

June 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 \$1.5 billion at the end of June. The Total Fund experienced a flat return during June, trailing the Reference Index by 20 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, gained 0.1% during June and small cap equity, as measured by the Russell 2000 Index, returned 0.6%. Value outperformed growth in both the large cap and small cap arenas.

The international equity markets returned 0.0% during June as measured by the EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, declined 0.2%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, advanced 0.2% during the month. High yield issues declined 0.4% as measured by the Merrill Lynch High 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 policy.
- Representatives from the Board and Mercer IC conducted onsite due diligence meetings with AQR, Integrity and Opus. A review of the onsite meetings was presented at the July 6th Investment Committee meeting.
- The Investment Committee has selected finalist for the small cap value search to replace Ariel. A summary of AQR and Opus has been prepared for presentation by Mercer IC at the July 19th meeting.
- Mercer IC recommends sourcing \$4 million from the Artisan account and \$3 million (each) from the Hotchkis & Wiley and Earnest Partners accounts to meet the \$10 million cash needs of the Fund for July.

**MANAGER REPORTED PERFORMANCE**  
As of June 30, 2006

	Assets (\$ millions)	June	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,531.40	0.0	3.6	10.9	13.6	8.8	7.3	9.3	-	
vs. Composite Market Index		0.2	3.7	9.4	12.0	7.4	5.7	8.4	-	
CPI + 4% (1 Month in Arrears)		0.8	4.5	8.2	7.3	6.6	6.9	6.6	-	
<b><u>LARGE CAP VALUE EQUITY MANAGER</u></b>										
Boston Partners	158.84	0.4	4.3	14.1	16.3	7.2	7.8	11.0	12.1	8/1/95
Boston Partners - Net		0.3	4.2	13.9	16.1	7.0	7.6	10.7	11.9	
vs. Russell 1000 Value + 1%		0.7	7.1	13.1	16.7	7.9	6.0	11.8	12.8	
S&P 500 + 1%		0.2	3.2	9.6	12.2	3.5	1.5	9.3	10.6	
CPI + 6.5% (1 Month in Arrears)		1.0	6.1	10.7	9.8	9.1	9.4	9.1	9.2	
<b><u>LARGE CAP GROWTH EQUITY MANAGER</u></b>										
Mellon Capital Management - Ru 1000 Growth Index	95.80	-0.4	-0.9	6.2	8.4	-0.7	N/A	N/A	-1.2	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		-0.4	-0.9	6.1	8.4	-0.7	N/A	N/A	-1.2	
vs. Russell 1000 Growth		-0.4	-0.9	6.1	8.3	-0.8	-3.6	5.4	-1.2	
<b><u>LARGE CAP EQUITY INDEX</u></b>										
Mellon Capital Management - S&P 500	115.27	0.2	2.7	8.7	11.3	2.5	0.5	8.4	10.4	4/13/95
Mellon Capital Management - S&P 500 - Net		0.1	2.7	8.7	11.2	2.5	0.5	8.4	10.4	
vs. S&P 500		0.1	2.7	8.6	11.2	2.5	0.5	8.3	10.4	
<b><u>MID CAP VALUE EQUITY MANAGER</u></b>										
Hotchkis & Wiley	41.35	0.3	3.1	8.7	N/A	N/A	N/A	N/A	10.7	2/18/05
Hotchkis & Wiley - Net		0.2	2.7	7.8	N/A	N/A	N/A	N/A	9.8	
vs. Russell Mid Cap Value + 1%		0.7	11.4	15.3	23.1	14.0	12.2	14.6	15.1	
CPI + 5.7% (1 Month in Arrears)		1.0	5.7	9.9	9.0	8.3	8.6	8.3	10.1	
<b><u>MID CAP GROWTH EQUITY MANAGER</u></b>										
Artisan Partners	41.67	0.3	2.6	12.9	16.0	5.4	N/A	N/A	4.9	6/12/00
Artisan Partners - Net		0.3	2.2	12.0	15.1	4.6	N/A	N/A	4.0	
vs. Russell Mid Cap Growth		-0.4	2.6	13.0	16.9	4.8	3.6	8.5	-2.4	
CPI + 5.7% (1 Month in Arrears)		1.0	5.7	9.9	9.0	8.3	8.6	8.3	8.5	

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

**MANAGER REPORTED PERFORMANCE**  
As of June 30, 2006

<b>MID CAP CORE EQUITY</b>	<b>Assets (\$ millions)</b>	<b>June</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>
EARNEST Partners	41.01	0.5	4.4	12.6	N/A	N/A	N/A	N/A	18.6	2/18/05
EARNEST Partners - Net*		-	-	-	N/A	N/A	N/A	N/A	-	
vs. Russell Mid Cap Index + 1%		0.2	5.3	14.7	20.9	10.9	10.0	13.1	13.8	
CPI + 5.7% (1 Month in Arrears)		1.0	5.7	9.9	9.0	8.3	8.6	8.3	10.1	
Reinhart & Mahoney	12.10	1.3	10.7	19.4	N/A	N/A	N/A	N/A	15.5	2/18/05
Reinhart & Mahoney - Net		1.3	10.3	18.7	N/A	N/A	N/A	N/A	15.0	
vs. S&P 400		0.0	4.2	13.0	18.1	9.3	10.3	13.8	12.1	
CPI + 5.7% (1 Month in Arrears)		1.0	5.7	9.9	9.0	8.3	8.6	8.3	10.1	
<b>SMALL CAP EQUITY MANAGERS</b>										
Westfield Capital Management	47.26	-1.0	7.1	13.8	17.0	6.5	N/A	N/A	6.0	2/6/01
Westfield Capital Management - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell 2000 Growth		0.1	6.1	14.6	16.3	3.5	2.2	4.1	4.6	
CPI + 5.9% (1 Month in Arrears)		1.0	5.8	10.1	9.2	8.5	8.8	8.5	8.6	
Ariel	40.44	-2.9	1.7	1.3	14.3	11.1	12.0	15.0	15.5	11/30/95
Ariel - Net		-3.0	1.5	0.9	13.9	10.6	11.6	14.6	15.1	
vs. Russell 2500 Value		0.6	7.7	12.5	21.0	13.4	12.8	13.9	14.1	
Russell 2500 + 2%		0.2	7.3	15.5	21.2	11.7	11.8	13.1	13.7	
CPI + 5.9% (1 Month in Arrears)		1.0	5.8	10.1	9.2	8.5	8.8	8.5	8.6	
<b>INTERNATIONAL EQUITY MANAGERS</b>										
Capital Guardian	83.73	-0.2	6.8	29.0	22.7	9.9	7.4	10.9	10.5	9/1/94
Capital Guardian - Net		-0.3	6.6	28.4	22.1	9.4	6.9	10.3	9.9	
vs. EAFE + 1%		0.1	11.0	28.1	25.4	11.4	6.8	7.8	7.7	
CPI + 6.7% (1 Month in Arrears)		1.0	6.2	10.9	10.0	9.3	9.6	9.3	9.4	
Grantham, Mayo	146.47	-0.4	10.9	28.9	28.7	18.8	13.4	12.2	12.0	4/13/95
Grantham, Mayo - Net		-0.5	10.5	28.0	27.8	18.0	12.6	11.4	11.2	
vs. EAFE + 1%		0.1	11.0	28.1	25.4	11.4	6.8	7.8	8.0	
CPI + 6.7% (1 Month in Arrears)		1.0	6.2	10.9	10.0	9.3	9.6	9.3	9.3	

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

**MANAGER REPORTED PERFORMANCE**

As of June 30, 2006

	Assets (\$ millions)	June	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
<b>INTERNATIONAL SMALL CAP EQUITY MANAGER</b>										
Capital Guardian	58.16	-3.3	8.0	44.4	38.3	19.3	12.7	N/A	11.4	10/31/97
Capital Guardian - Net		-3.3	7.7	43.7	37.5	18.6	12.0	N/A	10.8	
vs. MSCI World Ex U.S. Small Cap + 1%		-2.5	6.3	27.3	30.7	17.3	11.4	6.6	9.7	
CPI + 6.9% (1 Month in Arrears)		1.1	6.3	11.1	10.2	9.5	9.8	9.5	9.6	
<b>CORE FIXED INCOME MANAGERS</b>										
JPMorganChase	108.61	0.3	-0.4	N/A	N/A	N/A	N/A	N/A	1.6	11/1/05
JPMorganChase - Net		0.3	-0.5	N/A	N/A	N/A	N/A	N/A	1.5	
vs. LB G/C + 0.5%		0.3	-0.9	-1.0	2.1	5.6	6.4	6.8	0.6	
LB Aggregate + 0.5%		0.3	-0.5	-0.3	2.6	5.5	6.3	6.7	0.9	
CPI + 2.6% (1 Month in Arrears)		0.7	4.2	6.8	5.9	5.2	5.5	5.2	3.0	
Mellon Capital Management	208.07	0.2	-0.7	-0.8	2.1	5.0	5.9	6.3	5.9	1/31/96
Mellon Capital Management - Net		0.2	-0.7	-0.8	2.1	5.0	5.8	6.3	5.8	
vs. LB Aggregate		0.2	-0.7	-0.8	2.1	5.0	5.8	6.2	5.8	
Loomis, Sayles	88.95	0.2	-0.1	0.9	4.8	8.9	8.5	8.5	9.8	6/30/91
Loomis, Sayles - Net		0.2	-0.1	0.8	4.7	8.8	8.4	8.3	9.7	
vs. Fixed Income Reference Index + 0.5% (1)		0.3	-0.5	-0.3	2.6	5.5	5.5	7.0	7.9	
LB Aggregate + 0.5%		0.3	-0.5	-0.3	2.6	5.5	5.5	6.7	7.7	
CPI + 2.6% (1 Month in Arrears)		0.7	4.2	6.8	5.9	5.2	5.5	5.2	5.5	

(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 June 30, 2006

<b>HIGH YIELD FIXED INCOME MANAGER</b>	<b>Assets (\$ millions)</b>	<b>June</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	144.95	-0.8	2.0	3.8	10.0	10.7	9.5	9.3	12.4	11/30/82
Loomis, Sayles - Net		-0.8	1.9	3.7	9.8	10.6	9.4	9.1	12.2	
vs. Merrill Lynch High Yield + 1.5%		-0.2	3.8	6.1	9.9	9.9	7.5	8.3	N/A	
CPI + 5.0% (1 Month in Arrears)		0.9	5.4	9.2	8.3	7.6	7.9	7.6	N/A	
<b>REAL ESTATE MANAGERS</b>										
ING Clarion Real Estate Securities	68.31	6.2	16.0	25.1	28.8	20.7	18.6	N/A	14.1	1/13/97
ING Clarion Real Estate Securities - Net		6.2	15.9	24.8	28.4	20.3	18.2	N/A	13.6	
vs. Wilshire REIT Index + 1%		5.8	14.9	23.1	28.7	21.2	19.7	17.2	15.1	
MSCI US REIT Index + 1%		5.5	13.5	20.6	27.2	20.4	18.5	16.1	14.0	
CPI + 5.9% (1 Month in Arrears)		1.0	5.8	10.1	9.2	8.5	8.8	8.5	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 June 30, 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>24.2 %</b>	<b>20.0 %</b>	<b>17.0 %</b>	<b>25.0 %</b>
Boston Partners	10.4			
Mellon Capital Russell 1000 Growth	6.3			
Mellon Capital S&P 500	7.5			
<b>Total Medium Cap Equity</b>	<b>8.9 %</b>	<b>6.0 %</b>	<b>4.0 %</b>	<b>7.5 %</b>
Artisan Partners	2.7			
Hotchkis & Wiley	2.7			
EARNEST Partners	2.7			
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	3.1			
Ariel	2.6			
<b>Total International Equity</b>	<b>15.0 %</b>	<b>16.0 %</b>	<b>11.0 %</b>	<b>21.0 %</b>
Capital Guardian	5.5			
Grantham, Mayo	9.6			
<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>58.9 %</b>	<b>54.0 %</b>	<b>37.0 %</b>	<b>74.0 %</b>

**ASSET ALLOCATION**  
**As of June 30, 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>26.5 %</b>	<b>35.0 %</b>	<b>31.0 %</b>	<b>41.0 %</b>
JP Morgan	7.1			
NCM	0.0			
Mellon Capital	13.6			
Loomis, Sayles	5.8			
<b>High-Yield Fixed Income</b>	<b>9.5 %</b>	<b>7.0 %</b>	<b>5.0 %</b>	<b>9.0 %</b>
Loomis, Sayles	9.5 %			
<b>Cash</b>	<b>0.7 %</b>	<b>1.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>
<b>TOTAL FIXED INCOME</b>	<b>36.6 %</b>	<b>43.0 %</b>	<b>34.0 %</b>	<b>55.0 %</b>
<b>REAL ESTATE</b>	<b>4.5 %</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 Invesment Grade:	AA-
Loomis High Yield:	BB

**Mercer Ratings for  
Current Managers**

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