

July 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 July. The Total Fund gained 0.3% during the month, trailing the Reference Index by 20 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, advanced 0.2% during July and small cap equity, as measured by the Russell 2000 Index, declined 3.3%. Value outperformed growth in both the large cap and small cap arenas.

The international equity markets returned 1.0% during July as measured by the EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, advanced 1.5%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, gained 1.4% during the month. High yield issues failed to keep pace with the broad market, returning 1.1%, 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.
- AQR, the small cap value manager selected by the Board to replace Ariel, will be funded at the end of August, pending contract approval.
- Capital Guardian and GMO will give a due diligence presentation to the Board at the next meeting. During the July Board meeting, Adams Street Partners and ING presented.
- County staff, on the recommendation of Mercer IC, sourced funds in the amount of \$7.3 million from Artisan Partners, \$6.4 million from Hotchkis & Wiley and \$6.3 million from EARNEST Partners (\$20 million total) during July to fill the cash needs of the Plan.

**Flash Report**

The Employees' Retirement System of the County of Milwaukee

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

	Assets (\$ millions)	July	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,547.90	0.3	3.9	8.4	13.6	9.0	7.5	9.6	-	
vs. Composite Market Index		0.5	4.1	7.3	12.0	7.7	5.9	8.3	-	
CPI + 4% (1 Month in Arrears)		0.5	5.1	8.3	7.4	6.7	6.9	6.6	-	
<b><u>LARGE CAP VALUE EQUITY MANAGER</u></b>										
Boston Partners	160.31	1.2	5.6	10.8	16.8	7.5	8.7	11.6	12.1	8/1/95
Boston Partners - Net		1.2	5.5	10.6	16.5	7.3	8.5	11.3	11.9	
vs. Russell 1000 Value + 1%		2.5	9.7	12.6	17.1	8.5	6.8	12.5	12.9	
S&P 500 + 1%		0.7	3.9	6.4	11.8	3.8	2.0	9.9	10.6	
CPI + 6.5% (1 Month in Arrears)		0.7	6.8	10.8	9.9	9.2	9.4	9.1	9.2	
<b><u>LARGE CAP GROWTH EQUITY MANAGER</u></b>										
Mellon Capital Management - Ru 1000 Growth Index	94.00	-1.9	-2.7	-0.7	6.8	-0.6	N/A	N/A	-1.5	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		-1.9	-2.8	-0.7	6.8	-0.6	N/A	N/A	-1.5	
vs. Russell 1000 Growth		-1.9	-2.8	-0.8	6.8	-0.6	-3.4	5.9	-1.6	
<b><u>LARGE CAP EQUITY INDEX</u></b>										
Mellon Capital Management - S&P 500	115.98	0.6	3.4	5.4	10.8	2.9	1.1	8.9	10.4	4/13/95
Mellon Capital Management - S&P 500 - Net		0.6	3.4	5.4	10.8	2.8	1.1	8.9	10.4	
vs. S&P 500		0.6	3.3	5.4	10.8	2.8	1.0	8.9	10.3	
<b><u>MID CAP VALUE EQUITY MANAGER</u></b>										
Hotchkis & Wiley	37.72	-1.4	1.7	2.0	N/A	N/A	N/A	N/A	9.1	2/18/05
Hotchkis & Wiley - Net		-1.4	1.2	1.2	N/A	N/A	N/A	N/A	8.2	
vs. Russell Mid Cap Value + 1%		-0.5	11.6	9.4	21.6	14.0	12.5	15.1	13.8	
CPI + 5.7% (1 Month in Arrears)		0.7	6.4	10.0	9.1	8.4	8.6	8.3	10.0	
<b><u>MID CAP GROWTH EQUITY MANAGER</u></b>										
Artisan Partners	35.49	-5.2	-2.7	2.8	12.6	5.1	N/A	N/A	3.9	6/12/00
Artisan Partners - Net		-5.2	-3.2	2.0	11.7	4.3	N/A	N/A	3.1	
vs. Russell Mid Cap Growth		-3.6	-1.1	3.0	14.1	5.5	3.6	8.9	-3.0	
CPI + 5.7% (1 Month in Arrears)		0.7	6.4	10.0	9.1	8.4	8.6	8.3	8.5	

(1) Total Fund returns represent actual returns through 6/30/2006 and estimated performance thereafter.

## MANAGER REPORTED PERFORMANCE

As of July 31, 2006

<u>MID CAP CORE EQUITY</u>	<u>Assets</u> (\$ millions)	<u>Year To</u> <u>July</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	36.93	-2.4	1.9	5.4	N/A	N/A	N/A	N/A	15.7	2/18/05
EARNEST Partners - Net*		-2.4	1.5	4.6	N/A	N/A	N/A	N/A	14.6	
vs. Russell Mid Cap Index + 1%		-2.1	3.1	6.6	18.7	11.1	10.1	13.5	11.3	
CPI + 5.7% (1 Month in Arrears)		0.7	6.4	10.0	9.1	8.4	8.6	8.3	10.0	
Reinhart & Mahoney	11.87	-1.8	8.7	12.7	N/A	N/A	N/A	N/A	13.2	2/18/05
Reinhart & Mahoney - Net		-1.8	8.4	12.1	N/A	N/A	N/A	N/A	12.7	
vs. S&P 400		-2.9	1.3	4.3	15.7	9.0	10.2	14.3	9.1	
CPI + 5.7% (1 Month in Arrears)		0.7	6.4	10.0	9.1	8.4	8.6	8.3	10.0	
<b><u>SMALL CAP EQUITY MANAGERS</u></b>										
Westfield Capital Management	44.47	-5.9	0.8	1.4	11.6	6.9	N/A	N/A	4.7	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		-5.2	0.6	1.5	11.5	4.2	1.9	4.9	3.5	
CPI + 5.9% (1 Month in Arrears)		0.7	6.5	10.2	9.3	8.6	8.8	8.5	8.6	
Ariel	39.64	-1.9	-0.2	-4.6	12.3	10.9	11.5	15.5	15.2	11/30/95
Ariel - Net		-1.9	-0.4	-5.0	11.8	10.5	11.1	15.1	14.7	
vs. Russell 2500 Value		-1.4	6.2	5.3	18.7	13.2	12.9	14.3	13.8	
Russell 2500 + 2%		-3.0	4.1	5.8	17.9	11.8	11.6	13.6	13.3	
CPI + 5.9% (1 Month in Arrears)		0.7	6.5	10.2	9.3	8.6	8.8	8.5	8.6	
<b><u>INTERNATIONAL EQUITY MANAGERS</u></b>										
Capital Guardian	83.95	0.5	7.3	25.2	21.2	10.7	6.8	11.2	10.4	9/1/94
Capital Guardian - Net		0.5	7.0	24.6	20.7	10.1	6.3	10.6	9.9	
vs. EAFE + 1%		1.1	12.2	25.5	24.8	12.1	6.5	8.2	7.7	
CPI + 6.7% (1 Month in Arrears)		0.7	7.0	11.0	10.1	9.4	9.6	9.3	9.3	
Grantham, Mayo	147.86	1.1	12.1	26.0	28.1	19.3	13.1	12.7	12.0	4/13/95
Grantham, Mayo - Net		1.0	11.7	25.1	27.1	18.4	12.3	11.9	11.2	
vs. EAFE + 1%		1.1	12.2	25.5	24.8	12.1	6.5	8.2	8.0	
CPI + 6.7% (1 Month in Arrears)		0.7	7.0	11.0	10.1	9.4	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 July 31, 2006

INTERNATIONAL SMALL CAP EQUITY MANAGER	Assets	Year To		1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since	Inception
	(\$ millions)	July	Date						Inception	Date
Capital Guardian	57.85	-0.5	7.4	37.3	35.7	20.4	11.8	N/A	11.2	10/31/97
Capital Guardian - Net		-0.6	7.1	36.6	35.0	19.7	11.2	N/A	10.6	
vs. MSCI World Ex U.S. Small Cap + 1%		-2.4	3.8	19.1	28.4	17.7	10.6	6.9	9.3	
CPI + 6.9% (1 Month in Arrears)		0.8	7.1	11.2	10.3	9.6	9.8	9.5	9.6	
<b>CORE FIXED INCOME MANAGERS</b>										
JPMorganChase	109.61	1.3	0.9	N/A	N/A	N/A	N/A	N/A	2.9	11/1/05
JPMorganChase - Net		1.3	0.8	N/A	N/A	N/A	N/A	N/A	2.7	
vs. LB G/C + 0.5%		1.3	0.4	1.4	4.0	5.4	6.6	6.9	2.0	
LB Aggregate + 0.5%		1.4	0.9	2.0	4.2	5.3	6.6	6.8	2.4	
CPI + 2.6% (1 Month in Arrears)		0.4	4.6	6.9	6.0	5.3	5.5	5.2	3.8	
Mellon Capital Management	210.88	1.4	0.6	1.5	3.7	4.8	6.1	6.4	5.9	1/31/96
Mellon Capital Management - Net		1.4	0.6	1.4	3.7	4.8	6.1	6.4	5.9	
vs. LB Aggregate		1.4	0.6	1.5	3.7	4.8	6.1	6.3	5.9	
Loomis, Sayles	90.31	1.7	-0.1	3.3	7.4	8.6	8.8	8.6	9.8	6/30/91
Loomis, Sayles - Net		1.7	-0.1	3.2	7.3	8.5	8.7	8.5	9.7	
vs. Fixed Income Reference Index + 0.5% (1)		1.4	0.9	2.0	4.2	5.3	5.3	7.1	8.0	
LB Aggregate + 0.5%		1.4	0.9	2.0	4.2	5.3	5.3	6.8	7.7	
CPI + 2.6% (1 Month in Arrears)		0.4	4.6	6.9	6.0	5.3	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 July 31, 2006

<b>HIGH YIELD FIXED INCOME MANAGER</b>	<b>Assets (\$ millions)</b>	<b>July</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	144.66	0.7	2.0	3.6	11.1	10.5	9.6	9.4	12.4	11/30/82
Loomis, Sayles - Net		0.7	1.9	3.4	10.9	10.4	9.4	9.3	12.2	
vs. Merrill Lynch High Yield + 1.5%		1.2	5.0	5.6	10.8	9.8	7.7	8.4	N/A	
CPI + 5.0% (1 Month in Arrears)		0.6	6.0	9.3	8.4	7.7	7.9	7.6	N/A	
<b>REAL ESTATE MANAGERS</b>										
ING Clarion Real Estate Securities	70.39	3.2	19.7	19.8	28.1	21.9	20.1	N/A	14.3	1/13/97
ING Clarion Real Estate Securities - Net		3.2	19.6	19.5	27.6	21.5	19.6	N/A	13.9	
vs. Wilshire REIT Index + 1%		3.7	19.1	18.4	28.0	22.5	20.9	17.6	15.4	
MSCI US REIT Index + 1%		3.7	17.5	16.6	26.5	21.7	19.7	16.5	14.3	
CPI + 5.9% (1 Month in Arrears)		0.7	6.5	10.2	9.3	8.6	8.8	8.5	8.5	
<b>VENTURE CAPITAL MANAGERS</b>										
Adams Street Partners (1)	17.59	N/A	N/A	N/A	N/A	N/A	N/A	N/A	—	10/1/92
Adams Street Partners (1)	2.40	N/A	N/A	N/A	N/A	N/A	N/A	N/A	—	1/2005
Progress (1)	0.96	N/A	N/A	N/A	N/A	N/A	N/A	N/A	—	7/1/95

**ASSET ALLOCATION**  
As of July 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>24.0 %</b>	<b>20.0 %</b>	<b>17.0 %</b>	<b>25.0 %</b>
Boston Partners	10.4			
Mellon Capital Russell 1000 Growth	6.2			
Mellon Capital S&P 500	7.5			
<b>Total Medium Cap Equity</b>	<b>7.9 %</b>	<b>6.0 %</b>	<b>4.0 %</b>	<b>7.5 %</b>
Artisan Partners	2.3			
Hotchkis & Wiley	2.4			
EARNEST Partners	2.4			
Reinhart & Mahoney	0.8			
<b>Total Small Cap Equity</b>	<b>5.4 %</b>	<b>5.0 %</b>	<b>3.0 %</b>	<b>6.5 %</b>
Westfield	2.9			
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	5.4			
Grantham, Mayo	9.6			
<b>Int'l Small Cap Equity</b>	<b>3.7 %</b>	<b>4.0 %</b>	<b>0.0 %</b>	<b>7.0 %</b>
Capital Guardian	3.7			
<b>Venture Capital</b>	<b>1.4 %</b>	<b>3.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>
<b>TOTAL EQUITY</b>	<b>57.4 %</b>	<b>54.0 %</b>	<b>37.0 %</b>	<b>74.0 %</b>

**ASSET ALLOCATION**  
As of July 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>26.4 %</b>	<b>35.0 %</b>	<b>31.0 %</b>	<b>41.0 %</b>
JP Morgan	7.1			
NCM	0.0			
Mellon Capital	13.5			
Loomis, Sayles	5.8			
<b>High-Yield Fixed Income</b>	<b>9.4 %</b>	<b>7.0 %</b>	<b>5.0 %</b>	<b>9.0 %</b>
Loomis, Sayles	9.4 %			
<b>Cash</b>	<b>2.3 %</b>	<b>1.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>
<b>TOTAL FIXED INCOME</b>	<b>38.0 %</b>	<b>43.0 %</b>	<b>34.0 %</b>	<b>55.0 %</b>
<b>REAL ESTATE</b>	<b>4.6 %</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**

<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		
<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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