

May 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 May. The Total Fund declined 2.5% during May, trailing the Reference Index by 40 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, returned -3.0% during May and small cap equity, as measured by the Russell 2000 Index, declined 5.6%. Value outperformed growth in both the large cap and small cap arenas.

The international equity markets struggled during May as the EAFE Index of developed markets returned -3.8% in US dollar terms and emerging market equities, as measured by the MSCI Emerging Markets Index, declined 10.5%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, declined 0.1% during the month. High yield issues performed in-line with the broad market during the month.

## 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.
- Mercer IC recently downgraded the rating for the Westfield small cap growth strategy to a “B+” rating (from an “A-” rating) due to staff turnover issues.
- The fund is midway through the search process to find a replacement for Ariel Capital Management. On site due diligence meetings were scheduled for mid June with Opus, Integrity and AQR.
- The Investment Policy has been amended to reflect the change in the benchmark for ING Clarion as approved by the board at the May meeting. ING will now be benchmark to the MSCI US REIT Index instead of the Dow Jones Wilshire REIT Index.

**MANAGER REPORTED PERFORMANCE**  
As of May 31, 2006

	<u>Assets</u> <u>(\$ millions)</u>	<u>May</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>
Total Fund (1)	1,571.36	-2.5	3.6	12.5	14.0	8.6	7.7	9.3	-	
vs. Composite Market Index		-2.1	3.5	10.7	12.5	7.2	6.1	8.4	-	
CPI + 4% (1 Month in Arrears)		1.2	3.7	7.5	7.1	6.6	6.8	6.6	-	
<b><u>LARGE CAP VALUE EQUITY MANAGER</u></b>										
Boston Partners	158.33	-3.0	3.9	16.2	16.3	7.0	8.3	11.0	12.2	8/1/95
Boston Partners - Net		-3.0	3.8	16.0	16.1	6.7	8.1	10.8	11.9	
vs. Russell 1000 Value + 1%		-2.4	6.3	13.6	16.9	7.3	6.3	11.8	12.8	
S&P 500 + 1%		-2.8	3.0	9.6	12.6	3.0	2.2	9.3	10.6	
CPI + 6.5% (1 Month in Arrears)		1.4	5.2	10.5	10.1	9.6	9.8	9.6	9.1	
<b><u>LARGE CAP GROWTH EQUITY MANAGER</u></b>										
Mellon Capital Management - Ru 1000 Growth Index	96.16	-3.4	-0.5	6.2	9.0	-1.1	N/A	-1.1	-1.1	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		-3.4	-0.5	6.2	9.0	-1.1	N/A	-1.1	-1.1	
vs. Russell 1000 Growth		-3.4	-0.5	6.1	9.0	-1.1	-2.6	-1.1	-1.1	
<b><u>LARGE CAP EQUITY INDEX</u></b>										
Mellon Capital Management - S&P 500	115.10	-2.9	2.6	8.7	11.7	2.0	1.3	8.4	10.5	4/13/95
Mellon Capital Management - S&P 500 - Net		-2.9	2.6	8.6	11.6	2.0	1.3	8.4	10.4	
vs. S&P 500		-2.9	2.6	8.6	11.6	2.0	1.2	8.3	10.4	
<b><u>MID CAP VALUE EQUITY MANAGER</u></b>										
Hotchkis & Wiley	43.80	-4.9	2.8	12.8	N/A	N/A	N/A	N/A	11.2	2/18/05
Hotchkis & Wiley - Net		-5.0	2.4	11.9	N/A	N/A	N/A	N/A	10.3	
vs. Russell Mid Cap Value + 1%		-2.0	10.0	18.3	23.1	13.6	12.3	14.5	15.6	
CPI + 5.7% (1 Month in Arrears)		1.6	6.0	12.5	12.1	11.6	11.8	11.6	10.0	
<b><u>MID CAP GROWTH EQUITY MANAGER</u></b>										
Artisan Partners	44.07	-5.8	2.3	13.6	16.0	5.1	N/A	N/A	4.9	6/12/00
Artisan Partners - Net		-5.9	1.9	12.7	15.0	4.3	N/A	N/A	4.0	
vs. Russell Mid Cap Growth		-4.7	3.0	15.6	17.6	4.9	4.7	8.2	-2.4	
CPI + 5.7% (1 Month in Arrears)		1.6	6.0	12.5	12.1	11.6	11.8	11.6	8.4	

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

**MANAGER REPORTED PERFORMANCE**  
As of May 31, 2006

<b><u>MID CAP CORE EQUITY</u></b>	<b>Assets (\$ millions)</b>	<b>Year To Date</b>	<b>May</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>7 Yrs</b>	<b>10 Yrs</b>	<b>Since Inception</b>	<b>Inception Date</b>
EARNEST Partners	40.81		-4.9	3.9	15.2	N/A	N/A	N/A	13.8	2/18/05
EARNEST Partners - Net*			--	--	--	N/A	N/A	N/A	--	
vs. Russell Mid Cap Index + 1%			-3.3	5.1	17.6	21.2	10.7	10.5	14.7	
CPI + 5.7% (1 Month in Arrears)			1.6	6.0	12.5	12.1	11.6	11.8	10.0	
Reinhart & Mahoney	11.95		-3.3	9.2	20.3	N/A	N/A	N/A	15.4	2/18/05
Reinhart & Mahoney - Net			-3.5	8.9	19.6	N/A	N/A	N/A	14.8	
vs. S&P 400			-4.5	4.2	15.6	18.6	9.2	11.1	13.0	
CPI + 5.7% (1 Month in Arrears)			1.6	6.0	12.5	12.1	11.6	11.8	10.0	
<b><u>SMALL CAP EQUITY MANAGERS</u></b>										
Westfield Capital Management	47.73		-6.8	8.2	17.6	17.6	6.9	N/A	6.3	2/6/01
Westfield Capital Management - Net			N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell 2000 Growth			-7.0	6.0	18.2	17.0	4.0	3.0	4.7	
CPI + 5.9% (1 Month in Arrears)			1.6	6.0	12.5	12.1	11.6	11.8	8.6	
Ariel	41.66		-2.6	4.7	5.0	17.0	12.2	13.1	16.0	11/30/95
Ariel - Net			-2.6	4.6	4.6	16.6	11.7	12.7	15.5	
vs. Russell 2500 Value			-3.5	7.1	16.0	21.4	13.5	13.2	14.2	
Russell 2500 + 2%			-4.6	7.1	19.1	21.9	12.0	12.6	13.8	
CPI + 5.9% (1 Month in Arrears)			1.6	6.0	12.5	12.1	11.6	11.8	8.5	
<b><u>INTERNATIONAL EQUITY MANAGERS</u></b>										
Capital Guardian	84.23		-4.7	7.1	31.2	23.7	9.0	8.7	10.6	9/1/94
Capital Guardian - Net			-4.7	6.9	30.6	23.1	8.5	8.1	10.0	
vs. EAFE + 1%			-3.7	10.9	29.8	26.4	10.5	7.3	7.7	
CPI + 6.7% (1 Month in Arrears)			1.5	5.6	11.5	11.1	10.6	10.8	9.3	
Grantham, Mayo	147.14		-4.5	11.4	32.3	30.3	18.7	14.2	12.1	4/13/95
Grantham, Mayo - Net			-4.6	11.1	31.4	29.3	17.8	13.4	11.3	
vs. EAFE + 1%			-3.7	10.9	29.8	26.4	10.5	7.3	8.0	
CPI + 6.7% (1 Month in Arrears)			1.5	5.6	11.5	11.1	10.6	10.8	9.3	

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

**MANAGER REPORTED PERFORMANCE****As of May 31, 2006**

<b>INTERNATIONAL SMALL CAP EQUITY MANAGER</b>	<b>Assets (\$ millions)</b>	<b>May</b>	<b>Year To Date</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>7 Yrs</b>	<b>10 Yrs</b>	<b>Since Inception</b>	<b>Inception Date</b>
Capital Guardian	60.11	-4.3	11.6	54.6	41.7	18.5	14.5	N/A	12.0	10/31/97
Capital Guardian - Net		-4.3	11.4	53.8	41.0	17.8	13.8	N/A	11.3	
vs. MSCI World Ex U.S. Small Cap + 1%		-5.7	9.0	33.9	34.0	17.2	12.7	6.8	10.1	
CPI + 6.9% (1 Month in Arrears)		1.6	6.4	13.5	13.1	12.6	12.8	12.6	9.5	
<b>CORE FIXED INCOME MANAGERS</b>										
JPMorganChase	108.93	0.2	-0.9	N/A	N/A	N/A	N/A	N/A	1.5	11/1/05
JPMorganChase - Net		0.2	-0.9	N/A	N/A	N/A	N/A	N/A	1.4	
vs. LB G/C + 0.5%		0.0	-1.2	-0.6	1.9	5.7	6.3	6.9	1.0	
LB Aggregate + 0.5%		-0.1	-0.7	0.0	2.4	5.5	6.2	6.8	1.3	
CPI + 2.6% (1 Month in Arrears)		1.1	3.6	6.5	6.1	5.6	5.8	5.6	2.7	
Mellon Capital Management	207.62	-0.1	-0.9	-0.4	1.9	5.1	5.8	6.4	5.9	1/31/96
Mellon Capital Management - Net		-0.1	-0.9	-0.5	1.9	5.0	5.7	6.4	5.9	
vs. LB Aggregate		-0.1	-0.9	-0.5	1.9	5.0	5.7	6.3	5.8	
Loomis, Sayles	89.01	-0.1	-0.3	1.5	4.6	8.9	8.4	8.6	9.8	6/30/91
Loomis, Sayles - Net		-0.1	-0.4	1.3	4.5	8.7	8.2	8.5	9.7	
vs. Fixed Income Reference Index + 0.5% (1)		-0.1	-0.7	0.0	2.4	5.5	5.5	7.1	7.9	
LB Aggregate + 0.5%		-0.1	-0.7	0.0	2.4	5.5	5.5	6.8	7.7	
CPI + 2.6% (1 Month in Arrears)		1.1	3.7	6.8	6.4	5.9	6.0	5.8	5.4	

(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 May 31, 2006

<b>HIGH YIELD FIXED INCOME MANAGER</b>	<b>Assets (\$ millions)</b>	<b>May</b>	<b>Year To Date</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>7 Yrs</b>	<b>10 Yrs</b>	<b>Since Inception</b>	<b>Inception Date</b>
Loomis, Sayles	146.67	-0.8	2.8	6.5	11.0	10.7	9.7	9.4	12.4	11/30/82
Loomis, Sayles - Net		-0.8	2.7	6.4	10.9	10.6	9.5	9.2	12.3	
vs. Merrill Lynch High Yield + 1.5%		0.0	4.0	8.5	11.0	9.5	7.5	8.4	N/A	
CPI + 5.0% (1 Month in Arrears)		1.2	4.2	8.0	7.6	7.1	7.3	7.1	N/A	
<b>REAL ESTATE MANAGERS</b>										
ING Clarion Real Estate Securities	64.46	-2.6	9.2	24.2	27.3	20.7	17.3	N/A	13.5	1/13/97
ING Clarion Real Estate Securities - Net		-2.6	9.1	23.7	26.9	20.3	16.9	N/A	13.0	
vs. Wilshire REIT Index + 1%		-2.8	8.6	22.5	27.3	21.2	18.4	16.7	14.5	
MSCI US REIT Index + 1%		-2.8	7.7	20.2	25.9	20.5	17.3	15.7	13.5	
CPI + 5.9% (1 Month in Arrears)		1.3	4.4	8.5	8.1	7.6	7.8	7.6	8.5	
<b>VENTURE CAPITAL MANAGERS</b>										
Adams Street Partners (1)	16.70	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (1)	2.50	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (1)	1.02	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	7/1/95

**ASSET ALLOCATION**  
**As of May 31, 2006**

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
<b>Total Large Cap Equity</b>	<b>23.5 %</b>	<b>20.0 %</b>	<b>17.0 %</b>	<b>25.0 %</b>
Boston Partners	10.1			
Mellon Capital Russell 1000 Growth	6.1			
Mellon Capital S&P 500	7.3			
<b>Total Medium Cap Equity</b>	<b>8.9 %</b>	<b>6.0 %</b>	<b>4.0 %</b>	<b>7.5 %</b>
Artisan Partners	2.8			
Hotchkis & Wiley	2.8			
EARNEST Partners	2.6			
Reinhart & Mahoney	0.8			
<b>Total Small Cap Equity</b>	<b>5.7 %</b>	<b>5.0 %</b>	<b>3.0 %</b>	<b>6.5 %</b>
Westfield	3.0			
Ariel	2.7			
<b>Total International Equity</b>	<b>14.7 %</b>	<b>16.0 %</b>	<b>11.0 %</b>	<b>21.0 %</b>
Capital Guardian	5.4			
Grantham, Mayo	9.4			
<b>Int'l Small Cap Equity</b>	<b>3.8 %</b>	<b>4.0 %</b>	<b>0.0 %</b>	<b>7.0 %</b>
Capital Guardian	3.8			
<b>Venture Capital</b>	<b>1.3 %</b>	<b>3.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>
<b>TOTAL EQUITY</b>	<b>58.0 %</b>	<b>54.0 %</b>	<b>37.0 %</b>	<b>74.0 %</b>

**ASSET ALLOCATION**  
**As of May 31, 2006**

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
<b>Total Core Fixed Income</b>	<b>25.8 %</b>	<b>35.0 %</b>	<b>31.0 %</b>	<b>41.0 %</b>
JP Morgan	6.9			
NCM	0.0			
Mellon Capital	13.2			
Loomis, Sayles	5.7			
<b>High-Yield Fixed Income</b>	<b>9.3 %</b>	<b>7.0 %</b>	<b>5.0 %</b>	<b>9.0 %</b>
Loomis, Sayles	9.3 %			
<b>Cash</b>	<b>2.8 %</b>	<b>1.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>
<b>TOTAL FIXED INCOME</b>	<b>37.9 %</b>	<b>43.0 %</b>	<b>34.0 %</b>	<b>55.0 %</b>
<b>REAL ESTATE</b>	<b>4.1 %</b>	<b>3.0 %</b>	<b>0.0 %</b>	<b>7.5 %</b>
<b>ALTERNATIVE INVESTMENTS</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>
<b>TOTAL</b>	<b>100.0 %</b>	<b>100.0 %</b>		

**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**

<b><i>Large Cap Eq</i></b>	<b>Mercer Rating</b>	<b><i>Int'l Small Cap Eq</i></b>	<b>Mercer Rating</b>
Boston Partners	A	Cap. Guardian	B
Mellon Russell 1000 Growth	A		
Mellon S&P 500	A		
<b><i>Mid &amp; Small Cap Eq</i></b>		<b><i>Core Fixed</i></b>	
Artisan	B+	JP Morgan	A
Hotchkis & Wiley	A	Mellon	A
EARNEST Partners	B+	Loomis, Sayles	B+(T)
Reinhart & Mahoney	B		
Westfield	B+	<b><i>High Yield Fixed</i></b>	
Ariel	B	Loomis, Sayles	B+(T)
<b><i>Int'l Eq</i></b>		<b><i>Real Estate</i></b>	
Cap. Guardian	B+	ING Clarion	N
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* (Terminated)
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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