

March 2006

Flash Report

The Employees' Retirement System of the
County of Milwaukee

MERCER

Investment Consulting

Trustees' Summary

The Total Fund had an aggregate market value of approximately \$1.6 billion at the end of March. The Total Fund gained 1.4% during the month, leading the Reference Index by 10 basis points.

The domestic equity markets experienced strong gains during March as large cap equity, as measured by the Russell 1000 Index, gained 1.4% and small cap equity, as measured by the Russell 2000 Index, returned 4.9%. Growth slightly outperformed value in both the large cap and small cap arenas.

The international equity markets posted gains during March as the EAFE Index of developed markets returned 3.3% in US dollar terms and emerging market equities, as measured by the MSCI Emerging Markets Index, gained 0.9%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, declined 1.0% during the month. High yield issues outperformed the broad market during the month, gaining 0.6% as measured by the Merrill Lynch Yield Index.

Recommendations and Comments

- The Fund is currently overweight mid cap equity and high yield fixed income and underweight core fixed income relative to the new investment policy.
- The following managers have presented a due diligence update during 2006: Hotchkis & Wiley (Jan), Reinhart & Mahoney (Feb), EARNEST Partners (Feb), Boston Partners (Feb) and Artisan Partners (March).
- Ariel Capital Management will present a due diligence update at the Pension Board meeting in April having been discussed in detail at the April Investment Committee meeting.

- The CPI plus benchmarks that have been added to the performance summary in this report are as of February 28, 2006. The one month lag is necessary due to the late release date of CPI numbers.

- The revised investment policy will be presented to the board for approval. The changes have been reviewed by the investment committee.

- Artisan's strategy was downgraded from an A to a B+ rating in March 2006. The downgrade was a result of some of the same concerns expressed at the March investment committee meeting. Specifically, a slightly larger universe (not investing in really small companies as they did in the past) and growing pains of the investment team having had to spend time on development/hiring of new team members contributed to the rating downgrade. We have confidence in the manager with B+ indicating still an above average probability of outperforming the benchmark.

- We have recently learned that Geoff Kuli, Senior Security Analyst, has left Westfield to pursue a portfolio management position elsewhere. Kuli was hired in 2005 to cover several industries within the Consumer and Industrial sectors after a five year stint at a competing growth equity shop in Boston. Westfield has indicated that it will not attempt to fill his position as the firm believes his responsibilities can be adequately assumed by the other analysts on staff. It is unclear what additional strain this will provide to those investment professionals at this time, however.

Westfield has repeatedly touted its compensation structure as being competitive and, as a result, it claims to have retained all of its productive analysts. That said, the firm is in the process of instituting a phantom equity program to include the analysts in the growth of the firm going forward.

We applaud the firm for making adjustments to its compensation structure to help retain its key personnel, but we do not feel this will completely eradicate the turnover issues among the investment professionals. We are currently reviewing our A-rating of the Westfield mandate and will notify the Board of any changes to our viewpoint.

MANAGER REPORTED PERFORMANCE
As of March 31, 2006

	Assets (\$ millions)	March	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,570.88	1.4	5.0	15.5	18.2	10.0	8.3	9.7	-	
vs. Composite Market Index		1.3	4.5	13.6	16.7	8.5	6.6	8.7	-	
CPI + 4% (1 Month in Arrears)		0.5	1.6	7.6	6.8	6.5	6.7	6.5	-	
<u>LARGE CAP VALUE EQUITY MANAGER</u>										
Boston Partners	160.54	1.6	5.1	18.3	22.3	8.7	9.7	11.5	12.5	8/1/95
Boston Partners - Net		1.6	5.1	18.1	22.1	8.5	9.4	11.2	12.2	
vs. Russell 1000 Value + 1%		1.4	6.2	14.3	22.8	8.8	7.5	12.0	13.0	
S&P 500 + 1%		1.3	4.5	12.7	18.2	5.0	2.7	10.0	11.0	
CPI + 7% (1 Month in Arrears)		0.8	2.7	10.6	9.8	9.5	9.7	9.5	9.5	
<u>LARGE CAP GROWTH EQUITY MANAGER</u>										
Mellon Capital Management - Ru 1000 Growth Index	99.66	1.5	3.1	13.2	14.8	N/A	N/A	N/A	-0.4	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		1.5	3.1	13.1	14.8	N/A	N/A	N/A	-0.4	
vs. Russell 1000 Growth		1.5	3.1	13.1	14.8	1.7	-2.6	6.5	-0.5	
<u>LARGE CAP EQUITY INDEX</u>										
Mellon Capital Management - S&P 500	116.93	1.3	4.2	11.8	17.3	4.0	1.7	9.0	10.8	4/13/95
Mellon Capital Management - S&P 500 - Net		1.3	4.2	11.7	17.2	4.0	1.7	9.0	10.8	
vs. S&P 500		1.2	4.2	11.7	17.2	4.0	1.7	9.0	10.7	
<u>MID CAP VALUE EQUITY MANAGER</u>										
Hotchkis & Wiley	45.99	2.7	7.7	20.7	N/A	N/A	N/A	N/A	17.8	2/18/05
Hotchkis & Wiley - Net		2.7	7.4	19.7	N/A	N/A	N/A	N/A	16.8	
vs. Russell Mid Cap Value + 1%		2.3	9.8	21.3	30.2	15.7	14.0	14.9	19.3	
CPI + 9% (1 Month in Arrears)		0.9	3.1	12.6	11.8	11.5	11.7	11.5	12.6	
<u>MID CAP GROWTH EQUITY MANAGER</u>										
Artisan Partners	46.43	2.7	7.7	22.3	23.8	9.0	N/A	N/A	5.9	6/12/00
Artisan Partners - Net		2.7	7.4	21.3	22.8	8.2	N/A	N/A	5.1	
vs. Russell Mid Cap Growth		2.8	7.6	22.7	25.7	9.0	5.8	9.4	-1.7	
CPI + 9% (1 Month in Arrears)		0.9	3.1	12.6	11.8	11.5	11.7	11.5	11.5	

(1) Total Fund returns represent actual returns through 12/31/2005 and estimated performance thereafter.

MANAGER REPORTED PERFORMANCE
As of March 31, 2006

<u>MID CAP CORE EQUITY</u>	<u>Assets</u> <u>(\$ millions)</u>	<u>March</u>	<u>Year To</u> <u>Date</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>7 Yrs</u>	<u>10 Yrs</u>	<u>Since</u> <u>Inception</u>	<u>Inception</u> <u>Date</u>
EARNEST Partners	42.48	2.4	7.9	22.2	N/A	N/A	N/A	N/A	22.6	2/18/05
EARNEST Partners - Net*		-	-	-	N/A	N/A	N/A	N/A	-	
vs. Russell Mid Cap Index + 1%		2.6	7.9	22.5	28.9	13.5	12.0	13.7	19.9	
CPI + 9% (1 Month in Arrears)		0.9	3.1	12.6	11.8	11.5	11.7	11.5	12.6	
Reinhart & Mahoney	12.08	3.7	10.4	22.9	N/A	N/A	N/A	N/A	21.3	2/18/05
Reinhart & Mahoney - Net		3.7	10.1	22.4	N/A	N/A	N/A	N/A	20.8	
vs. S&P 400		2.5	7.6	21.6	26.0	12.8	12.9	14.5	18.6	
CPI + 9% (1 Month in Arrears)		0.9	3.1	12.6	11.8	11.5	11.7	11.5	12.6	
<u>SMALL CAP EQUITY MANAGERS</u>										
Westfield Capital Management	50.77	3.7	15.0	28.9	28.0	10.4	N/A	N/A	7.7	2/6/01
Westfield Capital Management - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell 2000 Growth		4.9	14.4	27.8	28.1	8.6	5.4	5.5	6.4	
CPI + 9% (1 Month in Arrears)		0.9	3.1	12.6	11.8	11.5	11.7	11.5	11.5	
Ariel	43.57	3.1	9.2	10.3	23.9	14.2	14.8	16.5	16.7	11/30/95
Ariel - Net		3.0	9.1	9.8	23.4	13.7	14.3	16.1	16.3	
vs. Russell 2500 Value		3.5	10.5	21.6	30.1	16.2	15.6	14.5	14.8	
Russell 2500 + 2%		4.1	11.6	26.1	31.2	15.5	14.9	14.1	14.5	
CPI + 9% (1 Month in Arrears)		0.9	3.1	12.6	11.8	11.5	11.7	11.5	11.5	
<u>INTERNATIONAL EQUITY MANAGERS</u>										
Capital Guardian	85.33	3.0	7.8	29.6	30.5	10.2	9.1	11.5	10.8	9/1/94
Capital Guardian - Net		3.0	7.7	29.0	29.9	9.7	8.6	10.9	10.2	
vs. EAFE + 1%		3.4	9.7	25.9	32.7	11.0	7.0	7.8	7.8	
CPI + 8% (1 Month in Arrears)		0.8	2.9	11.6	10.8	10.5	10.7	10.5	10.5	
Grantham, Mayo	146.27	3.6	10.6	29.3	37.7	19.6	14.7	12.4	12.2	4/13/95
Grantham, Mayo - Net		3.5	10.4	28.3	36.7	18.7	13.8	11.6	11.4	
vs. EAFE + 1%		3.4	9.7	25.9	32.7	11.0	7.0	7.8	8.0	
CPI + 8% (1 Month in Arrears)		0.8	2.9	11.6	10.8	10.5	10.7	10.5	10.5	

*Net-of-fee returns for EARNEST Partners were unavailable at the time of production.

MANAGER REPORTED PERFORMANCE
As of March 31, 2006

	Assets (\$ millions)	March	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
INTERNATIONAL SMALL CAP EQUITY MANAGER										
Capital Guardian	59.35	3.6	10.2	49.9	49.0	19.7	15.2	N/A	12.0	10/31/97
Capital Guardian - Net		3.6	10.0	49.1	48.2	19.0	14.5	N/A	11.4	
vs. MSCI World Ex U.S. Small Cap + 1%		4.4	10.6	31.8	42.3	19.5	13.5	7.3	10.5	
CPI + 10% (1 Month in Arrears)		1.0	3.4	13.6	12.8	12.5	12.7	12.5	12.5	
CORE FIXED INCOME MANAGERS										
JPMorganChase	109.78	-0.9	-0.5	N/A	N/A	N/A	N/A	N/A	1.5	11/1/05
JPMorganChase - Net		-0.9	-0.5	N/A	N/A	N/A	N/A	N/A	1.4	
vs. LB G/C + 0.5%		-1.1	-0.9	2.5	3.3	5.7	6.2	6.8	0.6	
LB Aggregate + 0.5%		-0.9	-0.5	2.8	3.4	5.6	6.2	6.8	0.9	
CPI + 3% (1 Month in Arrears)		0.4	1.7	6.6	5.8	5.5	5.7	5.5	0.8	
Mellon Capital Management	208.22	-1.0	-0.6	2.3	2.9	5.2	5.7	6.4	6.0	1/31/96
Mellon Capital Management - Net		-1.0	-0.7	2.3	2.9	5.1	5.7	6.3	6.0	
vs. LB Aggregate		-1.0	-0.6	2.3	2.9	5.1	5.7	6.3	5.9	
Loomis, Sayles	89.48	-1.2	-0.4	2.9	6.9	9.1	8.4	8.6	9.9	6/30/91
Loomis, Sayles - Net		-1.2	-0.4	2.8	6.8	9.0	8.3	8.5	9.8	
vs. Fixed Income Reference Index + 0.5% (1)		-0.9	-0.5	2.8	3.4	5.6	5.6	7.0	8.0	
LB Aggregate + 0.5%		-0.9	-0.5	2.8	3.4	5.6	5.6	6.8	7.8	
CPI + 3.25% (1 Month in Arrears)		0.5	1.8	6.8	6.0	5.7	6.0	5.8	6.0	

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

MANAGER REPORTED PERFORMANCE
As of March 31, 2006

HIGH YIELD FIXED INCOME MANAGER	Assets (\$ millions)	March	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Loomis, Sayles	148.76	0.0	3.6	8.3	14.5	11.2	10.0	9.6	12.6	11/30/82
Loomis, Sayles - Net		0.0	3.6	8.1	14.4	11.1	9.8	9.5	12.5	
vs. Merrill Lynch High Yield + 1.5%		0.7	3.2	8.8	13.2	9.6	7.6	8.4	N/A	
CPI + 4.5% (1 Month in Arrears)		0.6	2.1	8.1	7.3	7.0	7.2	7.0	N/A	
REAL ESTATE MANAGERS										
ING Clarion Real Estate Securities	69.08	5.6	16.2	43.0	33.7	23.1	20.5	N/A	14.5	1/13/97
ING Clarion Real Estate Securities - Net		5.5	16.1	42.5	33.2	22.7	20.0	N/A	14.1	
vs. Wilshire REIT Index + 1%		5.2	16.0	43.2	34.2	24.0	21.6	17.8	15.6	
CPI + 5% (1 Month in Arrears)		0.6	2.2	8.6	7.8	7.5	7.7	7.5	7.5	
VENTURE CAPITAL MANAGERS										
Adams Street Partners (1)	16.30	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	10/1/92
Adams Street Partners (1)	0.40	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	1/2005
Progress (1)	1.10	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	7/1/95

(1) Market value is as of September 30, 2005

ASSET ALLOCATION
As of March 31, 2006

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Large Cap Equity	24.0 %	20.0 %	17.0 %	25.0 %
Boston Partners	10.2			
Mellon Capital Russell 1000 Growth	6.3			
Mellon Capital S&P 500	7.4			
Total Medium Cap Equity	9.4 %	6.0 %	4.0 %	7.5 %
Artisan Partners	3.0			
Hotchkis & Wiley	2.9			
EARNEST Partners	2.7			
Reinhart & Mahoney	0.8			
Total Small Cap Equity	6.0 %	5.0 %	3.0 %	6.5 %
Westfield	3.2			
Ariel	2.8			
Total International Equity	14.7 %	16.0 %	11.0 %	21.0 %
Capital Guardian	5.4			
Grantham, Mayo	9.3			
Int'l Small Cap Equity	3.8 %	4.0 %	0.0 %	7.0 %
Capital Guardian	3.8			
Venture Capital	1.1 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	59.0 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION
As of March 31, 2006

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Core Fixed Income	25.9 %	35.0 %	31.0 %	41.0 %
JP Morgan	7.0			
NCM	0.0			
Mellon Capital	13.3			
Loomis, Sayles	5.7			
High-Yield Fixed Income	9.5 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	9.5 %			
Cash	1.2 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	36.6 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	4.4 %	3.0 %	0.0 %	7.5 %
ALTERNATIVE INVESTMENTS	0.0 %	0.0 %	0.0 %	0.0 %
TOTAL	100.0 %	100.0 %		

**Average Credit Quality
of current Fixed Income managers**

JPMorgan	AA+
Mellon Capital Management:	AA1/AA2
Loomis Investment Grade:	AA
Loomis High Yield:	BB

**Mercer Ratings for
Current Managers**

	Mercer Rating		Mercer Rating
Large Cap Eq		Int'l Small Cap Eq	
Boston Partners	A	Cap. Guardian	B
Mellon Russell 1000 Growth	A		
Mellon S&P 500	A	Core Fixed	
		JP Morgan	A
		Mellon	A
		Loomis, Sayles	B+(T)
Mid & Small Cap Eq		High Yield Fixed	
Artisan	B+	Loomis, Sayles	B+(T)
Hotchkis & Wiley	A		
EARNEST Partners	B+	Real Estate	
Reinhart & Mahoney	B	ING Clarion	N
Westfield	A-		
Ariel	B		
Int'l Eq			
Cap. Guardian	B+		
Grantham, Mayo Intl Intrinsic Value	A		
Grantham, Mayo Intl Small Company	A		

**The Employees' Retirement System of the County of Milwaukee
Proposed Investment Manager Due Diligence 2006**

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

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

Notes:

The format and timings of all investment manager presentations are to be dictated by the Pension Board. Suggested discussion outline attached for all but venture capital, real estate managers and Loomis Sayles (who have to present two strategies under management). The middle of the year has been deliberately left less crowded to allow manager presentations to be brought forward should issues arise. This would also serve to free up the final quarter of the year.

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