

January 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 January. The Total Fund gained 1.4% during the month, leading the Reference Index by 10 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, advanced 1.9% during the month and small cap equity, as measured by the Russell 2000 Index, gained 1.7%. Growth outperformed value in both the large cap and small cap arenas.

The international equity markets gained 0.7% in January, as measured by the EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, declined 1.0%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, experienced a flat return during the month. High yield issues led the broad market gaining 1.0%, as measured by the Merrill Lynch High Yield Index.

Recommendations and Comments

- The ERS was underweight core fixed income at the end of January.
- The January cash need of \$5 million was sourced from the Loomis High Yield account, which helped bring the asset class within its policy target ranges.
- EARNEST Partners will give a due diligence presentation at the meeting on February, 14, 2007 and Reinhart & Mahoney will present at the annual meeting the following week.
- During the month of January, it was determined that an in depth due diligence would be conducted on Capital Guardian. Capital Guardian manages assets in both the small and large cap space. The due diligence will be conducted during the February investment committee meeting.

MANAGER REPORTED PERFORMANCE
As of January 31, 2007

	Assets (\$ millions)	January	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,635.64	1.4	1.4	12.0	12.4	11.6	7.9	9.4	-	
vs. Composite Market Index		1.3	1.3	11.8	10.8	10.2	6.6	8.6	-	
CPI + 4% (1 Month in Arrears)		0.5	0.1	6.5	7.1	6.7	6.6	6.4	-	

LARGE CAP VALUE EQUITY MANAGER

Boston Partners	127.88	1.4	1.4	17.0	16.0	10.6	11.6	10.6	12.9	8/1/95
Boston Partners - Net		1.3	1.3	16.7	15.8	10.4	11.4	10.4	12.7	
vs. Russell 1000 Value + 1%		1.4	1.4	20.2	15.9	12.3	9.5	11.6	13.6	
S&P 500 + 1%		1.6	1.6	15.5	11.3	7.8	3.1	8.9	11.3	
CPI + 6.5% (1 Month in Arrears)		0.7	0.7	9.0	9.6	9.2	9.1	8.9	9.0	

LARGE CAP GROWTH EQUITY MANAGER

Mellon Capital Management - Ru 1000 Growth Index	74.34	2.6	2.6	10.0	7.1	3.6	N/A	N/A	1.1	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		2.6	2.6	10.0	7.1	3.6	N/A	N/A	1.1	
vs. Russell 1000 Growth		2.6	2.6	9.9	7.1	3.6	-3.9	5.0	1.1	

LARGE CAP EQUITY INDEX

Mellon Capital Management - S&P 500	121.37	1.5	1.5	14.6	10.4	6.9	2.2	8.0	11.1	4/13/95
Mellon Capital Management - S&P 500 - Net		1.5	1.5	14.5	10.3	6.8	2.1	8.0	11.1	
vs. S&P 500		1.5	1.5	14.5	10.3	6.8	2.1	7.9	11.1	

MID CAP VALUE EQUITY MANAGER

Hotchkis & Wiley	35.45	3.3	3.3	16.4	N/A	N/A	N/A	N/A	16.6	2/18/05
Hotchkis & Wiley - Net		3.2	3.2	15.4	N/A	N/A	N/A	N/A	15.7	
vs. Russell Mid Cap Value + 1%		3.2	3.2	19.8	19.9	17.4	16.8	14.6	19.3	
CPI + 5.7% (1 Month in Arrears)		0.6	0.6	8.2	8.8	8.4	8.3	8.1	8.5	

MID CAP GROWTH EQUITY MANAGER

Artisan Partners	34.75	2.1	2.1	6.9	11.3	8.9	N/A	N/A	5.9	6/12/00
Artisan Partners - Net		2.0	2.0	6.0	10.4	8.0	N/A	N/A	5.1	
vs. Russell Mid Cap Growth		3.6	3.6	8.2	12.8	9.7	1.2	8.5	-0.5	
CPI + 5.7% (1 Month in Arrears)		0.6	0.6	8.2	8.8	8.4	8.3	8.1	8.2	

(1) Total Fund returns represent actual returns through 9/30/2006 and estimated performance thereafter.

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE
As of January 31, 2007

<u>MID CAP CORE EQUITY</u>	<u>Assets</u> <u>(\$ millions)</u>	<u>Year To</u> <u>January</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	35.16	3.6	3.6	8.3	N/A	N/A	N/A	N/A	8.3	2/18/05
EARNEST Partners - Net		3.6	3.6	7.5	N/A	N/A	N/A	N/A	7.5	
vs. Russell Mid Cap Index + 1%		3.5	3.5	14.3	17.2	14.8	11.4	13.1	17.3	
CPI + 5.7% (1 Month in Arrears)		0.6	0.6	8.2	8.8	8.4	8.3	8.1	8.5	
Reinhart & Mahoney	13.64	2.8	2.8	18.0	N/A	N/A	N/A	N/A	18.1	2/18/05
Reinhart & Mahoney - Net		2.8	2.8	17.4	N/A	N/A	N/A	N/A	17.5	
vs. S&P 400		3.6	3.6	8.0	13.6	11.8	11.1	13.5	13.6	
CPI + 5.7% (1 Month in Arrears)		0.6	0.6	8.2	8.8	8.4	8.3	8.1	8.5	
<u>SMALL CAP EQUITY MANAGERS</u>										
Westfield Capital Management	50.22	2.5	2.5	3.3	10.0	10.6	N/A	N/A	6.5	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		1.9	1.9	5.3	9.3	8.1	0.2	4.8	5.7	
CPI + 5.9% (1 Month in Arrears)		0.6	0.6	8.4	9.0	8.6	8.5	8.3	8.3	
AQR	44.56	2.5	2.5	N/A	N/A	N/A	N/A	N/A	8.4	10/2/2006
AQR - Net		2.5	2.5	N/A	N/A	N/A	N/A	N/A	8.4	
vs. Russell 2000 Value		1.5	1.5	15.8	15.7	15.4	16.9	13.3	10.7	
Russell 2000 + 2%		1.8	1.8	12.4	14.6	14.0	10.4	11.4	11.2	
CPI + 5.9% (1 Month in Arrears)		0.6	0.6	8.4	9.0	8.6	8.5	8.3	0.4	
<u>INTERNATIONAL EQUITY MANAGERS</u>										
Capital Guardian	94.25	0.9	0.9	14.9	17.7	15.5	4.8	11.3	11.1	9/1/94
Capital Guardian - Net		0.8	0.8	14.4	17.1	14.9	4.3	10.8	10.5	
vs. EAFE + 1%		0.8	0.8	21.3	21.1	17.9	6.9	9.5	8.6	
CPI + 6.7% (1 Month in Arrears)		0.7	0.7	9.2	9.8	9.4	9.3	9.1	9.2	
Grantham, Mayo	167.83	1.0	1.0	20.3	23.1	23.8	15.6	13.3	12.7	4/13/95
Grantham, Mayo - Net		0.9	0.9	19.5	22.2	22.9	14.8	12.5	11.9	
vs. EAFE + 1%		0.8	0.8	21.3	21.1	17.9	6.9	9.5	8.9	
CPI + 6.7% (1 Month in Arrears)		0.7	0.7	9.2	9.8	9.4	9.3	9.1	9.2	

MANAGER REPORTED PERFORMANCE
As of January 31, 2007

INTERNATIONAL SMALL CAP EQUITY MANAGER	Assets (\$ millions)	January	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Capital Guardian	66.61	0.8	0.8	15.9	30.0	27.0	9.2	N/A	12.3	10/31/97
Capital Guardian - Net		0.7	0.7	15.3	29.3	26.3	8.6	N/A	11.7	
vs. MSCI World Ex U.S. Small Cap + 1% CPI + 6.9% (1 Month in Arrears)		2.1 0.7	2.1 0.7	12.9 9.4	22.5 10.0	23.4 9.6	12.5 9.5	8.7 9.3	10.6 9.4	
CORE FIXED INCOME MANAGERS										
JPMorganChase	110.86	0.0	0.0	4.6	N/A	N/A	N/A	N/A	5.3	11/1/05
JPMorganChase - Net		0.0	0.0	4.4	N/A	N/A	N/A	N/A	5.0	
vs. LB G/C + 0.5% LB Aggregate + 0.5% CPI + 2.6% (1 Month in Arrears)		0.0 0.0 0.4	0.0 0.0 0.4	4.4 4.8 5.1	3.6 3.9 5.7	5.5 5.4 5.3	7.1 7.0 5.2	6.7 6.7 5.0	4.6 5.1 3.7	
Mellon Capital Management	284.58	0.0	0.0	4.3	3.4	4.9	6.6	6.3	6.0	1/31/96
Mellon Capital Management - Net		0.0	0.0	4.3	3.4	4.9	6.5	6.2	6.0	
vs. LB Aggregate		0.0	0.0	4.3	3.4	4.9	6.5	6.2	5.9	
Loomis, Sayles	97.47	0.0	0.0	6.4	5.5	8.8	9.6	8.4	9.9	6/30/91
Loomis, Sayles - Net		-0.1	-0.1	6.3	5.4	8.7	9.5	8.2	9.7	
vs. Fixed Income Reference Index + 0.5% (1) LB Aggregate + 0.5% CPI + 2.6% (1 Month in Arrears)		0.0 0.0 0.4	0.0 0.0 0.4	4.8 4.8 5.1	3.9 3.9 5.7	5.4 5.4 5.3	7.0 7.0 5.2	6.9 6.7 5.0	8.0 7.8 5.3	

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

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE
As of January 31, 2007

HIGH YIELD FIXED INCOME MANAGER	Assets (\$ millions)	Year To Date	January	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Loomis, Sayles	140.95	0.5	0.5	9.5	8.4	12.2	10.4	9.2	12.4	11/30/82
Loomis, Sayles - Net		0.5	0.5	9.4	8.3	12.1	10.2	9.1	12.3	
vs. Merrill Lynch High Yield + 1.5%		1.2	1.2	12.5	9.7	11.5	9.0	8.4	N/A	
CPI + 5.0% (1 Month in Arrears)		0.6	0.6	7.5	8.1	7.7	7.6	7.4	N/A	
REAL ESTATE MANAGERS										
ING Clarion Real Estate Securities	86.82	9.5	9.5	40.8	30.6	27.0	24.8	16.2	16.2	1/13/97
ING Clarion Real Estate Securities - Net		9.5	9.5	40.3	30.1	26.5	24.4	15.8	15.7	
vs. Wilshire REIT Index + 1%		8.9	8.9	38.5	30.3	27.1	25.5	17.2	17.1	
MSCI US REIT Index + 1%		8.8	8.7	38.2	28.8	26.4	24.5	16.3	16.2	
CPI + 5.9% (1 Month in Arrears)		0.6	0.6	8.4	9.0	8.6	8.5	8.3	8.3	
VENTURE CAPITAL MANAGERS										
Adams Street Partners (1)	24.18	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (2)	--	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (1)	2.90	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	7/1/95

(1) Consists of the most recently available custody Market Value to account for the cash the manager does not include in their values.

(2) The assets invested with Adams Street Partners is aggregated to account for the custody cash.

Policy Measures are Highlighted

ASSET ALLOCATION
As of January 31, 2007

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Large Cap Equity	19.8 %	20.0 %	17.0 %	25.0 %
Boston Partners	7.8			
Mellon Capital Russell 1000 Growth	4.5			
Mellon Capital S&P 500	7.4			
Total Medium Cap Equity	7.3 %	6.0 %	4.0 %	7.5 %
Artisan Partners	2.1			
Hotchkis & Wiley	2.2			
EARNEST Partners	2.1			
Reinhart & Mahoney	0.8			
Total Small Cap Equity	5.8 %	5.0 %	3.0 %	6.5 %
Westfield	3.1			
AQR	2.7			
Total International Equity	16.0 %	16.0 %	11.0 %	21.0 %
Capital Guardian	5.8			
Grantham, Mayo	10.3			
Int'l Small Cap Equity	4.1 %	4.0 %	0.0 %	7.0 %
Capital Guardian	4.1			
Venture Capital	1.7 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	54.6 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION
As of January 31, 2007

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Core Fixed Income	30.1 %	35.0 %	31.0 %	41.0 %
JP Morgan	6.8			
NCM	0.0			
Mellon Capital	17.4			
Loomis, Sayles	6.0			
High-Yield Fixed Income	8.6 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	8.6 %			
Cash	1.3 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	40.1 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	5.3 %	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**

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

**The Employees' Retirement System of the County of Milwaukee
Proposed Investment Manager Due Diligence 2007**

<u>Date</u>	<u>Managers Invited to Present</u>
17-January	Hotchkis & Wiley
14-February	EARNEST Partners
21-February	Reinhart & Mahoney
15-March	Artisan *
19-April	Boston Partners
17-May	
21-June	Adam Street Partners
19-July	ING Clarion
16-August	Westfield Capital & Acadian
20-September	Capital Guardian and GMO
18-October	
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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