in the US than elsewhere.
- He sees Kroner as great news for the SAE team.
  - i) He is less inward looking than some senior staff have been in the past.
  - ii) He brings a much needed strong macro perspective. As mentioned in previous notes people will also be expected to have a clear idea on which signals are likely to work best at particular points in time.
  - iii) Kroner has been great in going round Blackrock and getting his team known within the wider organisation and in establishing his own internal network.
- Mercer touched on how different signals work in different markets and at different times and how some signals don't work in some markets. For example revisions struggle in the US which Savi puts down to Fair Disclosure legislation and the fact most companies give close guidance to analysts who do not really depart from this. He also discussed the fact that participants in markets have widely different motivations. He says in Spain most trades are by locals who think differently to global investors. In the US most investors have similar motivations – harder to find anomalies.
- The High Frequency Trading participants use a number of the principles many longer-term investors have used. You need slower-burn signals because there is little opportunity to benefit from very short term anomalies/mispricings.
- While he says different things work in different markets at different times he says he still sees a role for a global product. You just use a slightly differing signal set. He mentioned there are some advantages from extrapolating ideas from one region/sector to related areas.
- He talked about some detailed business confidence indicators that have proved good lead indicators on certain types of stocks in Germany. These statistics don't exist elsewhere but they are trying to find something else that will give the same message – if you can find something then you can introduce elsewhere.

Mercer did discuss a number of the other signals Blackrock have been working on. This appears to be changed (and probably for the better) and Mercer will follow-up in due course at the individual product level. Savi re-confirmed what Kroner had said about new recruits having a hands on investment background or at least not being pure academics. While it is too soon to say whether Mercer will like the 'new' SAE initial signs are promising. Mercer will need to spend time with the individual teams. The next visits need to be disciplined in investigating what is now in the relevant models and why and what had been jettisoned. Mercer also needs to be concerned by the depth of thought that has gone into signal acceptance and rejection. For example, pure revisions may not work but others still use it albeit trying to separate out those revisions that are noise and those that have genuine predictive information.

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### ***BlackRock's Two Largest Investors Reduce Ownership in Firm***

BlackRock's two largest stakeholders, Bank of America Corp. and PNC Financial Services Group Inc., sold a combined 51.1 million shares (\$8.3 billion) of stock in BlackRock, the company said yesterday in a statement. Bank of America and PNC said last week they would offer as many as 48.3 million shares as banks seek to reduce investments not crucial to their main businesses. The sale was increased to meet investor demand.

Concurrently with the closing of this offering, Bank of America intends to sell an additional 2.45 million shares to an institutional investor and has also granted the underwriters a 30-day option to purchase an additional 5.21 million shares. The bank obtained its stake in BlackRock through its acquisition of Merrill Lynch & Co. last year. Before the sale, Bank of America held a 34% stake in BlackRock and pending the completion of the additional shares, Bank of America's economic interest in the firm would decline to 7.1%.

PNC, based in Pittsburgh, controlled 24% percent before the sale and with the offering was planning to reduce its ownership in BlackRock to 20%. The company was BlackRock's owner before the fund manager went public in 1999.

### **Mercer View**

This news is not surprising in light of the increased capital requirements and regulation banks are facing and their need to divest non-core assets. In addition, there were likely tensions between BlackRock and Bank of America as BlackRock and other asset managers were vocal in asking that Bank of America repurchase troubled mortgages stemming from its Countrywide unit. This news ultimately provides Larry Fink, BlackRock CEO, more control over the firm; however, Mercer does not anticipate this news to have significant impact to the firm's investment teams or strategies. Mercer will not be recommending any changes to underlying strategy ratings as a result.

A watching point is the significant decline in BlackRock's share price. After strong returns in 2009, the stock has struggled this year, falling approximately 28% year-to-date (as of November 9, 2010).

### ***Brandes***

Mercer met with Brandes on October 7, 2010 to review the International Equity strategy. The A(T) rating was maintained. Highlights from the meeting are detailed below.

### **Issues to watch**

**Performance:** While the firm's US and emerging markets products have recovered from the market lows in March 2009, the non-US and Global developed markets products have not. While Mercer has had a positive view of the IC structure to capture the research insights and add additional value to the portfolios, is something being lost in the discussions more recently? If this period of underperformance continues, will Brandes see on-going client terminations and retail redemptions? If assets continue to decline, what impact will this have on firm resources?

**Emerging markets allocation:** Historically, Brandes has limited the emerging markets exposure in the portfolios to 20%. Recently, in conversations with clients and consultant, the firm has decided to increase the limit to 30% effective November 1, 2010. The firm will file the appropriate ADVs and forms to change the limits for the pooled and mutual fund vehicles. Existing individual client policy statements remain in effect. Mercer does not anticipate this will have an immediate impact on the Global or International Equity strategies.

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### **Highlights**

Mercer remains highly impressed with the caliber of investment professionals and detailed research Brandes' conducts to support its Global and International Equity strategies. During the meeting, Ted Kim and Ralph Birchmeier demonstrated the detailed and deep research the analysts conduct on the industrial and financial sectors. Additionally, Mercer remains impressed with Brandes' commitment to research across regions and sectors even if the team is not finding new investable ideas in those areas. Mercer views this as an important input into the team's insights across the universe.

Assets under management have continued to decline modestly, although this is primarily driven by the lackluster performance in the global and international strategies rather than significant client terminations on the institutional side. Total firm assets as of September 2010 are \$47 billion, approximately \$2 billion lower than last year. However, combined institutional assets in the global and international equity product remain generally flat over the same period. While the declining pace of client and asset losses is a positive development, an improvement in performance across the global and international portfolios will be important to continuing this trend.

Last year, Mercer discussed the impact the decline in assets and profitability had on compensation and readdressed that with Glenn Carlson again during this meeting. He reiterated that the partners take the brunt of the hit if profits decline and that the partnership remains sensitive to insulate the newer partners as well. Carlson explained that the firm continues to review compensation regularly and maintains the philosophy that Brandes does not want to lose people due to uncompetitive compensation. Mercer notes that Brandes has managed assets as low as \$20 billion with the same size team. While Brandes has not shared its breakeven asset levels, this figure indicates that Brandes likely continues to have a cushion, and in combination with the healthy financial state of the firm, cost cutting does not appear to be a pressing concern. Nevertheless, an improvement in performance for the Global and International Equity strategies, which account for the vast majority of the firm's assets, would help to further alleviate this concern.

Overall, while assets remain down substantially from the June 2007 peak, Brandes remains profitable. Additionally, the firm has not undertaken any cost cutting initiatives. Specifically, Mercer addressed the low asset bases in the firm's mid and small capitalization products with CEO Glenn Carlson. He reaffirmed that running these additional strategies posed a relatively small additional marginal cost to the firm and that from a research perspective, allowed the analysts to explore the sectors more in-depth. He reaffirmed the commitment to these product groups.

Brandes had two departures from the investment team over the past year, both of which had been planned for over the previous few years. Bill Pickering, a senior partner, retired in February this year. He had given notice of his intent to retire in 2007 and Brandes undertook the process of reassigning his Investment Oversight Committee responsibilities since that time. In keeping with Brandes' policy, Pickering will sell his equity back to the firm over a period of years. Additionally, Seth Merrill left the firm to relocate to Utah to be closer to his family. Merrill, an analyst on the chemicals team, stepped off the Small Cap Investment Committee two years ago in preparation for his eventual move. Brandes has brought on three new junior analysts over the past year from business schools to participate in the Research Associate program. Mercer continues to view Brandes' succession and transition planning favorably.

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### **DFA**

Mercer has been informed that Dimensional Fund Advisors (DFA) have promoted Gerard O'Reilly to Head of Research at DFA.

#### **Mercer View**

Mercer was aware that Eduardo Repetto was likely to give up his Head of Research role in the near future following his appointment co-CEO and CIO. Mercer does not see this announcement as having a significant impact on the day to day management of DFA's products in the near future, which all follow a relatively systematic process. Mercer has stated before that the succession planning at DFA, which saw Repetto appointed as co-CEO in December 2009, has been well thought through. This latest announcement is in line with those succession plans as the business transitions to the next generation of investors and leaders. Mercer does not intend to change any of our DFA rating as a result of this announcement, but Mercer will look to meet with O'Reilly over the next twelve months to discuss his responsibilities and priorities as Head of Research and what impact this may have on the research output at DFA.

### **Loomis**

#### **Credit portfolio manager, Chris Gootkind, leaves Wellington Management Company, LLP (Wellington) to join Loomis, Sayles & Company (Loomis)**

Mercer has been informed that Chris Gootkind has left Wellington effective August 27, 2010 to accept a position with Loomis, Sayles & Company (Loomis) as director of credit research and credit strategist, reporting to Jae Park (CIO of fixed income). Gootkind assumes responsibility for the 37 member credit research team, working alongside John Dean, incumbent director of credit research. Dean remains involved in the credit research function, acting as a mentor to the credit analysts.

At Wellington, Gootkind was a member of the portfolio management team headed by John Keogh, where he was responsible for the management of investment grade corporate portfolios for a small number of sub-advisory (mutual fund) clients. Gootkind was also a member of the Corporate Bond Strategy Group.

#### **Mercer View**

Since Gootkind did not manage any Mercer client portfolios, Mercer does not view this as a major event. Furthermore, the fact that Gootkind did not attain partner status after over 10 years at the firm (and almost 30 years of fixed income experience) is a sign that he was not viewed as critical by Wellington management. Mercer will continue to monitor Wellington for departures at this level (associate partner) as these employees are not subject to a non-competition agreement and do not hold and equity ownership in the firm.

Mercer was not aware that Loomis were looking to make such a hire and, prima face, it is not clear how Gootkind and Dean will divide their time. Jae Park reported that one of the attributes that attracted Gootkind to Loomis was his experience in working with credit analysts abroad. This dovetails with Loomis' ambitions of adding credit resources in London and Singapore. Whilst Mercer regards the hire of Gootkind as a positive for Loomis, we would like to ensure that his arrival does not destabilize the credit research team and that there is clear accountability between him and Dean. At this time, Mercer has more comfort with the former than the latter.

Mercer is not proposing any change in ratings as a result of this news.

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### ***Research Meeting***

Mercer met with Loomis on August 19, 2010. The B+(T) rating has been maintained. Highlights from the meeting are detailed below.

### **Issues to watch**

Subsequent to this meeting, Mercer learnt that Loomis had appointed Chris Gootkind as director of credit research and credit strategist. Mercer will give Gootkind time to settle into his new role before assessing his impact on the firm and specific products.

On this occasion Mercer did not meet with portfolio managers responsible for the Core Total Return and Multisector Total Return products. However, these products draw upon a number of the teams Mercer met with at this meeting. At our next onsite with Loomis, Mercer intends to meet with portfolio managers for these products, specifically, Neil Burke and/ or John Hyll. Mercer also needs to meet with portfolio managers responsible for the 'core bond' product, Kurt Wagner and Clifton Rowe.

Mercer believes that in the Full Discretion/ High Yield team, Loomis have assembled a talented team who are adept at leveraging the broader resources of the firm. Yet given the unusual approach to portfolio construction, Mercer struggles to make meaningful comparisons with the peer group, as defined by those products with the same benchmark. The Loomis products will be constantly overweight spread product yet given the extent of sector rotation exhibited, Mercer cannot devise a spread benchmark that would be representative. The long-only bias rules out a cash benchmark and a global benchmark would not be appropriate either given the weight of US ideas in the portfolios at any given time. Mercer believes that this approach also introduces a level of tracking error that many clients will not wish to tolerate. For example, the multisector full discretion composite underperformed for three years in a row (2000 – 2002) before outperforming materially in 2003. More recently, the extent of the underperformance over the calendar year 2008 may have led clients to question whether they want such an approach.

### **Highlights**

The team behind both the full discretion and high yield products is headed by Dan Fuss, Vice Chairman of the firm. Performance over meaningful time periods has been impressive across these product lines and the team has been stable. For clients prepared to accept such high tracking error, Mercer believes Loomis provide a credible offering.

### ***Reams***

Mercer has been informed that Reams has entered into an agreement under which Scout Investment Advisors (Scout), a subsidiary of UMB Financial Corporation, will acquire Reams' investment management business. Under the terms of the agreement, Reams will continue its investment management operations as a division of Scout under the Reams name and remain headquartered in Columbus, Indiana. The transaction is expected to close in the fourth quarter of 2010.

Although terms have not been fully disclosed, all Reams investment professionals have executed employment agreements to ensure continuity of investment professionals. Moreover, Reams employee shareholders have committed to a five-year earn out period.

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### **Mercer View**

For Reams, this is an attempt to gain access to Scout's retail distribution network. Since posting very strong returns in the recovery of 2009, Reams has been looking for a way to market this track record to retail investors (at year-end 2009, the Core Plus fund was recognized as a top-five bond fund by Morningstar). Moreover, the fact that Reams did not renew its contract with Frontier Partners (a third-party institutional business development firm) early in 2010 may suggest that the firm plans to emphasize growth in its retail/mutual fund business rather than in institutional separate account clients.

Although access to Scout's existing equity and macroeconomic research is being pitched as a benefit to Reams, Mercer is skeptical of any synergies between investment teams. Reams is not known for global currency or credit investing, and given the size of the team and product line-up, Mercer does not expect them to start anytime soon.

In the near term, Mercer does not have major concerns with this acquisition. Mercer believes the investment team and process will remain stable. Going forward, Mercer will monitor the firm's asset base and product mix for any potential impact on the business. Mercer plans to meet with the firm after the transaction has closed, and will provide additional details at that time.

### ***T. Rowe Price***

#### ***Research Meeting***

Mercer met with T. Rowe Price on June 23, 2010 and maintained its rating on the Global Equity product. Highlights from the meeting are detailed below.

#### **Issues to watch**

How will newly appointed associate portfolio manager Josh Nelson fit into this role? Will he fill the role left by Berg to provide additional support?

#### **Highlights**

This meeting served as Mercer's annual update with T. Rowe and Rob Gensler to review the Global Equity Strategy. While Gensler has softened his stance on some of the assessments and enhancements he made immediately following a period of difficult performance in 2008, Mercer remains confident in Gensler and reaffirm our A (T) rating on the strategy. In Mercer's previous meeting, Gensler outlined four evolutions he was planning to incorporate in his process: 1) more outside, top-down views 2) greater use of risk tools 3) broadening the advisory committee 4) requiring all ideas to have analyst sponsorship. Mercer re-visited these topics with Gensler to see where things stand with more time and perspective; these are discussed below in more detail. Overall, Mercer was impressed by Gensler's adaptive, but not reactive approach, and ongoing willingness to challenge himself on how he can improve.

Mercer spoke with Gensler on how he was using the analysts' research and if anything had changed over the past year. He re-emphasized the importance of the analysts' company-level insights and that the analysts were in the best position to get the company-specific views and risks right. As a portfolio manager, Gensler believes he brings a better understanding of valuation. This view is confirmed by the portfolio composition; five companies in the portfolio are not buy-rated, only EOG and Cotec are unrated and three companies are neutral rated. The latter typically include situations where the analysts downgrade for valuation reasons. Along those lines, Gensler recently commissioned a study on the efficacy of the

## Executive Summary

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analysts' up/down rating changes on companies to assess how he could make more effective use of that information. The results of this work indicated to Gensler that he often sells too soon and his turnover could probably come down somewhat. Gensler has not yet made any direct changes as a result of this work and we will discuss this with him during our next meeting to see if it has impacted how he makes portfolio decisions. Mercer appreciates Gensler's willingness to examine his own mistakes and behavioral biases and look for ways to continually improve his decision-making processes. Mercer does not believe Gensler will sit back and be satisfied with the status quo.

Gensler acknowledged that he now makes greater use of the extensive risk management tools available at to him at T. Rowe, particularly in how they can help him understand the components of active risk in the portfolio. Examining the risk profile has reaffirmed that the highest percentage contribution to risk should come from stock selection and that sector, industry, country and currency should be secondary contributors. Recent and historical SRPA analysis confirms this is the case. Additionally, this exercise reaffirmed that his portfolio is likely to struggle when market volatility spikes up and at discontinuous market events. Mercer remains confident that Gensler uses the risk tools as an additional source of information, but does not allow them to unduly drive portfolio positioning. Gensler does appear to have taken a step back from the view that he needs more external and top-down inputs to the process.

Gensler will be adding three new members to his Investment Advisors committee. One person's background is in Australia and is a new addition to T. Rowe. The two other additions bring sector expertise, one in infrastructure and Rick de la Reyes on Metals & Mining. Additionally, Gensler is participating in Bob Smith's monthly committee calls for the Non-US Growth strategy. Gensler explained his use of the advisory committee as a means to attain more peripheral views on the portfolio. He admits to weighing the inputs from the regional portfolio managers more heavily as they tend to bring a broader perspective than the sector specialists. That said, Gensler has discontinued his quarterly advisory survey. He explained that he used this as a tool to help navigate the risks of a crisis market, but felt it was more work than it was worth as markets began to stabilize.

T. Rowe has appointed two new associates portfolio managers to help Gensler and Scott Berg manage their respective global strategies. Josh Nelson, who will officially take on the role in October 2010, will be primarily supporting Gensler on Global Equity. Jay Nogueira joined the Global Equity team to support Berg. Nelson has seven years of investment experience and has been at T. Rowe for two years. Gensler anticipates that for the first few years, Nelson will primarily focus on companies, splitting his time evenly between existing holdings and new ideas. Over time, as Nelson gains comfort with the portfolio and universe, Gensler would anticipate he take on some portfolio and risk management duties. Nelson's hire helps to allay our previous concern that Gensler no longer received direct support from Berg now that he is managing his own product. As Nelson settles in, we will look to see how he grows into the role and the kind of support he provides to Gensler.

Assets under management in the strategy total \$15 billion and the strategy remains closed to most investors with the intent to allow any available capacity to go to existing clients. T. Rowe is no longer accepting new separate account mandates and the commingled fund is mostly closed.

## Executive Summary

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### ***William Blair***

Mercer met with William Blair on August 26, 2010 and reaffirmed its A(T) rating on the International Growth strategy. Highlights from the meeting are detailed below.

#### **Issues to watch**

**Product Proliferation:** Mercer continues to have questions regarding Blair's willingness to expand the product line-up. The firm has launched paper portfolios in Europe and Latin America and has formalized a committee and process for targeting and launching new products. Mercer appreciates that the firm appears to be deliberate rather than haphazard in these endeavors and that curiosity to explore these regions more in-depth was one consideration; nevertheless, Mercer continues to question what impact any new products could have on the research, portfolio management, firm culture, and current client base. Mercer would be highly disappointed if Blair were to continue to grow the product line-up without commensurate growth in the investment team to support additional mandates. However, Mercer remains cognizant of the importance the small, close-knit culture plays on the success of the current products.

#### **Highlights**

The investment team continues to benefit from stability. There have been no departures from the team over the past year and Blair has continued to add resources. Importantly, Blair has promoted DJ Neiman and Thomas Sternberg to cover non-US small cap companies.

Blair also promoted David Fording to be co-Director of Research to work with Ken McAtemney. Fording is also portfolio manager for Blair's US All Cap strategy. Greig and McAtemney decided to bring Fording on to this role in order to dedicate more resources to mentoring and developing the analysts. McAtemney plans to focus on thought leadership and resourcing, while Fording will work closely with the analysts to further refine their skills. McAtemney and Fording will also be supported by Ashley Hempol, who will take on an administrative role. She formally joined the team in early 2010.

Effective July 2010, Blair announced that David Merjan, who has long been the co-portfolio manager on the International Core Growth strategy, will become the sole portfolio manager. While Greig will no longer be a lead decision maker on the strategy, he will remain actively involved. This change does not impact Mercer's rating on the strategy and Mercer does not foresee any changes to the nuances of how the International Core Growth strategy is managed. The process is very team-oriented and Greig, Merjan, Urbina, and McClone work very closely together and with the analysts. The portfolio has always been managed in this context and Mercer does not believe that will change.

Blair has continued to invest in other research resources for Greig's team and created a dedicated systematic analyst role. Melissa McGrane joined the quantitative team in 2007 to work on the factor models, but her role has since evolved to one where she focuses primarily on synthesizing and systematizing the bottom-up, fundamental company data within regions, countries, and sectors and works with Greig in assessing how that coincides with what the sector analysts are seeing.

Olga Pomerantz joined Blair in 2009 to work on thematic, cross-sector research with a focus on growth and development trends. Her areas of research tend to be broad and she does not provide macroeconomic forecasts. Like McGrane, Pomerantz' work does not directly impact portfolio positioning, but rather provides an in depth look at the issues and events taking place in the market to better inform the portfolio managers and analysts.

## Executive Summary

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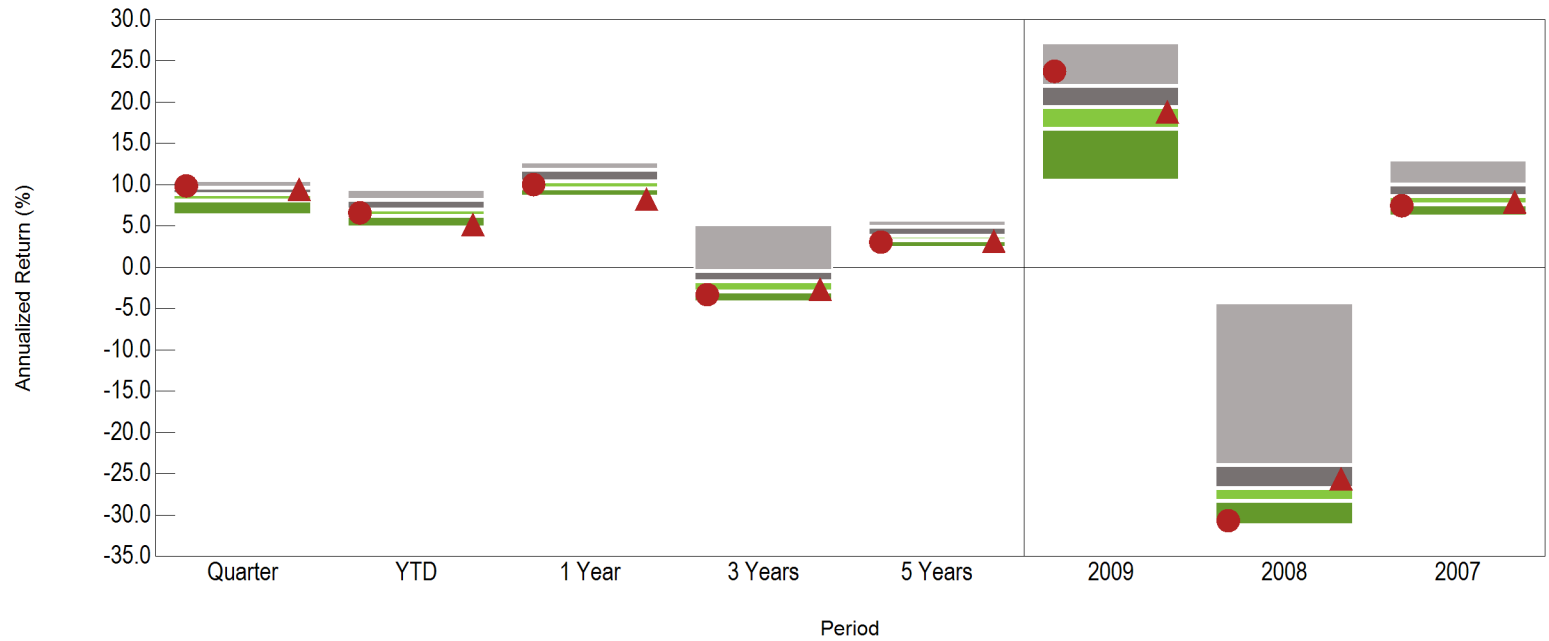
Greig and McAtemney emphasized that these new resources were added not to make any changes to the investment process or philosophy, but rather to help refine the team's views and to provide thoughtful analysis and data for consideration. Greig had been considering bringing on additional analytic resources to delve into higher level topics, although he admitted that the recent crisis provided a heightened sense of urgency to dedicate resources to these areas. Greig cited several examples to illustrate how he works with McGrane and Pomerantz and how their research impacted the portfolios. The examples confirmed that Greig and the team use this research as an additional input.

Mercer also had the opportunity to spend time with Spiro Voulgaris, who heads up Blair's quantitative effort. Voulgaris joined Blair three years ago to help clean up and refine the quantitative screening factors Blair used to prioritize research and assess quality, valuation, and earnings trend. Blair also hoped this would provide more structure and rigor around the qualitative discussions. Voulgaris' first priority upon joining Blair was to backtest the existing factor models to ensure they were suitable to Blair's philosophy and were effective over market cycles, across regions, and across the capitalization spectrum. Voulgaris worked closely with Greig to ensure that the factors in place were accurately capturing and modeling Blair's investment philosophy. Both Greig and Voulgaris confirmed that Voulgaris' work did not result in any significant changes, but rather tightened up the screens and further refined the factors. Voulgaris' work is now being used as the core of how the team looks at and measures risk in the portfolio, through exposure to the quality, valuation, and earnings factors. Mercer views the development of a proprietary risk tool as potentially beneficial and will discuss the progress on this front with Blair at future meetings.

# Board Report

# Total Plan Performance

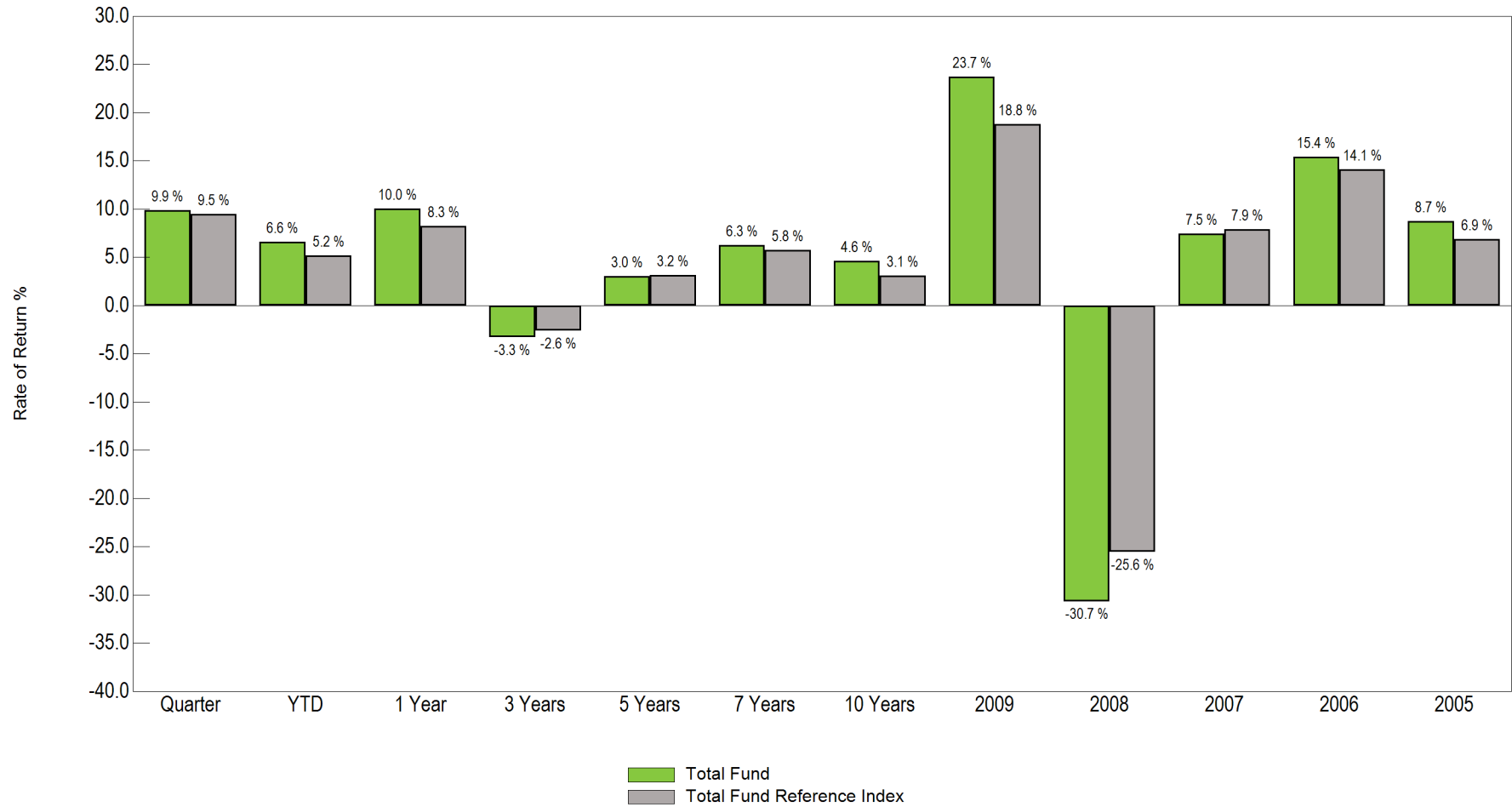
Total Plan Performance vs. Public Funds >\$1B  
Ending September 30, 2010



	Return (Rank)													
	Quarter	YTD	1 Year	3 Years		5 Years		2009	2008		2007			
5th Percentile	10.5	9.5	12.8	5.2	5.8	27.2	-4.3	13.0						
25th Percentile	9.6	8.1	11.7	-0.5	4.9	21.9	-24.0	10.0						
Median	8.8	7.0	10.4	-1.8	3.8	19.4	-26.8	8.6						
75th Percentile	8.1	6.2	9.5	-2.9	3.3	16.8	-28.3	7.6						
95th Percentile	6.2	4.8	8.5	-4.3	2.3	10.4	-31.2	6.1						
# of Portfolios	75	68	68	66	65	66	59	51						
● Total Fund	9.9 (14)	6.6 (61)	10.0 (60)	-3.3 (84)	3.0 (83)	23.7 (11)	-30.7 (95)	7.5 (76)						
▲ Total Fund Reference Index	9.5 (29)	5.2 (92)	8.3 (98)	-2.6 (68)	3.2 (78)	18.8 (55)	-25.6 (34)	7.9 (68)						

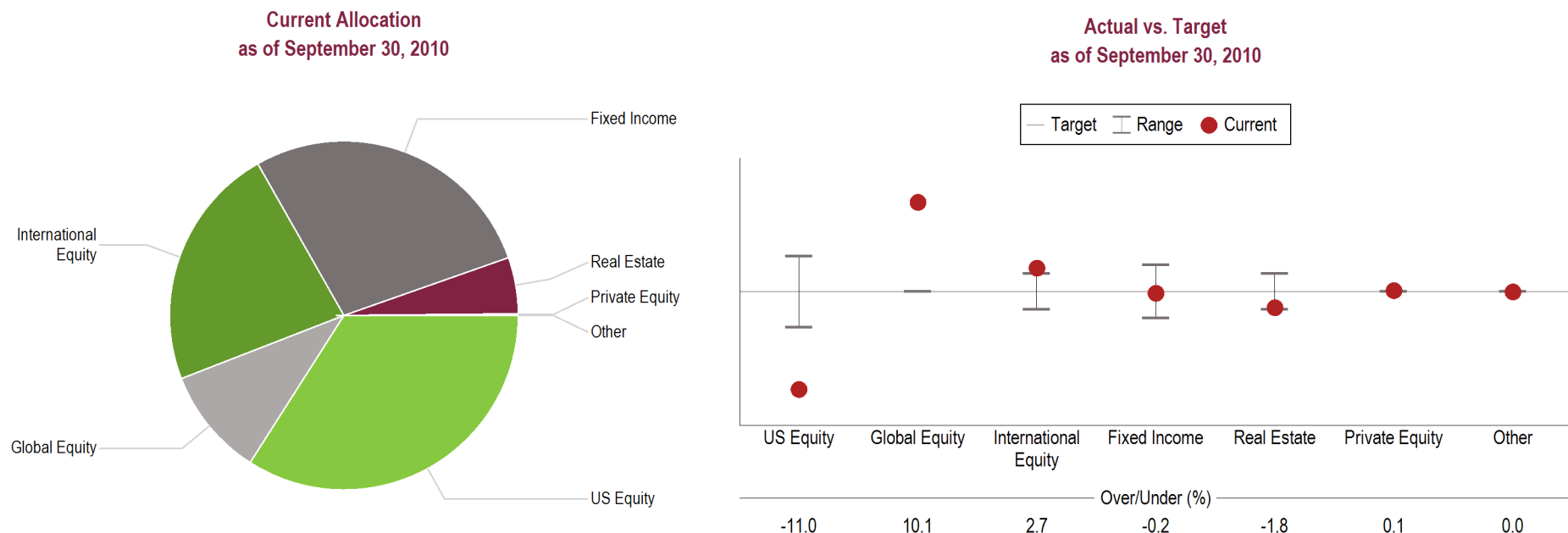
# Total Plan Performance

Fund Return vs. Benchmark Portfolio Return  
Ending September 30, 2010



# Total Plan

## Asset Allocation vs. Target



**Allocation vs. Targets and Policy**  
as of September 30, 2010

	Current Balance	Current Allocation	Target Allocation	Difference	Target Ranges	Within IPS Range?
US Equity	\$1,383,822,566	34.0%	45.0%	-\$445,610,391	41.0% - 49.0%	No
Global Equity	\$409,296,474	10.1%	0.0%	\$409,296,474	0.0% - 0.0%	No
International Equity	\$921,639,325	22.7%	20.0%	\$108,558,011	18.0% - 22.0%	No
Fixed Income	\$1,132,134,380	27.8%	28.0%	-\$6,179,460	25.0% - 31.0%	Yes
Real Estate	\$212,379,615	5.2%	7.0%	-\$72,198,845	5.0% - 9.0%	Yes
Private Equity	\$6,097,484	0.1%	0.0%	\$6,097,484	0.0% - 0.0%	No
Transition Account	\$36,728	0.0%	0.0%	\$36,728	0.0% - 0.0%	No
<b>Total</b>	<b>\$4,065,406,572*</b>	<b>100.0%</b>	<b>100.0%</b>			

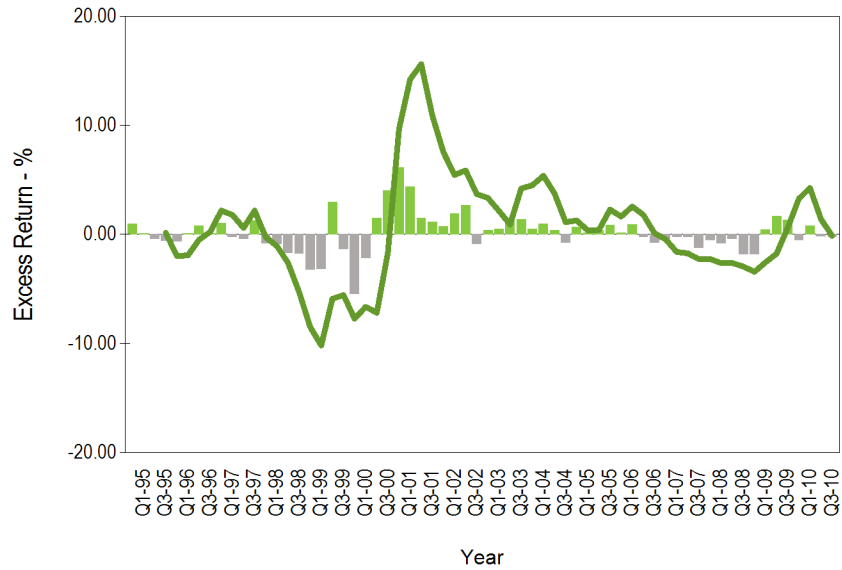
\*Excludes \$12.8 million in cash.

Note: Over the last two quarters, the Plan has been transitioning to the interim asset allocation. Beginning October 1, 2010 the total fund benchmark and asset allocation targets/target ranges will be changed to reflect the interim allocation. The interim allocation is 31% US Equity, 10% Global Equity, 22% International Equity, 28% Fixed Income, 7% Real Estate and 2% Private Equity.

# Total Domestic Equity Composite

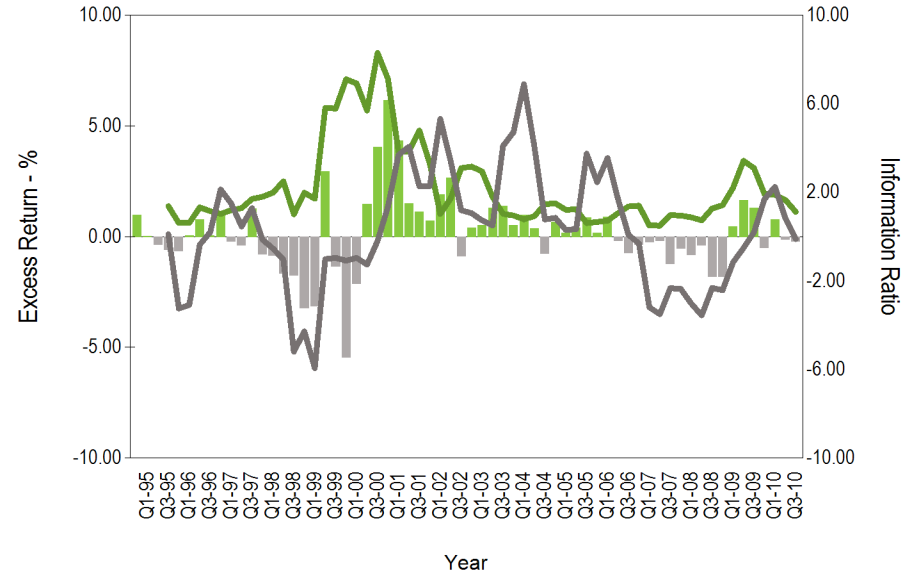
## Performance and Risk

**Excess Performance**  
16 Years Ending September 30, 2010



- Quarterly Out Performance
- Quarterly Under Performance
- Rolling 1 Year Excess Performance vs. Russell 3000

**Tracking Error and Information Ratio**  
16 Years Ending September 30, 2010

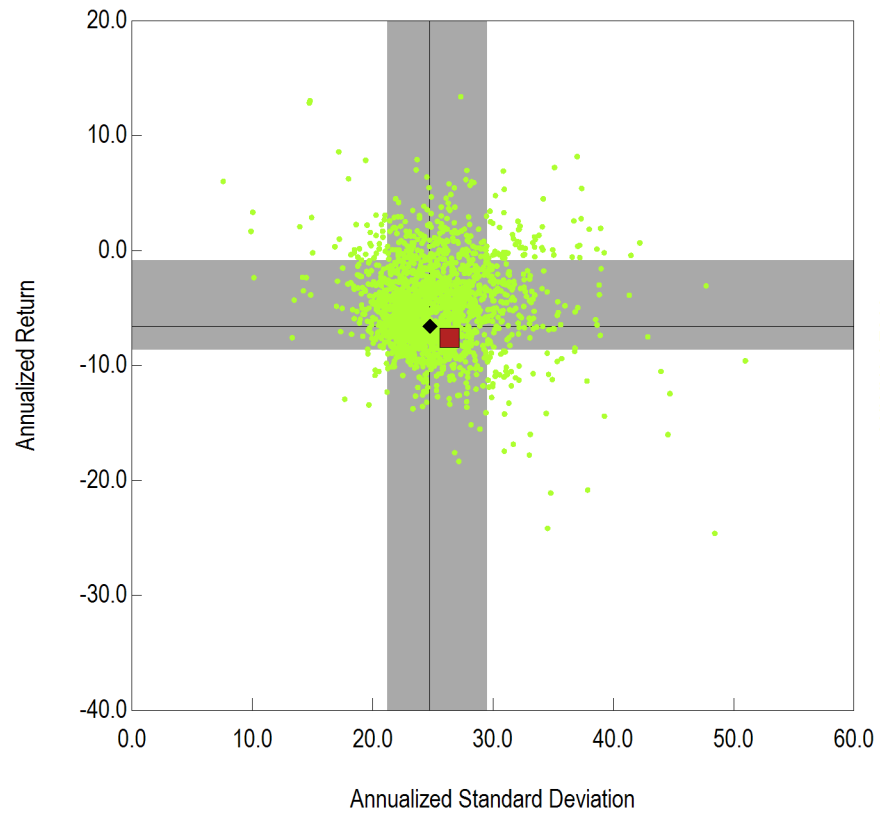


- Quarterly Out Performance
- Quarterly Under Performance
- Rolling 1 Year Tracking Error vs. Russell 3000
- Rolling 1 Year Information Ratio vs. Russell 3000

# Total Domestic Equity Composite

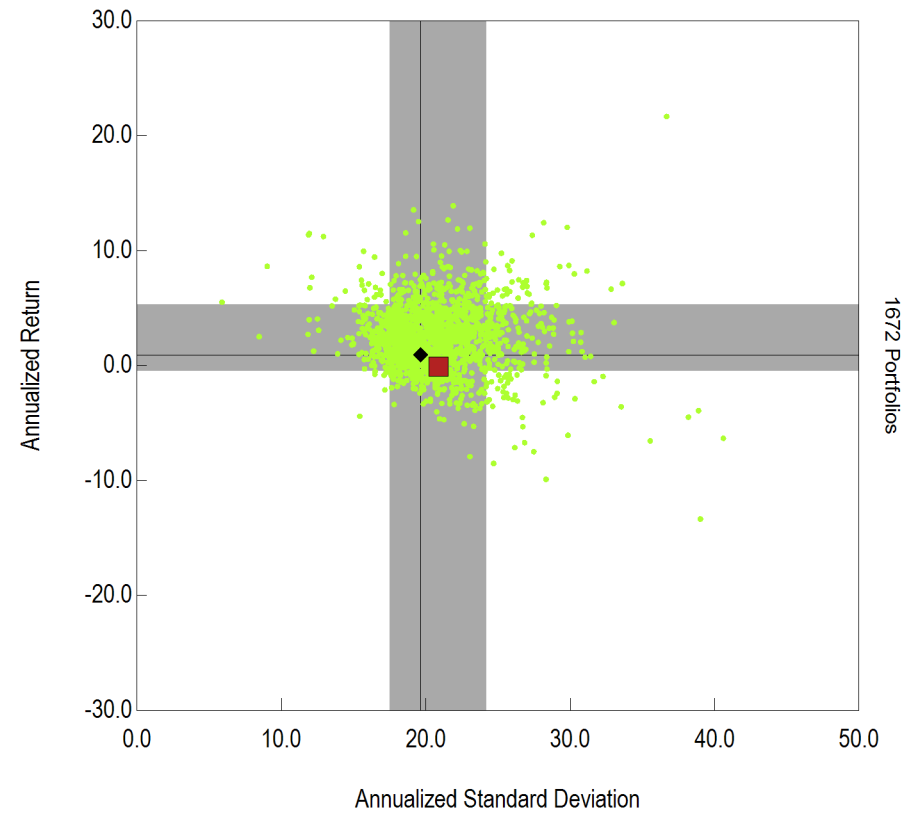
## Performance and Risk

Annualized Return vs. Annualized Standard Deviation  
3 Years Ending September 30, 2010



- Total Domestic Equity Composite
- ◆ Russell 3000
- 68% Confidence Interval
- Mercer Instl US Equity Combined (manager)

Annualized Return vs. Annualized Standard Deviation  
5 Years Ending September 30, 2010

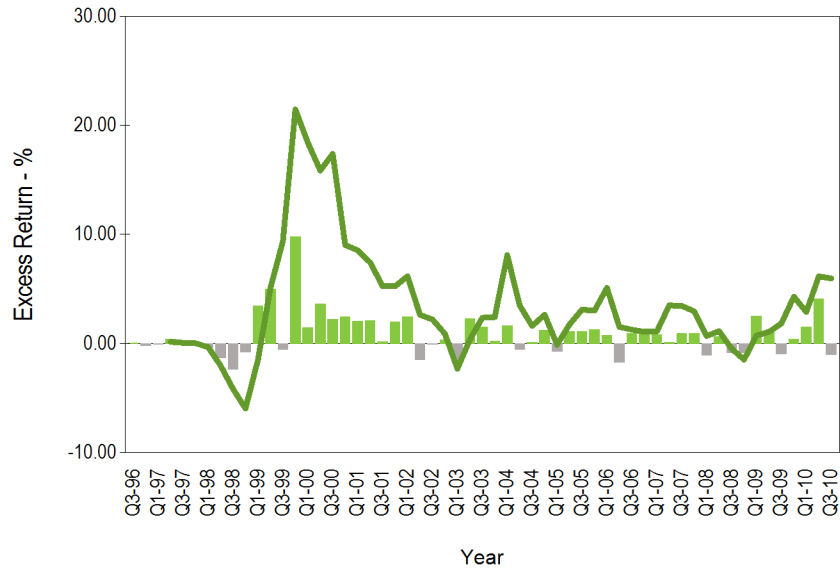


- Total Domestic Equity Composite
- ◆ Russell 3000
- 68% Confidence Interval
- Mercer Instl US Equity Combined (manager)

# Total Intl Equity Composite

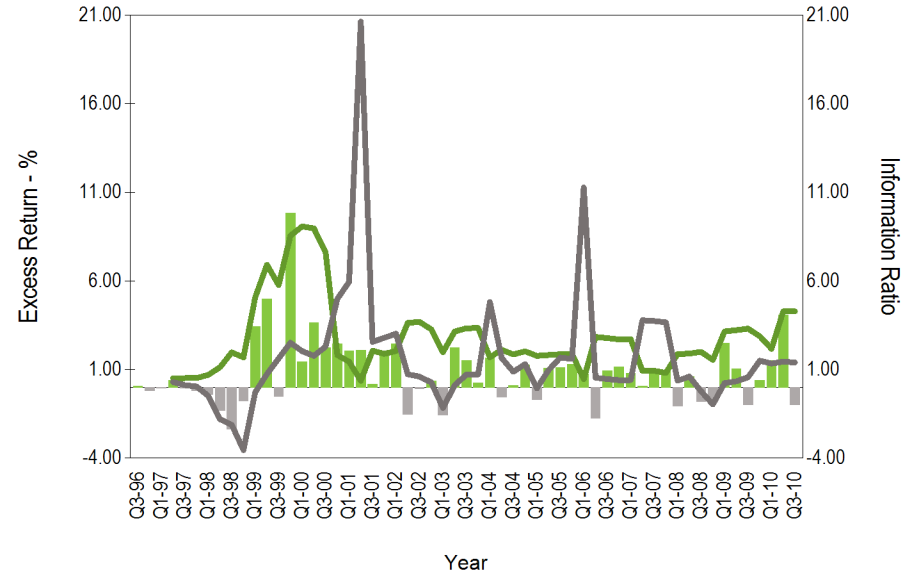
## Performance and Risk

**Excess Performance**  
14 Years 5 Months Ending September 30, 2010



- Quarterly Out Performance
- Quarterly Under Performance
- Rolling 1 Year Excess Performance vs. MSCI EAFE

**Tracking Error and Information Ratio**  
14 Years 5 Months Ending September 30, 2010

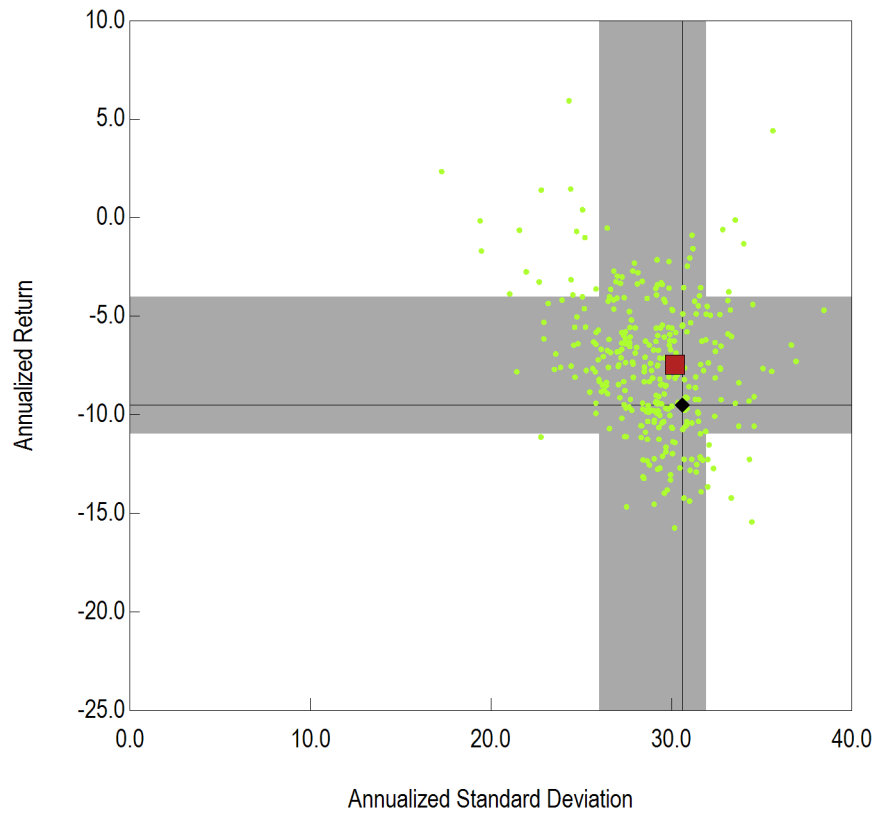


- Quarterly Out Performance
- Quarterly Under Performance
- Rolling 1 Year Tracking Error vs. MSCI EAFE
- Rolling 1 Year Information Ratio vs. MSCI EAFE

# Total Intl Equity Composite

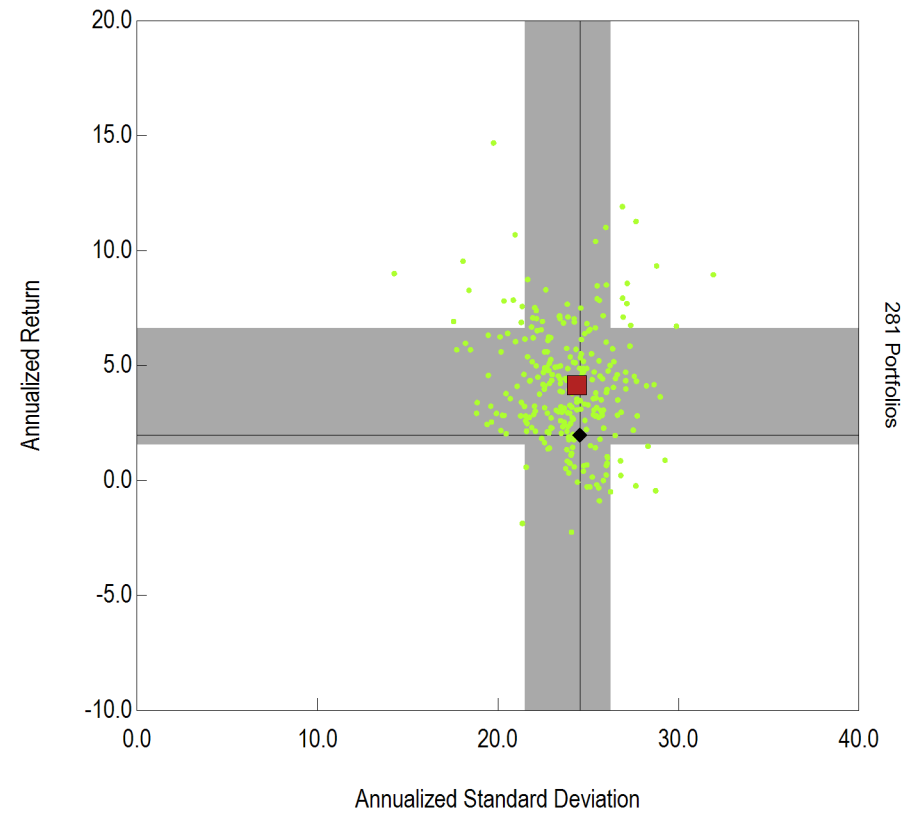
## Performance and Risk

Annualized Return vs. Annualized Standard Deviation  
3 Years Ending September 30, 2010



- Total Intl Equity Composite
- ◆ MSCI EAFE
- 68% Confidence Interval
- Mercer Instl Intl Equity (manager)

Annualized Return vs. Annualized Standard Deviation  
5 Years Ending September 30, 2010

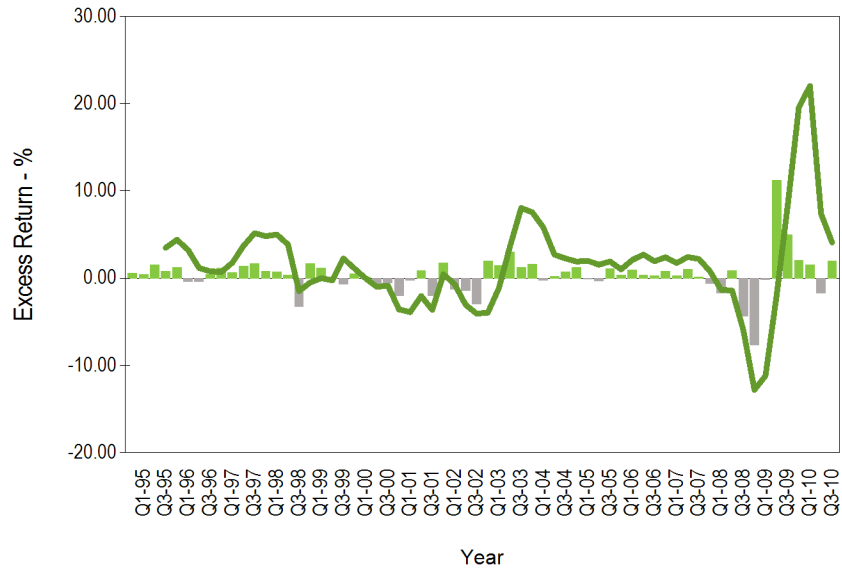


- Total Intl Equity Composite
- ◆ MSCI EAFE
- 68% Confidence Interval
- Mercer Instl Intl Equity (manager)

# Total Fixed Income Composite

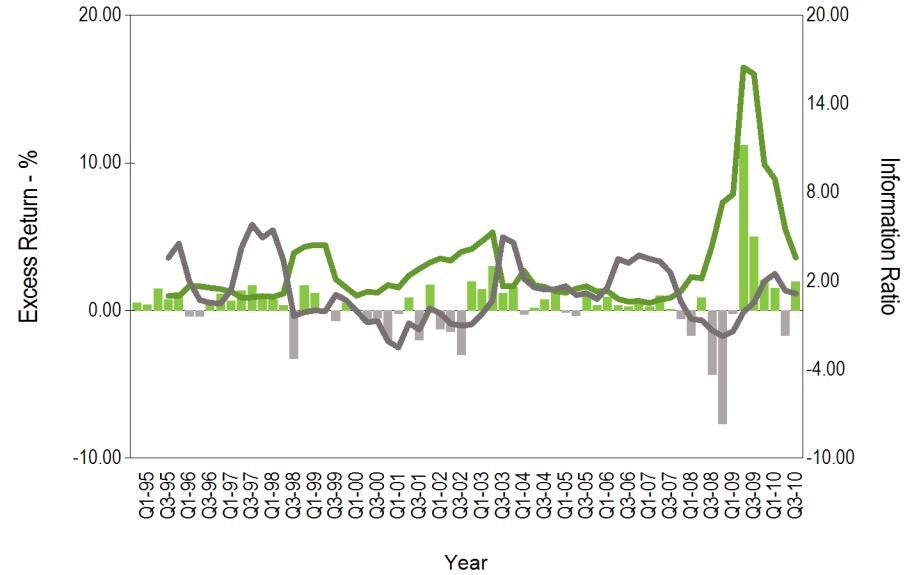
## Performance and Risk

**Excess Performance**  
16 Years Ending September 30, 2010



- Quarterly Out Performance
- Quarterly Under Performance
- Rolling 1 Year Excess Performance vs. Barclays Capital Aggregate

**Tracking Error and Information Ratio**  
16 Years Ending September 30, 2010

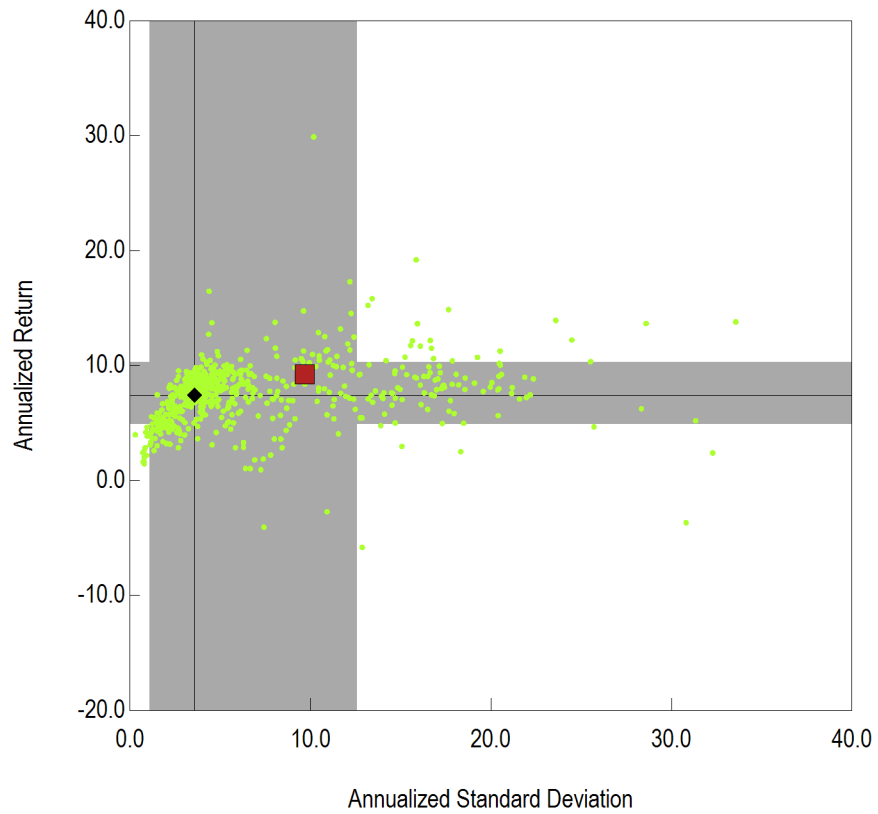


- Quarterly Out Performance
- Quarterly Under Performance
- Rolling 1 Year Tracking Error vs. Barclays Capital Aggregate
- Rolling 1 Year Information Ratio vs. Barclays Capital Aggregate

# Total Fixed Income Composite

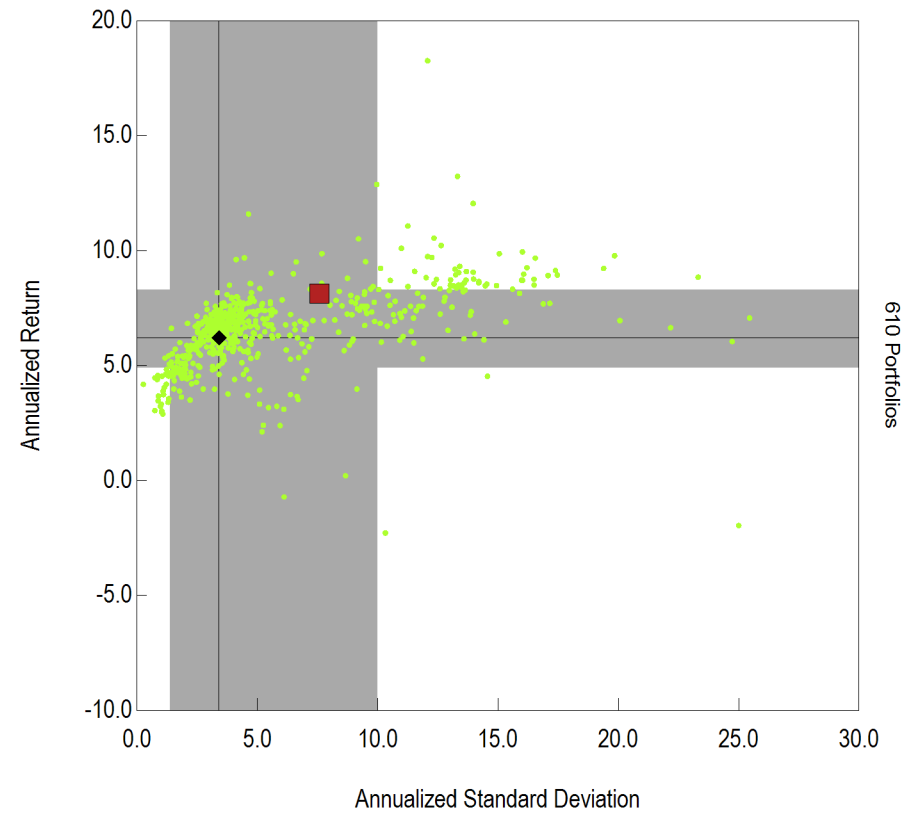
## Performance and Risk

Annualized Return vs. Annualized Standard Deviation  
3 Years Ending September 30, 2010



- Total Fixed Income Composite
- ◆ Barclays Capital Aggregate
- 68% Confidence Interval
- Mercer Instl US Fixed Combined (manager)

Annualized Return vs. Annualized Standard Deviation  
5 Years Ending September 30, 2010

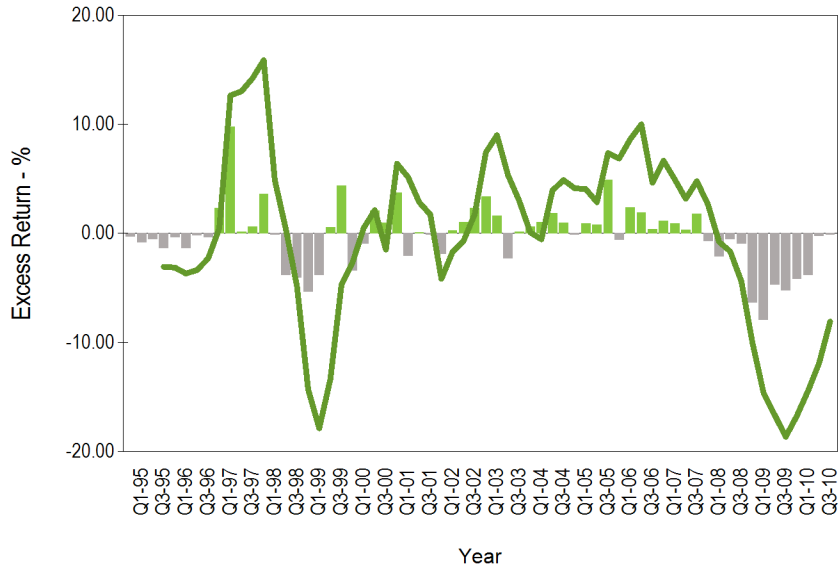


- Total Fixed Income Composite
- ◆ Barclays Capital Aggregate
- 68% Confidence Interval
- Mercer Instl US Fixed Combined (manager)

# Total Real Estate Composite

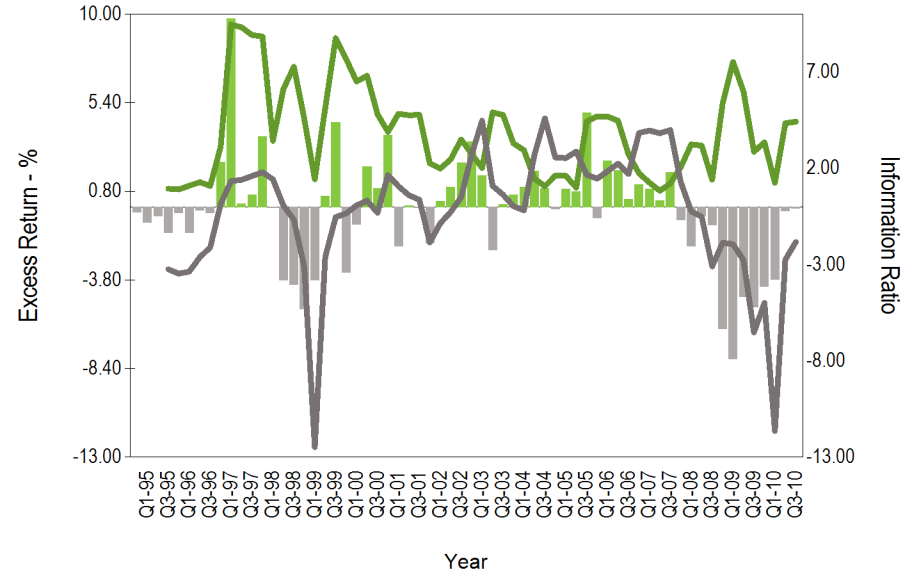
## Performance and Risk

**Excess Performance**  
16 Years Ending September 30, 2010



- Quarterly Out Performance
- Quarterly Under Performance
- Rolling 1 Year Excess Performance vs. NCREIF Property (1 Qtr in Arrears)

**Tracking Error and Information Ratio**  
16 Years Ending September 30, 2010

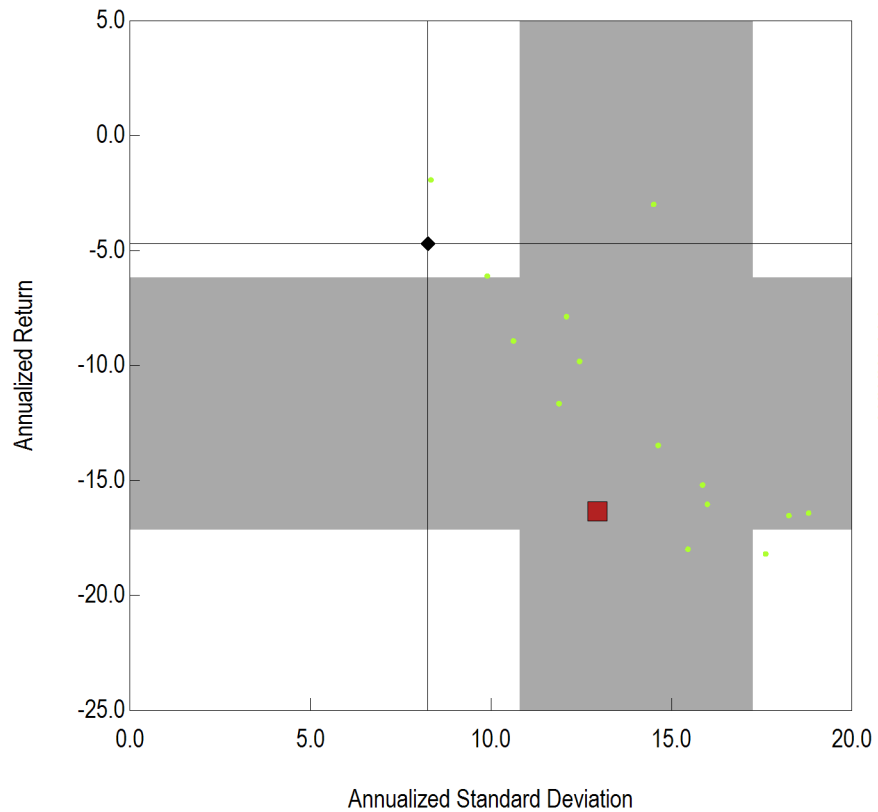


- Quarterly Out Performance
- Quarterly Under Performance
- Rolling 1 Year Tracking Error vs. NCREIF Property (1 Qtr in Arrears)
- Rolling 1 Year Information Ratio vs. NCREIF Property (1 Qtr in Arrears)

# Total Real Estate Composite

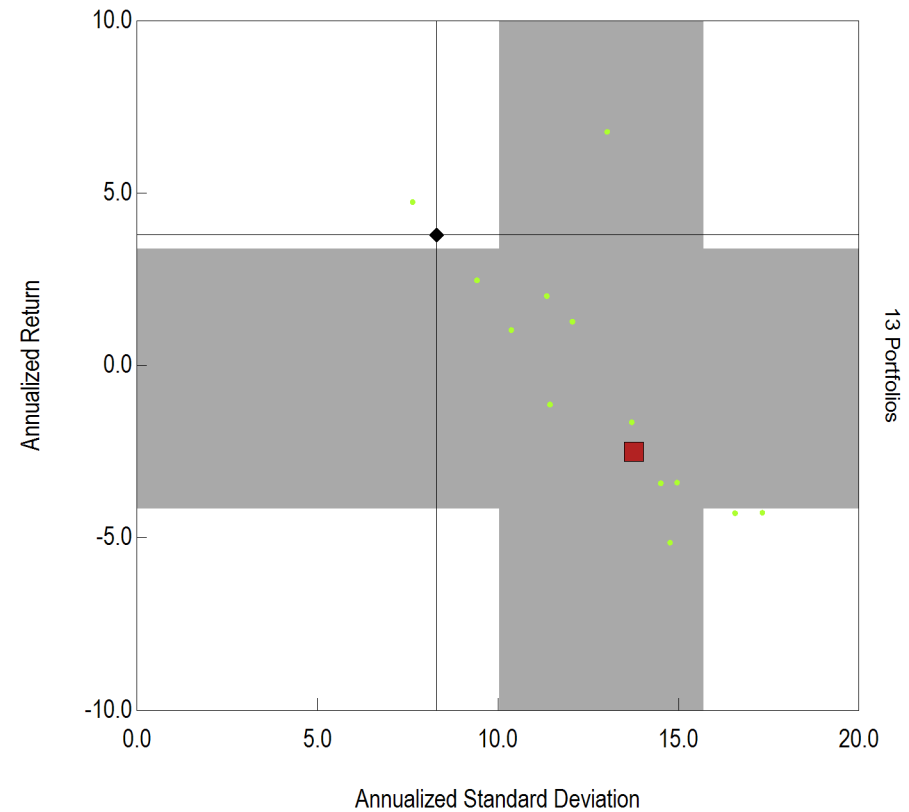
## Performance and Risk

Annualized Return vs. Annualized Standard Deviation  
3 Years Ending September 30, 2010



- Total Real Estate Composite
- ◆ NCREIF Property (1 Qtr in Arrears)
- 68% Confidence Interval
- Mercer Instl US Real Estate Open End (manager)

Annualized Return vs. Annualized Standard Deviation  
5 Years Ending September 30, 2010



- Total Real Estate Composite
- ◆ NCREIF Property (1 Qtr in Arrears)
- 68% Confidence Interval
- Mercer Instl US Real Estate Open End (manager)

# Performance

# Total Plan

## Performance Summary - Gross of Fees

### Total Plan Performance

Name	Current Market Value	Current Allocation	Ending September 30, 2010										Inception	
			3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
<b>Total Fund</b>	<b>\$4,078,212,300*</b>	<b>100.0%</b>	<b>9.9%</b>	<b>14</b>	<b>6.6%</b>	<b>61</b>	<b>10.0%</b>	<b>60</b>	<b>-3.3%</b>	<b>84</b>	<b>3.0%</b>	<b>83</b>	<b>9.7%</b>	<b>Nov-78</b>
<i>Total Fund Reference Index</i>			9.5%	29	5.2%	92	8.3%	98	-2.6%	68	3.2%	78	--	Nov-78
<i>CPI + 4%</i>			0.9%	99	4.1%	99	5.1%	99	5.6%	5	5.9%	4	7.8%	Nov-78
<i>Public Funds &gt;\$1B Median</i>			8.8%		7.0%		10.4%		-1.8%		3.8%		--	Nov-78
<b>Total Domestic Equity Composite</b>	<b>\$1,383,822,566</b>	<b>33.9%</b>	<b>11.3%</b>	<b>52</b>	<b>5.2%</b>	<b>57</b>	<b>10.8%</b>	<b>61</b>	<b>-7.6%</b>	<b>80</b>	<b>-0.1%</b>	<b>85</b>	<b>9.7%</b>	<b>Dec-87</b>
<i>Russell 3000</i>			11.5%	48	4.8%	61	11.0%	61	-6.6%	69	0.9%	71	9.6%	Dec-87
<i>Mercer Instl US Equity Combined Median</i>			11.4%		6.1%		12.2%		-4.9%		2.3%		11.3%	Dec-87
Northern Trust Global	\$321,422,271	7.9%	11.2%	54	4.0%	69	10.3%	65	-7.3%	77	0.6%	77	1.8%	Jun-98
<i>S&amp;P 500 Index (Total Return)</i>			11.3%	52	3.9%	69	10.2%	67	-7.2%	75	0.6%	76	1.8%	Jun-98
<i>Mercer Instl US Equity Combined Median</i>			11.4%		6.1%		12.2%		-4.9%		2.3%		5.4%	Jun-98
BlackRock R1000 Alpha Tilts	\$172,911,285	4.2%	11.7%	28	1.3%	86	7.0%	85	-8.3%	86	-0.7%	92	2.7%	Apr-02
<i>Russell 1000</i>			11.6%	32	4.4%	33	10.8%	35	-6.8%	58	0.9%	64	3.1%	Apr-02
<i>Mercer Instl US Equity Large Cap Core Median</i>			11.1%		3.4%		9.6%		-6.3%		1.3%		--	Apr-02
Turner Investment Partners	\$233,871,179	5.7%	11.7%	65	4.7%	37	10.7%	55	-10.6%	97	-1.9%	98	3.5%	Jul-02
<i>Russell 1000 Growth</i>			13.0%	40	4.4%	43	12.7%	33	-4.4%	39	2.1%	55	5.1%	Jul-02
<i>Mercer Instl US Equity Large Cap Growth Median</i>			12.3%		4.0%		11.2%		-4.9%		2.2%		--	Jul-02
AllianceBernstein L.P.	\$209,983,945	5.1%	8.8%	90	1.4%	81	5.8%	85	-13.4%	99	-3.3%	99	6.0%	Jul-96
<i>Russell 1000 Value</i>			10.1%	61	4.5%	31	8.9%	44	-9.4%	82	-0.5%	77	7.1%	Jul-96
<i>Mercer Instl US Equity Large Cap Value Median</i>			10.5%		3.2%		8.5%		-7.4%		0.9%		--	Jul-96
Earnest Partners LLC	\$142,775,838	3.5%	12.0%	65	12.3%	23	19.1%	22	-1.5%	24	3.4%	46	5.7%	Apr-05
<i>Russell Mid Cap</i>			13.3%	36	11.0%	38	17.5%	38	-4.2%	61	2.6%	57	4.9%	Apr-05
<i>Mercer Instl US Equity Mid Cap Core Median</i>			12.8%		10.0%		16.2%		-3.4%		3.1%		--	Apr-05

\*Includes cash.

Note: Total Fund Reference Index consists of 45% Russell 3000, 28% Barclays Capital Aggregate, 20% MSCI EAFE (net) and 7% NCREIF Property (One Quarter in Arrears).

Mercer Investment Consulting, Inc.

# Total Plan

## Performance Summary - Gross of Fees

Name	Current Market Value	Current Allocation	Ending September 30, 2010										Inception	
			3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
Dimensional Fund Advisors Inc.	\$215,452,975	5.3%	12.3%	22	12.8%	23	16.5%	34	-3.5%	66	1.9%	70	11.6%	Sep-96
<i>Russell 2000 Value</i>			9.7%	66	7.9%	70	11.8%	80	-5.0%	82	0.7%	82	8.6%	Sep-96
<i>Mercer Instl US Equity Small Cap Value Median</i>			10.6%		9.9%		14.8%		-2.2%		3.3%		11.2%	Sep-96
Allianz Global Investors Capital	\$87,405,073	2.1%	9.9%	81	--	--	--	--	--	--	--	--	-1.5%	Mar-10
<i>Russell 2000 Growth</i>			12.8%	38	10.2%	45	14.8%	54	-3.7%	41	2.3%	52	2.4%	Mar-10
<i>Mercer Instl US Equity Small Cap Growth Median</i>			11.9%		9.9%		15.2%		-5.3%		2.5%		2.4%	Mar-10
<b>Total Global Equity Composite</b>	<b>\$409,296,475</b>	<b>10.0%</b>	<b>14.8%</b>	<b>33</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>-1.0%</b>	<b>Mar-10</b>
<i>MSCI The World Index</i>			13.8%	56	2.6%	61	6.8%	67	-8.3%	65	1.3%	81	-0.6%	Mar-10
<i>Mercer Instl Global Equity Median</i>			14.0%		3.4%		8.4%		-7.0%		3.0%		0.3%	Mar-10
Grantham Mayo Van Otterloo	\$206,573,853	5.1%	14.1%	48	--	--	--	--	--	--	--	--	-1.0%	Mar-10
<i>MSCI The World Index</i>			13.8%	56	2.6%	61	6.8%	67	-8.3%	65	1.3%	81	-0.6%	Mar-10
<i>MSCI The World Value</i>			12.7%	75	1.2%	78	3.4%	88	-10.1%	82	0.3%	90	-2.1%	Mar-10
<i>Mercer Instl Global Equity Median</i>			14.0%		3.4%		8.4%		-7.0%		3.0%		0.3%	Mar-10
T. Rowe Price	\$202,722,621	5.0%	15.7%	19	--	--	--	--	--	--	--	--	15.7%	Jun-10
<i>MSCI AC World</i>			14.3%	42	3.6%	48	8.4%	50	-7.5%	54	2.4%	62	14.3%	Jun-10
<i>MSCI The World Growth</i>			14.8%	31	4.0%	42	10.2%	33	-6.6%	45	2.2%	67	14.8%	Jun-10
<i>Mercer Instl Global Equity Median</i>			14.0%		3.4%		8.4%		-7.0%		3.0%		14.0%	Jun-10
<b>Total Intl Equity Composite</b>	<b>\$921,639,325</b>	<b>22.6%</b>	<b>15.5%</b>	<b>72</b>	<b>6.5%</b>	<b>23</b>	<b>9.2%</b>	<b>35</b>	<b>-7.5%</b>	<b>49</b>	<b>4.1%</b>	<b>48</b>	<b>7.2%</b>	<b>Apr-96</b>
<i>MSCI EAFE</i>			16.5%	49	1.1%	81	3.3%	83	-9.5%	72	2.0%	84	4.0%	Apr-96
<i>Mercer Instl Intl Equity Median</i>			16.4%		3.4%		6.8%		-7.6%		4.0%		--	Apr-96
Brandes Investment Partners	\$356,352,328	8.7%	14.0%	88	0.7%	85	1.9%	93	-8.0%	55	3.1%	62	9.5%	Jan-98
<i>MSCI EAFE</i>			16.5%	49	1.1%	81	3.3%	83	-9.5%	72	2.0%	84	4.1%	Jan-98
<i>MSCI EAFE Value</i>			16.4%	52	-1.9%	96	-1.7%	99	-10.7%	85	1.1%	90	5.4%	Jan-98
<i>Mercer Instl Intl Equity Median</i>			16.4%		3.4%		6.8%		-7.6%		4.0%		--	Jan-98

# Total Plan

## Performance Summary - Gross of Fees

Name	Current Market Value	Current Allocation	Ending September 30, 2010										Inception	
			3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
William Blair & Company	\$455,200,374	11.2%	16.6%	44	11.5%	3	16.6%	5	-7.5%	49	4.8%	35	8.2%	Nov-03
<i>MSCI AC World ex USA (Gross)</i>			16.7%	43	4.1%	42	8.0%	43	-7.0%	44	4.7%	37	9.4%	Nov-03
<i>MSCI EAFE Growth</i>			16.6%	46	4.1%	42	8.4%	40	-8.4%	60	2.8%	72	6.6%	Nov-03
<i>Mercer Instl Intl Equity Median</i>			16.4%		3.4%		6.8%		-7.6%		4.0%		--	Nov-03
Dimensional Fund Advisors Inc.	\$110,086,623	2.7%	15.4%	83	5.5%	92	3.6%	99	-6.9%	52	--	--	-0.3%	Mar-06
<i>MSCI EAFE Small Cap Price Index</i>			16.8%	74	7.1%	84	5.8%	91	-9.1%	78	-0.1%	99	-3.8%	Mar-06
<i>MSCI EAFE Small Cap</i>			17.6%	58	9.4%	64	8.3%	82	-6.5%	50	2.4%	86	-1.3%	Mar-06
<i>Mercer Instl Intl Equity Small Cap Median</i>			17.8%		10.7%		12.9%		-6.6%		5.7%		1.8%	Mar-06
<b>Total Fixed Income Composite</b>	<b>\$1,132,134,381*</b>	<b>27.8%</b>	<b>4.4%</b>	<b>26</b>	<b>9.8%</b>	<b>34</b>	<b>12.2%</b>	<b>31</b>	<b>9.2%</b>	<b>18</b>	<b>8.1%</b>	<b>14</b>	<b>8.9%</b>	<b>Dec-87</b>
<i>Barclays Capital Aggregate</i>			2.5%	73	7.9%	65	8.2%	71	7.4%	60	6.2%	67	7.5%	Dec-87
<i>Mercer Instl US Fixed Combined Median</i>			3.0%		8.6%		9.7%		7.8%		6.7%		7.7%	Dec-87
BlackRock Intermediate Agg	\$315,359,897	7.7%	2.1%	88	7.1%	78	7.7%	76	7.3%	71	6.2%	72	6.2%	Jun-99
<i>Barclays Capital Int Aggregate</i>			2.1%	91	7.0%	81	7.5%	78	7.1%	78	6.1%	78	6.1%	Jun-99
<i>Mercer Instl US Fixed Intermediate Median</i>			2.8%		7.7%		8.3%		7.6%		6.5%		6.4%	Jun-99
Reams Asset Management	\$299,306,061	7.3%	2.9%	89	9.8%	49	10.8%	67	10.6%	9	8.5%	11	7.2%	Dec-01
<i>Barclays Capital Aggregate</i>			2.5%	99	7.9%	99	8.2%	99	7.4%	71	6.2%	77	5.9%	Dec-01
<i>Mercer Instl US Fixed Core Opportunistic Median</i>			3.7%		9.8%		11.7%		8.3%		7.0%		6.9%	Dec-01
Loomis, Sayles & Company, L.P.	\$517,468,422	12.7%	6.7%	4	11.4%	13	15.8%	8	8.9%	40	8.6%	9	10.2%	Nov-87
<i>Barclays Capital Aggregate</i>			2.5%	99	7.9%	99	8.2%	99	7.4%	71	6.2%	77	7.5%	Nov-87
<i>Mercer Instl US Fixed Core Opportunistic Median</i>			3.7%		9.8%		11.7%		8.3%		7.0%		--	Nov-87
<b>Total Private Equity</b>	<b>\$6,097,484</b>	<b>0.1%</b>	<b>0.0%</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>-5.7%</b>	<b>Jun-10</b>
<i>RUSSELL 3000 (ON A QUARTER LAG) + 3%</i>			-10.9%	--	1.6%	--	18.7%	--	-6.4%	--	2.6%	--	-5.0%	Jun-10
Abbott Capital Management	\$489,076	0.0%	-55.1%	--	--	--	--	--	--	--	--	--	-55.2%	Jun-10
<i>RUSSELL 3000 (ON A QUARTER LAG) + 3%</i>			-10.9%	--	1.6%	--	18.7%	--	-6.4%	--	2.6%	--	-5.0%	Jun-10

\*Excludes \$12.8 million in cash.

## Total Plan

### Performance Summary - Gross of Fees

Name	Current Market Value	Current Allocation	Ending September 30, 2010										Inception	
			3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
Mesirow Financial	\$5,608,408	0.1%	3.9%	--	--	--	--	--	--	--	--	--	-2.2%	Jun-10
<i>RUSSELL 3000 (ON A QUARTER LAG) + 3%</i>			-10.9%	--	1.6%	--	18.7%	--	-6.4%	--	2.6%	--	-5.0%	Jun-10
<b>Total Real Estate Composite</b>	<b>\$212,379,615</b>	<b>5.2%</b>	<b>3.2%</b>	<b>99</b>	<b>-2.3%</b>	<b>99</b>	<b>-9.6%</b>	<b>--</b>	<b>-16.3%</b>	<b>76</b>	<b>-2.5%</b>	<b>63</b>	<b>4.9%</b>	<b>May-86</b>
<i>NCREIF Property (1 Qtr in Arrears)</i>			3.3%	99	1.9%	96	-1.5%	90	-4.7%	12	3.8%	12	6.8%	May-86
<i>Mercer Instl US Real Estate Open End Median</i>			5.9%		11.3%		6.8%		-12.6%		-1.1%		--	May-86
Real Estate	\$212,379,615	5.2%	3.2%	99	-2.3%	99	-9.6%	99	-16.3%	76	-2.5%	63	4.9%	May-86
<i>NCREIF Property (1 Qtr in Arrears)</i>			3.3%	99	1.9%	96	-1.5%	90	-4.7%	12	3.8%	12	6.8%	May-86
<i>Mercer Instl US Real Estate Open End Median</i>			5.9%		11.3%		6.8%		-12.6%		-1.1%		--	May-86
Transition Account	\$36,728	0.0%	14.0%	--	--	--	--	--	--	--	--	--	-1.5%	Mar-10

# Total Plan

## Performance Summary - Net of Fees

### Total Plan Performance

Name	Current Market Value	Current Allocation	Ending September 30, 2010										Inception	
			3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
<b>Total Fund</b>	<b>\$4,078,212,300*</b>	<b>100.0%</b>	<b>9.8%</b>	<b>19</b>	<b>6.4%</b>	<b>67</b>	<b>9.7%</b>	<b>68</b>	<b>-3.5%</b>	<b>86</b>	<b>2.8%</b>	<b>91</b>	<b>9.1%</b>	<b>Nov-78</b>
Total Fund Reference Index			9.5%	29	5.2%	92	8.3%	98	-2.6%	68	3.2%	78	--	Nov-78
CPI + 4%			0.9%	99	4.1%	99	5.1%	99	5.6%	5	5.9%	4	7.8%	Nov-78
Public Funds >\$1B Median			8.8%		7.0%		10.4%		-1.8%		3.8%		--	Nov-78
<b>Total Domestic Equity Composite</b>	<b>\$1,383,822,566</b>	<b>33.9%</b>	<b>11.2%</b>	<b>54</b>	<b>5.0%</b>	<b>59</b>	<b>10.6%</b>	<b>63</b>	<b>-7.8%</b>	<b>81</b>	<b>-0.4%</b>	<b>87</b>	<b>9.5%</b>	<b>Dec-87</b>
Russell 3000			11.5%	48	4.8%	61	11.0%	61	-6.6%	69	0.9%	71	9.6%	Dec-87
Mercer Instl US Equity Combined Median			11.4%		6.1%		12.2%		-4.9%		2.3%		11.3%	Dec-87
Northern Trust Global	\$321,422,271	7.9%	11.2%	54	4.0%	69	10.3%	66	-7.3%	77	0.5%	77	1.8%	Jun-98
S&P 500 Index (Total Return)			11.3%	52	3.9%	69	10.2%	67	-7.2%	75	0.6%	76	1.8%	Jun-98
Mercer Instl US Equity Combined Median			11.4%		6.1%		12.2%		-4.9%		2.3%		5.4%	Jun-98
BlackRock R1000 Alpha Tilts	\$172,911,285	4.2%	11.7%	28	1.2%	86	7.0%	86	-8.3%	87	-0.8%	93	2.5%	Apr-02
Russell 1000			11.6%	32	4.4%	33	10.8%	35	-6.8%	58	0.9%	64	3.1%	Apr-02
Mercer Instl US Equity Large Cap Core Median			11.1%		3.4%		9.6%		-6.3%		1.3%		--	Apr-02
Turner Investment Partners	\$233,871,179	5.7%	11.6%	68	4.4%	43	10.4%	63	-10.9%	98	-2.2%	98	3.1%	Jul-02
Russell 1000 Growth			13.0%	40	4.4%	43	12.7%	33	-4.4%	39	2.1%	55	5.1%	Jul-02
Mercer Instl US Equity Large Cap Growth Median			12.3%		4.0%		11.2%		-4.9%		2.2%		--	Jul-02
AllianceBernstein L.P.	\$209,983,945	5.1%	8.7%	90	1.1%	85	5.3%	88	-13.8%	99	-3.7%	99	5.4%	Jul-96
Russell 1000 Value			10.1%	61	4.5%	31	8.9%	44	-9.4%	82	-0.5%	77	7.1%	Jul-96
Mercer Instl US Equity Large Cap Value Median			10.5%		3.2%		8.5%		-7.4%		0.9%		--	Jul-96
Earnest Partners LLC	\$142,775,838	3.5%	12.0%	66	12.0%	27	18.6%	33	-2.0%	36	2.8%	53	5.2%	Apr-05
Russell Mid Cap			13.3%	36	11.0%	38	17.5%	38	-4.2%	61	2.6%	57	4.9%	Apr-05
Mercer Instl US Equity Mid Cap Core Median			12.8%		10.0%		16.2%		-3.4%		3.1%		--	Apr-05

\*Includes cash.

Note: Total Fund Reference Index consists of 45% Russell 3000, 28% Barclays Capital Aggregate, 20% MSCI EAFE (net) and 7% NCREIF Property (One Quarter in Arrears).

Mercer Investment Consulting, Inc.

# Total Plan

## Performance Summary - Net of Fees

Name	Current Market Value	Current Allocation	Ending September 30, 2010										Inception	
			3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
Dimensional Fund Advisors Inc.	\$215,452,975	5.3%	12.2%	22	12.7%	24	16.3%	37	-3.7%	69	1.6%	72	11.2%	Sep-96
<i>Russell 2000 Value</i>			9.7%	66	7.9%	70	11.8%	80	-5.0%	82	0.7%	82	8.6%	Sep-96
<i>Mercer Instl US Equity Small Cap Value Median</i>			10.6%		9.9%		14.8%		-2.2%		3.3%		11.2%	Sep-96
Allianz Global Investors Capital	\$87,405,073	2.1%	9.7%	82	--	--	--	--	--	--	--	--	-1.8%	Mar-10
<i>Russell 2000 Growth</i>			12.8%	38	10.2%	45	14.8%	54	-3.7%	41	2.3%	52	2.4%	Mar-10
<i>Mercer Instl US Equity Small Cap Growth Median</i>			11.9%		9.9%		15.2%		-5.3%		2.5%		2.4%	Mar-10
<b>Total Global Equity Composite</b>	<b>\$409,296,475</b>	<b>10.0%</b>	<b>14.7%</b>	<b>35</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>-1.0%</b>	<b>Mar-10</b>
<i>MSCI The World Index</i>			13.8%	56	2.6%	61	6.8%	67	-8.3%	65	1.3%	81	-0.6%	Mar-10
<i>Mercer Instl Global Equity Median</i>			14.0%		3.4%		8.4%		-7.0%		3.0%		0.3%	Mar-10
Grantham Mayo Van Otterloo	\$206,573,853	5.1%	14.0%	50	--	--	--	--	--	--	--	--	-1.1%	Mar-10
<i>MSCI The World Index</i>			13.8%	56	2.6%	61	6.8%	67	-8.3%	65	1.3%	81	-0.6%	Mar-10
<i>MSCI The World Value</i>			12.7%	75	1.2%	78	3.4%	88	-10.1%	82	0.3%	90	-2.1%	Mar-10
<i>Mercer Instl Global Equity Median</i>			14.0%		3.4%		8.4%		-7.0%		3.0%		0.3%	Mar-10
T. Rowe Price	\$202,722,621	5.0%	15.7%	20	--	--	--	--	--	--	--	--	15.7%	Jun-10
<i>MSCI AC World</i>			14.3%	42	3.6%	48	8.4%	50	-7.5%	54	2.4%	62	14.3%	Jun-10
<i>MSCI The World Growth</i>			14.8%	31	4.0%	42	10.2%	33	-6.6%	45	2.2%	67	14.8%	Jun-10
<i>Mercer Instl Global Equity Median</i>			14.0%		3.4%		8.4%		-7.0%		3.0%		14.0%	Jun-10
<b>Total Intl Equity Composite</b>	<b>\$921,639,325</b>	<b>22.6%</b>	<b>15.4%</b>	<b>75</b>	<b>6.1%</b>	<b>25</b>	<b>8.7%</b>	<b>38</b>	<b>-7.9%</b>	<b>55</b>	<b>3.7%</b>	<b>54</b>	<b>6.9%</b>	<b>Apr-96</b>
<i>MSCI EAFE</i>			16.5%	49	1.1%	81	3.3%	83	-9.5%	72	2.0%	84	4.0%	Apr-96
<i>Mercer Instl Intl Equity Median</i>			16.4%		3.4%		6.8%		-7.6%		4.0%		--	Apr-96
Brandes Investment Partners	\$356,352,328	8.7%	13.9%	89	0.4%	86	1.5%	94	-8.4%	60	2.7%	73	9.0%	Jan-98
<i>MSCI EAFE</i>			16.5%	49	1.1%	81	3.3%	83	-9.5%	72	2.0%	84	4.1%	Jan-98
<i>MSCI EAFE Value</i>			16.4%	52	-1.9%	96	-1.7%	99	-10.7%	85	1.1%	90	5.4%	Jan-98
<i>Mercer Instl Intl Equity Median</i>			16.4%		3.4%		6.8%		-7.6%		4.0%		--	Jan-98

# Total Plan

## Performance Summary - Net of Fees

Name	Current Market Value	Current Allocation	Ending September 30, 2010										Inception	
			3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
William Blair & Company	\$455,200,374	11.2%	16.5%	49	11.2%	4	16.1%	7	-7.9%	55	4.4%	43	7.8%	Nov-03
<i>MSCI AC World ex USA (Gross)</i>			16.7%	43	4.1%	42	8.0%	43	-7.0%	44	4.7%	37	9.4%	Nov-03
<i>MSCI EAFE Growth</i>			16.6%	46	4.1%	42	8.4%	40	-8.4%	60	2.8%	72	6.6%	Nov-03
<i>Mercer Instl Intl Equity Median</i>			16.4%		3.4%		6.8%		-7.6%		4.0%		--	Nov-03
Dimensional Fund Advisors Inc.	\$110,086,623	2.7%	15.2%	86	4.9%	95	2.9%	99	-7.6%	60	--	--	-1.0%	Mar-06
<i>MSCI EAFE Small Cap Price Index</i>			16.8%	74	7.1%	84	5.8%	91	-9.1%	78	-0.1%	99	-3.8%	Mar-06
<i>MSCI EAFE Small Cap</i>			17.6%	58	9.4%	64	8.3%	82	-6.5%	50	2.4%	86	-1.3%	Mar-06
<i>Mercer Instl Intl Equity Small Cap Median</i>			17.8%		10.7%		12.9%		-6.6%		5.7%		1.8%	Mar-06
<b>Total Fixed Income Composite</b>	<b>\$1,132,134,381*</b>	<b>27.8%</b>	<b>4.4%</b>	<b>26</b>	<b>9.7%</b>	<b>35</b>	<b>12.1%</b>	<b>32</b>	<b>9.1%</b>	<b>21</b>	<b>8.0%</b>	<b>15</b>	<b>8.8%</b>	<b>Dec-87</b>
<i>Barclays Capital Aggregate</i>			2.5%	73	7.9%	65	8.2%	71	7.4%	60	6.2%	67	7.5%	Dec-87
<i>Mercer Instl US Fixed Combined Median</i>			3.0%		8.6%		9.7%		7.8%		6.7%		7.7%	Dec-87
BlackRock Intermediate Agg	\$315,359,897	7.7%	2.1%	88	7.1%	78	7.7%	76	7.3%	71	6.2%	76	6.2%	Jun-99
<i>Barclays Capital Int Aggregate</i>			2.1%	91	7.0%	81	7.5%	78	7.1%	78	6.1%	78	6.1%	Jun-99
<i>Mercer Instl US Fixed Intermediate Median</i>			2.8%		7.7%		8.3%		7.6%		6.5%		6.4%	Jun-99
Reams Asset Management	\$299,306,061	7.3%	2.8%	90	9.7%	52	10.6%	68	10.4%	11	8.4%	16	7.0%	Dec-01
<i>Barclays Capital Aggregate</i>			2.5%	99	7.9%	99	8.2%	99	7.4%	71	6.2%	77	5.9%	Dec-01
<i>Mercer Instl US Fixed Core Opportunistic Median</i>			3.7%		9.8%		11.7%		8.3%		7.0%		6.9%	Dec-01
Loomis, Sayles & Company, L.P.	\$517,468,422	12.7%	6.7%	4	11.3%	17	15.6%	8	8.7%	43	8.5%	12	10.1%	Nov-87
<i>Barclays Capital Aggregate</i>			2.5%	99	7.9%	99	8.2%	99	7.4%	71	6.2%	77	7.5%	Nov-87
<i>Mercer Instl US Fixed Core Opportunistic Median</i>			3.7%		9.8%		11.7%		8.3%		7.0%		--	Nov-87
<b>Total Private Equity</b>	<b>\$6,097,484</b>	<b>0.1%</b>	<b>0.0%</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>-5.7%</b>	<b>Jun-10</b>
<i>RUSSELL 3000 (ON A QUARTER LAG) + 3%</i>			-10.9%	--	1.6%	--	18.7%	--	-6.4%	--	2.6%	--	-5.0%	Jun-10
Abbott Capital Management	\$489,076	0.0%	-55.1%	--	--	--	--	--	--	--	--	--	-55.2%	Jun-10
<i>RUSSELL 3000 (ON A QUARTER LAG) + 3%</i>			-10.9%	--	1.6%	--	18.7%	--	-6.4%	--	2.6%	--	-5.0%	Jun-10

\*Excludes \$12.8 million in cash.

## Total Plan

### Performance Summary - Net of Fees

Name	Current Market Value	Current Allocation	Ending September 30, 2010									Inception		
			3 Mo	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
Mesirow Financial	\$5,608,408	0.1%	3.9%	--	--	--	--	--	--	--	--	--	-2.2%	Jun-10
<i>RUSSELL 3000 (ON A QUARTER LAG) + 3%</i>			-10.9%	--	1.6%	--	18.7%	--	-6.4%	--	2.6%	--	-5.0%	Jun-10
<b>Total Real Estate Composite</b>	<b>\$212,379,615</b>	<b>5.2%</b>	<b>2.8%</b>	<b>--</b>	<b>-3.4%</b>	<b>--</b>	<b>-10.4%</b>	<b>--</b>	<b>-17.3%</b>	<b>89</b>	<b>-4.0%</b>	<b>81</b>	<b>3.5%</b>	<b>May-86</b>
<i>NCREIF Property (1 Qtr in Arrears)</i>			3.3%	99	1.9%	96	-1.5%	90	-4.7%	12	3.8%	12	6.8%	May-86
<i>Mercer Instl US Real Estate Open End Median</i>			5.9%		11.3%		6.8%		-12.6%		-1.1%		--	May-86
Real Estate	\$212,379,615	5.2%	2.8%	99	-3.4%	99	-10.4%	99	-17.3%	89	-4.0%	81	3.5%	May-86
<i>NCREIF Property (1 Qtr in Arrears)</i>			3.3%	99	1.9%	96	-1.5%	90	-4.7%	12	3.8%	12	6.8%	May-86
<i>Mercer Instl US Real Estate Open End Median</i>			5.9%		11.3%		6.8%		-12.6%		-1.1%		--	May-86
Transition Account	\$36,728	0.0%	14.0%	--	--	--	--	--	--	--	--	--	-1.5%	Mar-10

# Appendix

### Notes Specific to City of Milwaukee Employees' Retirement System

Prior to May 31, 1999, the Total Fund Reference Index was composed of the following indices: 47% Russell 3000, 24% Lehman Brothers Aggregate, 12% MSCI EAFE (net), 6% Salomon Brothers World Government Bond Index (hedged), 1.5% NAREIT All REIT, 3% MSCI Emerging Markets Free, and 5% SWIB.

From May 31, 1999 through December 31, 1999, the Total Fund Reference Index was comprised of the following indices: 53% Russell 3000, 32% Lehman Brothers Aggregate, 12% MSCI EAFE (net), 1.5% NCREIF Property, and 1.5% NAREIT All REIT.

From January 1, 2000 through April 30, 2006, the Total Fund Reference Index was comprised of the following indices: 50% Russell 3000, 30% Lehman Brothers Aggregate, 15% MSCI EAFE (net), 5% NCREIF Property. This change was made to reflect allocation adjustments decided at the November 1999 meeting.

Subsequent to April 30, 2006, the Total Fund Reference Index was comprised of the following indices: 45% Russell 3000, 28% Lehman Brothers Aggregate, 20% MSCI EAFE (net), 7% NCREIF Property. This change was made to reflect allocation adjustments decided at the November 1999 meeting.

Beginning July 1st, 2008, the Total Fund Reference Index is comprised of the following indices: 45% Russell 3000, 28% Barclays Capital Aggregate, 20% MSCI EAFE (net), 7% NCREIF Property (1Qtr in Arrears).

Beginning October 1st, 2008, the Total Equity Reference Index is comprised of 70% Russell 3000 and 30% MSCI EAFE (net). Prior to that, Total Equity Reference Index was Russell 3000

Prior to 2001, the Real Estate Benchmark was CPI plus 600 basis points per year. Since January 1, 2001, the Real Estate Benchmark is the NCREIF Property Index.

Monthly returns were provided by Asset Strategies, through second quarter 2000. Beginning third quarter 2000, monthly returns and asset holdings were provided by Northern Trust and real estate asset values and returns were provided by Townsend.

## Appendix

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For purposes of performance calculation, the inception dates for the managers refer to the first full quarter of performance. Following is a list of the inception dates for all of the managers:

<i><b>Manager</b></i>	<i><b>Inception Date</b></i>
Total Fund Composite	1Q1979
Total Domestic Equity Composite	1Q1988
Total Global Equity Composite	2Q 2010
Total International Equity Composite	3Q1996
Total Fixed Income Composite	1Q1988
Total Private Equity Composite	2Q 2010
Total Real Estate Composite	1Q1986
Northern Trust	3Q 1988
BGI Value Alpha Tilts	3Q 1996 — terminated during 2Q 2002
BlackRock (BGI) Alpha Tilts	3Q 2002
AllianceBernstein	4Q 1996
Brown Capital	3Q 1992 — terminated during 2Q 2005
Dimensional Fund Advisors SCV	4Q 1996
Turner Investment Partners	4Q 2002
Pilgrim Baxter	4Q 1992 — terminated during 4Q 2002
Artisan Partners	1Q 2003 — terminated during 1Q 2010
Brandes	1Q 1998
Putnam	1Q 1998 — terminated during 4Q 2003
William Blair	1Q 2004
BlackRock (BGI) Intermediate Aggregate	3Q 1999
Reams	1Q 2001
Loomis	1Q 1988
SWIB	4Q 1988 — removed during 2Q 2002
EARNEST Partners	2Q 2005
Dimension Fund Advisors Intl SC	3Q 2006
Allianz	1Q 2010
GMO	1Q 2010
T. Rowe Price	2Q 2010
Mesirow Financial	2Q 2010
Abbott	2Q 2010

**Benchmark Performance  
For the 10-Year Period Ended September 30, 2010  
(Percent Return)**

<b>Benchmark</b>	<b>10-Year Annualized Return</b>
Total Fund Composite	4.6
Total Domestic Equity Composite	2.1
Total Global Equity Composite	NA
Total International Equity Composite	5.2
Total Fixed Income Composite	7.8
Total Private Equity Composite	NA
Total Real Estate Composite	5.6
Russell 3000 Index	0.1
S&P 500 Index	-0.4
Russell 1000 Index	-0.2
Russell 1000 Growth Index	-3.4
Russell 1000 Value Index	2.6
Russell Mid Cap Index	4.9
Russell 2000 Value Index	7.7
Russell 2000 Growth Index	-0.1
MSCI EAFE Index (net)	2.6
MSCI AC World Ex USA Index (gross)	4.8
MSCI EAFE Small Cap Price Index	5.3
Barclays Capital Intermediate Aggregate Bond	6.1
Barclays Capital Aggregate Bond	6.4

**Mercer Manager Ratings as of September 30, 2010**

<b>Manager</b>	<b>Mercer Rating</b>
Northern Trust	N*
BlackRock Alpha Tilts	B+
Alliance (Bernstein)	B+(T)
Turner Investment Partners	N
EARNEST Partners	B+
Allianz	A
Dimensional Fund Advisors SCV	A
GMO	A
T. Rowe Price	A (T)
Brandes	A (T)
William Blair	A (T)
Dimensional Fund Advisors Intl SCV	A (T)
BlackRock BC Intermediate Aggregate	N*
Reams	B+(T)
Loomis	B+(T)
Abbott	A
Mesirow	A

\* Mercer does not currently rate passive strategies.

**Performance Reconciliation  
For the Quarter Ended September 30, 2010  
(Percent Return)**

<b>Manager</b>	<b>Northern Trust Calculated Return</b>	<b>Manager Calculated Return</b>
Northern Trust	11.2	11.2
BlackRock (Equity)	11.7	11.7
Turner	11.7	11.7
AllianceBernstein	8.8	8.8
EARNEST Partners	12.0	12.1
DFA	12.3	12.3
Allianz	9.9	9.9
GMO	14.1	14.1
T. Rowe Price	15.7	15.7
Brandes	14.0	13.8 *
William Blair	16.6	16.6
DFA Intl SC	15.4	16.4 *
BlackRock (Fixed Income)	2.1	2.1
Reams	2.9	3.0
Loomis	6.7	6.7

\* Differences in returns due to market value differences between the managers and the custodian.

## Fee Schedule

### Manager Roster and Fee Schedule

as of September 30, 2010

Account	Fee Schedule	Est. Minimum Annual Fee (\$)	Estimated Annual Fee (\$)	Estimated Annual Fee (%)
<b>Total Fund</b>	--		--	--
<b>Total Domestic Equity Composite</b>	--		--	--
Northern Trust Global	0.05% of First \$50.0 Mil, 0.03% of Next \$25.0 Mil, 0.02% of Next \$25.0 Mil, 0.01% Thereafter	\$0	\$59,642	0.02%
BlackRock R1000 Alpha Tilts	NA*		--	--
Turner Investment Partners	0.33% of First \$300.0 Mil, 0.30% Thereafter		\$771,775	0.33%
AllianceBernstein L.P.	0.90% of First \$15.0 Mil, 0.50% of Next \$35.0 Mil, 0.40% Thereafter		\$949,936	0.45%
Earnest Partners LLC	0.54% of First \$175.0 Mil, 0.50% Thereafter		\$763,851	0.54%
Dimensional Fund Advisors Inc.	\$126,171 Quarterly*		\$504,684	0.23%
Allianz Global Investors Capital	0.85% of First \$25.0 Mil, 0.70% of Next \$25.0 Mil, 0.60% of Next \$50.0 Mil, 0.50% Thereafter		\$611,930	0.70%
<b>Total Global Equity Composite</b>	--		--	--
Grantham Mayo Van Otterloo	\$169,596 Quarterly*		\$678,384	0.33%
T. Rowe Price	0.65% of First \$50.0 Mil, 0.60% of Next \$50.0 Mil, 0.55% of Next \$100.0 Mil, 0.50% Thereafter		\$1,188,613	0.59%

\*Performance based fees.

## Fee Schedule

Account	Fee Schedule	Est. Minimum Annual Fee (\$)	Estimated Annual Fee (\$)	Estimated Annual Fee (%)
<b>Total Intl Equity Composite</b>	--		--	--
Brandes Investment Partners	0.55% of First \$50.0 Mil, 0.50% of Next \$50.0 Mil, 0.45% of Next \$50.0 Mil, 0.40% of Next \$50.0 Mil, 0.35% Thereafter	\$0	\$1,497,233	0.42%
William Blair & Company	0.80% of First \$20.0 Mil, 0.60% of Next \$30.0 Mil, 0.50% of Next \$50.0 Mil, 0.45% of Next \$50.0 Mil, 0.40% of Next \$50.0 Mil, 0.30% Thereafter	\$0	\$1,780,601	0.39%
Dimensional Fund Advisors Inc.	0.71% of Assets	\$0	\$781,615	0.71%
<b>Total Fixed Income Composite</b>	--		--	--
BlackRock Intermediate Agg	0.02% of Assets	\$0	\$63,072	0.02%
Reams Asset Management	0.15% of First \$300.0 Mil, 0.10% Thereafter		\$448,959	0.15%
Loomis, Sayles & Company, L.P.	0.20% of First \$100.0 Mil, 0.14% Thereafter		\$784,456	0.15%
<b>Total Private Equity</b>	--		--	--
Abbott Capital Management	1.00% of First \$25.0 Mil, 0.90% of Next \$25.0 Mil, 0.75% of Next \$100.0 Mil, 0.50% Thereafter		\$4,891	1.00%
Mesirow Financial	0.73% of Assets		\$40,941	0.73%
<b>Total Real Estate Composite</b>	--		--	--
Real Estate	--		--	--
Transition Account	--		--	--
<b>Investment Management Fee</b>			<b>\$10,930,583</b>	<b>0.27%</b>

# Appendix

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## Appendix

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