

May 2007

## **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 just over \$1.69 billion at the end of May. The Total Fund gained 1.8% during the month, outpacing the Reference Index by 0.4%.

The large cap domestic equity market, as measured by the Russell 1000 Index, advanced 3.6% during the month and small cap equity, as measured by the Russell 2000 Index, gained 4.1%. Growth matched value in the large cap space, but outperformed value in the small cap space.

The international equity markets gained 1.9% in May, as measured by the EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, advanced 5.0%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, declined 0.8% during the month. High yield issues outpaced the broad market gaining 0.7%, as measured by the Merrill Lynch High Yield Index.

**Recommendations and Comments**

- The ERS was underweight core fixed income at the end of May.
- Performance for the non-funded managers in the mid cap segment, LSV and Franklin Portfolio Associates, is included on page 6.
- Due diligence reviews of AQR and Baring Asset Management, the international equity finalist candidates, has been completed and a hiring decision is pending.

**MANAGER REPORTED PERFORMANCE**  
As of May 31, 2007

	Assets (\$ millions)	May	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,690.30	1.8	6.8	17.7	14.3	12.3	8.6	9.4	-	
vs. Composite Market Index		1.4	6.4	16.9	12.9	10.9	7.3	8.6	-	
CPI + 4% (1 Month in Arrears)		1.0	3.1	6.6	7.2	6.8	6.7	6.6	-	
<b><u>LARGE CAP VALUE EQUITY MANAGER</u></b>										
Boston Partners	137.38	3.7	9.5	26.3	18.9	12.2	11.5	10.5	13.3	8/1/95
Boston Partners - Net		3.7	9.4	26.0	18.6	12.0	11.3	10.2	13.0	
vs. Russell 1000 Value + 1%		3.7	9.0	26.6	18.8	13.5	10.0	11.6	13.9	
S&P 500 + 1%		3.6	9.0	23.8	14.0	10.5	3.8	8.8	11.7	
CPI + 6.5% (1 Month in Arrears)		1.2	4.0	9.1	9.7	9.3	9.2	9.1	9.1	
<b><u>LARGE CAP GROWTH EQUITY MANAGER</u></b>										
Mellon Capital Management - Ru 1000 Growth Index	79.54	3.6	9.8	20.4	9.7	7.6	N/A	N/A	2.2	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		3.6	9.7	20.4	9.7	7.5	N/A	N/A	2.2	
vs. Russell 1000 Growth		3.6	9.8	20.4	9.7	7.5	-3.2	5.0	2.2	
<b><u>LARGE CAP EQUITY INDEX</u></b>										
Mellon Capital Management - S&P 500	130.03	3.5	8.8	22.8	13.1	9.5	2.8	7.8	11.4	4/13/95
Mellon Capital Management - S&P 500 - Net		3.5	8.8	22.8	13.0	9.5	2.8	7.8	11.4	
vs. S&P 500		3.5	8.8	22.8	13.0	9.5	2.8	7.8	11.4	
<b><u>MID CAP VALUE EQUITY MANAGER</u></b>										
Hotchkis & Wiley	35.84	3.1	10.8	26.4	N/A	N/A	N/A	N/A	17.6	2/18/05
Hotchkis & Wiley - Net		3.0	10.4	25.4	N/A	N/A	N/A	N/A	16.7	
vs. Russell Mid Cap Value + 1%		3.5	12.1	27.4	22.9	17.8	16.6	14.8	20.7	
CPI + 5.7% (1 Month in Arrears)		1.1	3.8	8.3	8.9	8.5	8.4	8.3	9.2	
<b><u>MID CAP GROWTH EQUITY MANAGER</u></b>										
Artisan Partners	38.27	5.2	15.7	24.9	16.0	12.0	N/A	N/A	7.5	6/12/00
Artisan Partners - Net		5.1	15.3	23.9	15.1	11.1	N/A	N/A	6.7	
vs. Russell Mid Cap Growth		4.1	12.9	21.3	15.8	13.2	2.2	9.1	0.7	
CPI + 5.7% (1 Month in Arrears)		1.1	3.8	8.3	8.9	8.5	8.4	8.3	8.4	

(1) Total Fund returns represent actual returns through 3/31/2007 and estimated performance thereafter.

Policy Measures are Highlighted

**MANAGER REPORTED PERFORMANCE**  
As of May 31, 2007

<b>MID CAP CORE EQUITY</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>
EARNEST Partners	35.87	5.3	12.7	20.3	N/A	N/A	N/A	N/A	16.6	2/18/05
EARNEST Partners - Net		5.3	12.4	19.3	N/A	N/A	N/A	N/A	15.8	
vs. Russell Mid Cap Index + 1%		3.9	12.7	24.8	20.1	16.3	11.9	13.5	19.0	
CPI + 5.7% (1 Month in Arrears)		1.1	3.8	8.3	8.9	8.5	8.4	8.3	9.2	
Reinhart & Mahoney	14.96	4.6	13.8	26.7	N/A	N/A	N/A	N/A	20.2	2/18/05
Reinhart & Mahoney - Net		4.5	12.9	26.0	N/A	N/A	N/A	N/A	19.6	
vs. S&P 400		5.0	14.5	21.2	16.9	12.9	11.1	13.9	16.5	
CPI + 5.7% (1 Month in Arrears)		1.1	3.8	8.3	8.9	8.5	8.4	8.3	9.2	
<b>SMALL CAP EQUITY MANAGERS</b>										
Westfield Capital Management	53.93	4.0	10.1	13.4	11.0	10.7	N/A	N/A	7.4	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		4.6	10.0	17.6	13.2	11.2	2.7	5.7	6.7	
CPI + 5.9% (1 Month in Arrears)		1.1	3.9	8.5	9.1	8.7	8.6	8.5	8.6	
AQR	46.84	4.0	7.7	N/A	N/A	N/A	N/A	N/A	13.9	10/2/2006
AQR - Net		4.0	7.7	N/A	N/A	N/A	N/A	N/A	13.9	
vs. Russell 2000 Value		3.7	6.3	20.3	17.9	14.6	16.8	13.0	15.9	
Russell 2000 + 2%		4.3	8.5	20.9	17.6	15.1	12.0	11.7	18.9	
CPI + 5.9% (1 Month in Arrears)		1.1	3.9	8.5	9.1	8.7	8.6	8.5	7.3	
<b>INTERNATIONAL EQUITY MANAGERS</b>										
Capital Guardian	102.82	3.4	11.1	25.3	21.7	15.9	6.5	11.1	11.7	9/1/94
Capital Guardian - Net		3.3	10.9	24.7	21.1	15.4	6.0	10.6	11.1	
vs. EAFE + 1%		2.0	11.2	28.4	24.6	18.2	8.6	9.6	9.2	
CPI + 6.7% (1 Month in Arrears)		1.2	4.1	9.3	9.9	9.5	9.4	9.3	9.3	
Grantham, Mayo	185.58	3.4	11.9	27.3	26.7	22.7	17.5	14.1	13.3	4/13/95
Grantham, Mayo - Net		3.3	11.6	26.5	25.8	21.8	16.6	13.2	12.5	
vs. EAFE + 1%		2.0	11.2	28.4	24.6	18.2	8.6	9.6	9.6	
CPI + 6.7% (1 Month in Arrears)		1.2	4.1	9.3	9.9	9.5	9.4	9.3	9.3	

Policy Measures are Highlighted

**MANAGER REPORTED PERFORMANCE**  
As of May 31, 2007

<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	73.84	2.2	11.7	22.8	32.5	25.9	10.6	N/A	13.1	10/31/97
Capital Guardian - Net		2.1	11.5	22.2	31.8	25.2	10.0	N/A	12.4	
vs. MSCI World Ex U.S. Small Cap + 1%		1.4	12.3	22.3	25.9	22.1	14.6	9.4	11.3	
CPI + 6.9% (1 Month in Arrears)		1.2	4.1	9.5	10.1	9.7	9.6	9.5	9.5	
<b>CORE FIXED INCOME MANAGERS</b>										
JPMorganChase	110.65	-0.8	1.4	6.8	N/A	N/A	N/A	N/A	5.1	11/1/05
JPMorganChase - Net		-0.8	1.3	6.6	N/A	N/A	N/A	N/A	4.9	
vs. LB G/C + 0.5%		-0.8	1.3	7.0	4.6	5.4	6.9	6.7	4.6	
LB Aggregate + 0.5%		-0.7	1.4	7.2	4.8	5.2	6.9	6.7	5.0	
CPI + 2.6% (1 Month in Arrears)		0.9	3.1	5.2	5.8	5.4	5.3	5.2	5.1	
Mellon Capital Management	288.33	-0.8	1.3	6.7	4.3	4.8	6.4	6.3	6.0	1/31/96
Mellon Capital Management - Net		-0.8	1.3	6.7	4.3	4.7	6.4	6.2	5.9	
vs. LB Aggregate		-0.8	1.3	6.7	4.3	4.7	6.4	6.2	5.9	
Loomis, Sayles	97.69	-0.4	1.6	9.8	7.2	8.6	9.8	8.4	9.9	6/30/91
Loomis, Sayles - Net		-0.4	1.6	9.6	7.1	8.5	9.7	8.3	9.7	
vs. Fixed Income Reference Index + 0.5% (1)		-0.7	1.4	7.2	4.8	5.2	6.9	6.9	8.0	
LB Aggregate + 0.5%		-0.7	1.4	7.2	4.8	5.2	6.9	6.7	7.7	
CPI + 2.6% (1 Month in Arrears)		0.9	3.1	5.2	5.8	5.4	5.3	5.2	5.4	

(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 May 31, 2007

<u>HIGH YIELD FIXED INCOME MANAGER</u>	<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>
Loomis, Sayles	129.00	0.3	2.4	12.5	11.1	12.6	11.0	9.1	12.4	11/30/82
Loomis, Sayles - Net		0.3	2.4	12.4	11.0	12.5	10.8	9.0	12.3	
vs. Merrill Lynch High Yield + 1.5%		0.8	5.1	14.6	11.6	11.7	9.9	8.4	N/A	
CPI + 5.0% (1 Month in Arrears)		1.1	3.6	7.6	8.2	7.8	7.7	7.6	N/A	
<b><u>REAL ESTATE MANAGERS</u></b>										
ING Clarion Real Estate Securities	80.63	0.1	3.1	29.7	27.9	22.8	21.8	15.7	15.0	1/13/97
ING Clarion Real Estate Securities - Net		0.0	2.9	29.4	27.4	22.4	21.3	15.3	14.5	
vs. Wilshire REIT Index + 1%		0.1	3.9	31.4	28.6	23.3	22.8	16.7	16.0	
MSCI US REIT Index + 1%		-0.1	3.3	31.4	27.5	22.6	22.0	15.7	15.1	
CPI + 5.9% (1 Month in Arrears)		1.1	3.9	8.5	9.1	8.7	8.6	8.5	8.5	
<b><u>VENTURE CAPITAL MANAGERS</u></b>										
Adams Street Partners (1)	26.71	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)	2.76	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

**NON-FUNDED MANAGER REPORTED PERFORMANCE**  
**As of March 31, 2007\***

<u>MID CAP VALUE MANAGER</u>	<u>Quarter</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>
LSV	3.7	15.5	17.4	15.6
vs. Russell Midcap Value Index	4.9	17.1	18.6	15.2
 <u>MID CAP CORE MANAGERS</u>				
Franklin Portfolio Associates	5.1	4.5	11.6	11.2
vs. Russell Midcap Index	4.4	11.8	15.7	12.9

\*Performance is gross of fees and represents the quoted composite returns of each manager,

**ASSET ALLOCATION****As of May 31, 2007**

<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>20.5 %</b>	<b>20.0 %</b>	<b>17.0 %</b>	<b>25.0 %</b>
Boston Partners	8.1			
Mellon Capital Russell 1000 Growth	4.7			
Mellon Capital S&P 500	7.7			
<b>Total Medium Cap Equity</b>	<b>7.4 %</b>	<b>6.0 %</b>	<b>4.0 %</b>	<b>7.5 %</b>
Artisan Partners	2.3			
Hotchkis & Wiley	2.1			
EARNEST Partners	2.1			
Reinhart & Mahoney	0.9			
<b>Total Small Cap Equity</b>	<b>6.0 %</b>	<b>5.0 %</b>	<b>3.0 %</b>	<b>6.5 %</b>
Westfield	3.2			
AQR	2.8			
<b>Total International Equity</b>	<b>17.1 %</b>	<b>16.0 %</b>	<b>11.0 %</b>	<b>21.0 %</b>
Capital Guardian	6.1			
Grantham, Mayo	11.0			
<b>Int'l Small Cap Equity</b>	<b>4.4 %</b>	<b>4.0 %</b>	<b>0.0 %</b>	<b>7.0 %</b>
Capital Guardian	4.4			
<b>Venture Capital</b>	<b>1.7 %</b>	<b>3.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>
<b>TOTAL EQUITY</b>	<b>57.1 %</b>	<b>54.0 %</b>	<b>37.0 %</b>	<b>74.0 %</b>

**ASSET ALLOCATION**  
**As of May 31, 2007**

<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>29.4 %</b>	<b>35.0 %</b>	<b>31.0 %</b>	<b>41.0 %</b>
JP Morgan	6.5			
NCM	0.0			
Mellon Capital	17.1			
Loomis, Sayles	5.8			
<b>High-Yield Fixed Income</b>	<b>7.6 %</b>	<b>7.0 %</b>	<b>5.0 %</b>	<b>9.0 %</b>
Loomis, Sayles	7.6 %			
<b>Cash</b>	<b>1.2 %</b>	<b>1.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>
<b>TOTAL FIXED INCOME</b>	<b>38.2 %</b>	<b>43.0 %</b>	<b>34.0 %</b>	<b>55.0 %</b>
<b>REAL ESTATE</b>	<b>4.8 %</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	AAA
Mellon Capital Management:	AA1/AA2
Loomis Investment Grade:	A1
Loomis High Yield:	Ba3

**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	N
Mellon Russell 1000 Growth	N <sup>1</sup>		
Mellon S&P 500	N <sup>1</sup>		
<b><i>Mid &amp; Small Cap Eq</i></b>		<b><i>Core Fixed</i></b>	
Artisan	B+	JP Morgan	B
Hotchkis & Wiley	A (T)	Mellon	N <sup>1</sup>
EARNEST Partners	B+	Loomis, Sayles	B (T)
Reinhart & Mahoney	N		
Westfield	B+	<b><i>High Yield Fixed</i></b>	
AQR	A	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		

<sup>1</sup> Mercer no longer rates index funds, however, Mercer considers Mellon to be a top tier index provider.

**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
21-March	Artisan *
18-April	
16-May	Boston Partners
20-June	Adam Street Partners
18-July	ING Clarion
15-August	Westfield Capital & AQR
19-September	Capital Guardian and GMO
17-October	
14-November	Loomis Sayles (both Core and High Yield)
29-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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