

October 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 October. The Total Fund gained 2.7% during the month, matching the Reference Index.

The large cap domestic equity market, as measured by the Russell 1000 Index, advanced 3.4% during the month and small cap equity, as measured by the Russell 2000 Index, gained 5.8%. Growth outperformed value in both the large cap and small cap arenas.

The international equity markets gained 3.9% during October, as measured by the EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, advanced 4.8%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, increased 0.7% during the month. High yield issues led the broad market gaining 1.4%, as measured by the Merrill Lynch High Yield Index.

Recommendations and Comments

- The Fund is currently overweight mid cap equity and underweight core fixed income relative to the policy.
- Loomis Sayles rebalanced the Fixed Income portfolio per the Board's direction. High Yield was reduced and brought back in line with policy parameters.
- Westfield will present during the November Board meeting. Additionally, Westfield has had an organizational change with the loss of analyst Veeral Shah. Westfield has seemed to have difficulty retaining its talent. Mercer downgraded Westfield from an A- to a B+ rating in April 2006 due to departures and concerns around the leadership of the firm.
- JP Morgan will be presenting at the December Board meeting.

MANAGER REPORTED PERFORMANCE
As of October 31, 2006

	Assets (\$ millions)	October	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,597.14	2.7	10.7	15.5	13.4	11.5	8.2	9.6	-	
vs. Composite Market Index		2.7	10.4	14.6	11.6	10.1	6.6	8.7	-	
CPI + 4% (1 Month in Arrears)		-0.2	5.7	6.1	7.1	6.6	6.7	6.5	-	
<u>LARGE CAP VALUE EQUITY MANAGER</u>										
Boston Partners	161.21	3.3	13.8	19.6	17.5	11.0	10.0	11.3	12.6	8/1/95
Boston Partners - Net		3.3	13.6	19.4	17.2	10.7	9.8	11.1	12.3	
vs. Russell 1000 Value + 1%		3.4	17.6	22.5	17.2	12.6	8.1	12.1	13.3	
S&P 500 + 1%		3.3	12.8	17.3	12.4	8.3	2.8	9.6	11.1	
CPI + 6.5% (1 Month in Arrears)		0.0	7.9	8.6	9.6	9.1	9.2	9.0	9.1	
<u>LARGE CAP GROWTH EQUITY MANAGER</u>										
Mellon Capital Management - Ru 1000 Growth Index	103.08	3.5	6.7	10.9	7.7	4.1	N/A	N/A	0.3	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		3.5	6.6	10.9	7.7	4.1	N/A	N/A	0.2	
vs. Russell 1000 Growth		3.5	6.6	10.8	7.6	4.1	-3.1	5.8	0.2	
<u>LARGE CAP EQUITY INDEX</u>										
Mellon Capital Management - S&P 500	125.76	3.3	12.1	16.4	11.5	7.3	1.8	8.7	10.9	4/13/95
Mellon Capital Management - S&P 500 - Net		3.3	12.1	16.3	11.5	7.3	1.8	8.7	10.9	
vs. S&P 500		3.3	12.1	16.3	11.4	7.3	1.8	8.6	10.9	
<u>MID CAP VALUE EQUITY MANAGER</u>										
Hotchkis & Wiley	37.83	3.1	12.2	19.9	N/A	N/A	N/A	N/A	14.0	2/18/05
Hotchkis & Wiley - Net		3.1	11.4	18.9	N/A	N/A	N/A	N/A	13.1	
vs. Russell Mid Cap Value + 1%		4.1	22.0	21.5	20.9	18.4	14.7	14.8	17.2	
CPI + 5.7% (1 Month in Arrears)		0.0	7.3	7.8	8.8	8.3	8.4	8.2	9.3	
<u>MID CAP GROWTH EQUITY MANAGER</u>										
Artisan Partners	35.26	3.0	6.4	13.6	12.4	9.8	N/A	N/A	5.2	6/12/00
Artisan Partners - Net		2.9	5.7	12.6	11.5	8.9	N/A	N/A	4.4	
vs. Russell Mid Cap Growth		3.8	7.4	14.5	13.0	10.6	4.0	8.7	-1.6	
CPI + 5.7% (1 Month in Arrears)		0.0	7.3	7.8	8.8	8.3	8.4	8.2	8.3	

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

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE

As of October 31, 2006

MID CAP CORE EQUITY	Assets (\$ millions)	October	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
EARNEST Partners	35.91	2.6	8.9	15.0	N/A	N/A	N/A	N/A	13.3	2/18/05
EARNEST Partners - Net		2.6	8.4	14.1	N/A	N/A	N/A	N/A	12.5	
vs. Russell Mid Cap Index + 1%		4.0	12.0	18.4	17.9	15.8	11.6	13.3	15.2	
CPI + 5.7% (1 Month in Arrears)		0.0	7.3	7.8	8.8	8.3	8.4	8.2	9.3	
Reinhart & Mahoney	12.78	2.4	17.4	24.5	N/A	N/A	N/A	N/A	16.2	2/18/05
Reinhart & Mahoney - Net		2.4	16.9	23.7	N/A	N/A	N/A	N/A	15.7	
vs. S&P 400		4.2	7.4	13.4	14.0	13.0	11.4	13.8	11.6	
CPI + 5.7% (1 Month in Arrears)		0.0	7.3	7.8	8.8	8.3	8.4	8.2	9.3	
SMALL CAP EQUITY MANAGERS										
Westfield Capital Management	48.05	5.2	9.1	14.7	10.0	10.7	N/A	N/A	5.9	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		6.5	11.0	17.1	11.1	9.5	3.3	5.1	5.2	
CPI + 5.9% (1 Month in Arrears)		0.0	7.5	8.0	9.0	8.5	8.6	8.4	8.5	
AQR (BGI iShares)	42.09	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	10/9/2006
AQR (BGI iShares)		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
INTERNATIONAL EQUITY MANAGERS										
Capital Guardian	89.65	4.0	15.6	27.3	19.5	14.7	6.6	11.5	10.9	9/1/94
Capital Guardian - Net		3.9	15.1	26.7	18.9	14.2	6.1	10.9	10.3	
vs. EAFE + 1%		4.0	20.1	29.0	22.9	16.0	6.7	8.7	8.2	
CPI + 6.7% (1 Month in Arrears)		0.1	8.1	8.8	9.8	9.3	9.4	9.2	9.3	
Grantham, Mayo	157.07	3.6	19.3	28.9	25.4	23.1	13.9	13.0	12.3	4/13/95
Grantham, Mayo - Net		3.5	18.6	28.0	24.5	22.2	13.1	12.2	11.5	
vs. EAFE + 1%		4.0	20.1	29.0	22.9	16.0	6.7	8.7	8.5	
CPI + 6.7% (1 Month in Arrears)		0.1	8.1	8.8	9.8	9.3	9.4	9.2	9.3	

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE
As of October 31, 2006

INTERNATIONAL SMALL CAP EQUITY MANAGER	Assets (\$ millions)	October	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Capital Guardian	61.15	3.3	13.5	31.1	30.9	24.9	11.6	N/A	11.6	10/31/97
Capital Guardian - Net		3.2	13.0	30.5	30.2	24.2	10.9	N/A	10.9	
vs. MSCI World Ex U.S. Small Cap + 1% CPI + 6.9% (1 Month in Arrears)		4.0 0.1	10.4 8.2	22.9 9.0	22.9 10.0	21.2 9.5	11.4 9.6	7.4 9.4	9.8 9.5	
CORE FIXED INCOME MANAGERS										
JPMorganChase	111.44	0.7	4.0	6.0	N/A	N/A	N/A	N/A	6.0	11/1/05
JPMorganChase - Net		0.7	3.9	5.8	N/A	N/A	N/A	N/A	5.8	
vs. LB G/C + 0.5% LB Aggregate + 0.5% CPI + 2.6% (1 Month in Arrears)		0.7 0.7 -0.3	3.7 4.1 5.0	5.4 5.7 4.7	4.2 4.4 5.7	5.1 5.0 5.2	6.9 6.8 5.3	6.8 6.8 5.1	5.4 5.7 4.5	
Mellon Capital Management	217.42	0.7	3.8	5.2	4.0	4.5	6.4	6.3	6.1	1/31/96
Mellon Capital Management - Net		0.7	3.7	5.2	3.9	4.5	6.3	6.3	6.1	
vs. LB Aggregate		0.7	3.7	5.2	3.9	4.5	6.3	6.3	6.0	
Loomis, Sayles	97.81	1.2	6.2	7.8	7.0	8.6	9.7	8.6	10.0	6/30/91
Loomis, Sayles - Net		1.2	6.1	7.7	6.9	8.5	9.6	8.4	9.9	
vs. Fixed Income Reference Index + 0.5% (1) LB Aggregate + 0.5% CPI + 2.6% (1 Month in Arrears)		0.7 0.7 -0.3	4.1 4.1 5.0	5.7 5.7 4.7	4.4 4.4 5.7	5.0 5.0 5.2	5.0 5.0 5.3	6.9 6.8 5.1	8.0 7.8 5.4	

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

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE
As of October 31, 2006

<u>HIGH YIELD FIXED INCOME MANAGER</u>	<u>Assets</u> <u>(\$ millions)</u>	<u>October</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	144.25	1.5	7.7	9.6	10.0	12.5	10.2	9.4	12.4	11/30/82
Loomis, Sayles - Net		1.5	7.6	9.4	9.9	12.4	10.1	9.3	12.3	
vs. Merrill Lynch High Yield + 1.5%		1.6	9.8	11.7	10.2	11.3	8.6	8.4	N/A	
CPI + 5.0% (1 Month in Arrears)		-0.1	6.8	7.1	8.1	7.6	7.7	7.5	N/A	
<u>REAL ESTATE MANAGERS</u>										
ING Clarion Real Estate Securities	77.30	6.3	33.2	39.9	30.5	26.1	23.0	N/A	15.2	1/13/97
ING Clarion Real Estate Securities - Net		6.3	32.8	39.4	30.1	25.7	22.5	N/A	14.7	
vs. Wilshire REIT Index + 1%		6.4	33.5	40.1	30.4	26.3	24.1	17.8	16.3	
MSCI US REIT Index + 1%		6.3	32.2	38.8	29.0	25.6	23.0	16.8	15.3	
CPI + 5.9% (1 Month in Arrears)		0.0	7.5	8.0	9.0	8.5	8.6	8.4	8.5	
<u>VENTURE CAPITAL MANAGERS</u>										
Adams Street Partners (1)	18.30	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (1)	1.70	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (1)	0.80	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	7/1/95

(1) Market value is as of June 30, 2006

Policy Measures are Highlighted

ASSET ALLOCATION
As of October 31, 2006

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Large Cap Equity	24.4 %	20.0 %	17.0 %	25.0 %
Boston Partners	10.1			
Mellon Capital Russell 1000 Growth	6.5			
Mellon Capital S&P 500	7.9			
Total Medium Cap Equity	7.6 %	6.0 %	4.0 %	7.5 %
Artisan Partners	2.2			
Hotchkis & Wiley	2.4			
EARNEST Partners	2.2			
Reinhart & Mahoney	0.8			
Total Small Cap Equity	5.6 %	5.0 %	3.0 %	6.5 %
Westfield	3.0			
AQR	2.6			
Total International Equity	15.4 %	16.0 %	11.0 %	21.0 %
Capital Guardian	5.6			
Grantham, Mayo	9.8			
Int'l Small Cap Equity	3.8 %	4.0 %	0.0 %	7.0 %
Capital Guardian	3.8			
Venture Capital	1.3 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	58.3 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION
As of October 31, 2006

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Core Fixed Income	26.7 %	35.0 %	31.0 %	41.0 %
JP Morgan	7.0			
NCM	0.0			
Mellon Capital	13.6			
Loomis, Sayles	6.1			
High-Yield Fixed Income	9.0 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	9.0 %			
Cash	1.1 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	36.9 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	4.8 %	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 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	Loomis Sayles (both Core and High Yield)
15-November	Westfield Capital
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.

MERCER
Investment Consulting

Mercer Investment Consulting, Inc.
10 South Wacker Drive, Suite 1700
Chicago, IL 60606-7500
312 902 7500