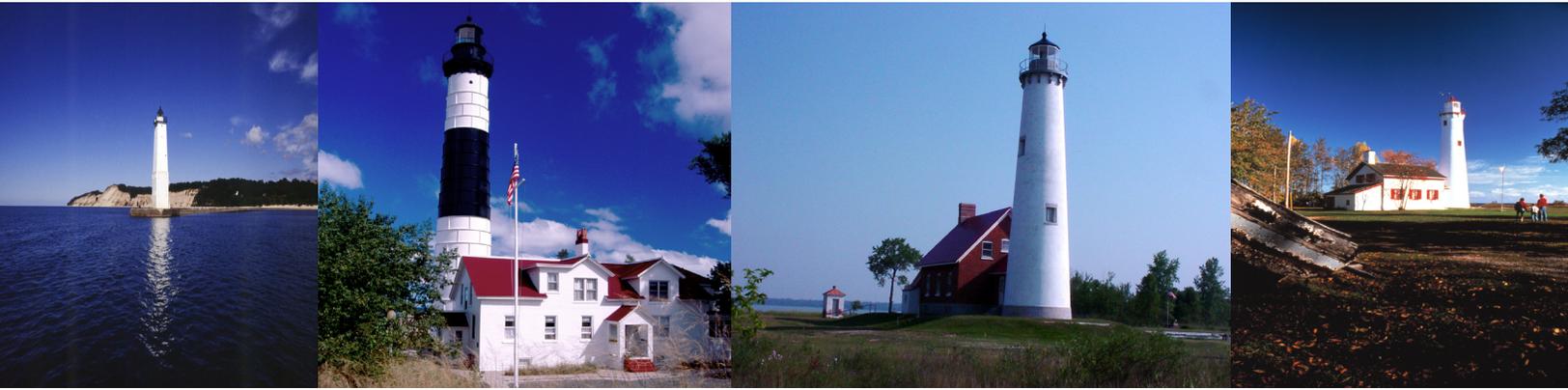


# *Investment*



*"Light tomorrow with today!"*  
—Elizabeth Barrett Browning

# *Report on Investment Activity*

BY JEB BURNS, CHIEF INVESTMENT OFFICER

## INTRODUCTION

The MERS Retirement Board has the fiduciary responsibility and authority to direct the Retirement System's investment program. Members of the Board must follow the state law and prudent standards of diligence consistent with "discharging their duties in the interest of plan participants." The prudent person standard requires that the Board "exercise the same judgment, care, skill, prudence, and diligence under the circumstances which persons acting in a like capacity and familiar with such matters would use in the conduct of a similar enterprise with similar aims." MERS has a Defined Benefit Plan and a Defined Contribution Plan. The first portion of the Investment Section is devoted to the Defined Benefit Plan and the second portion to the Defined Contribution Plan.

### **A. *Defined Benefit Plan***

#### **Investment Objectives and Activity**

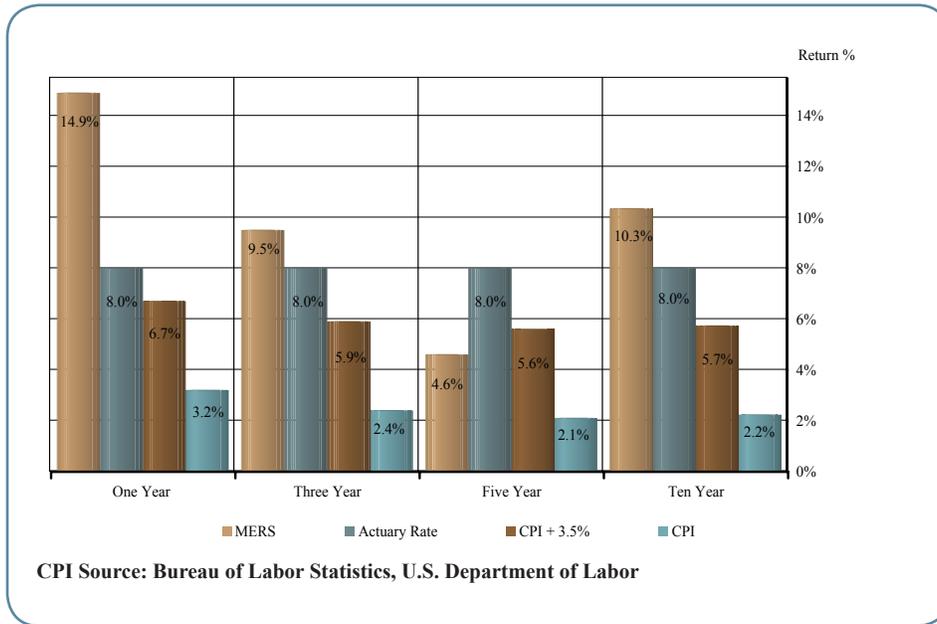
The primary investment objective is to maximize the long-term total rate of return on investments with a high degree of prudence and sufficient diversification to eliminate inordinate risks in conformity with the Michigan Public Employee Retirement System's Investment Act, 1965 PA 314, as amended. In addition, the Retirement Board has established Investment Guidelines that are updated annually. These guidelines communicate long-term objectives, goals and performance expectations to the staff, investment managers, consultants, and all other interested parties. The Retirement Board strives to add incremental returns relative to the market by employing active management strategies where appropriate. Every effort is made to minimize the costs to the portfolio with the use of skilled internal and external resources without negatively affecting the performance of the portfolio.

The long-term objectives for the investment assets are:

- Achieve a real rate of return of at least 3.5% annually over the rate of inflation
- Exceed the actuarial assumption rate of 8% annually

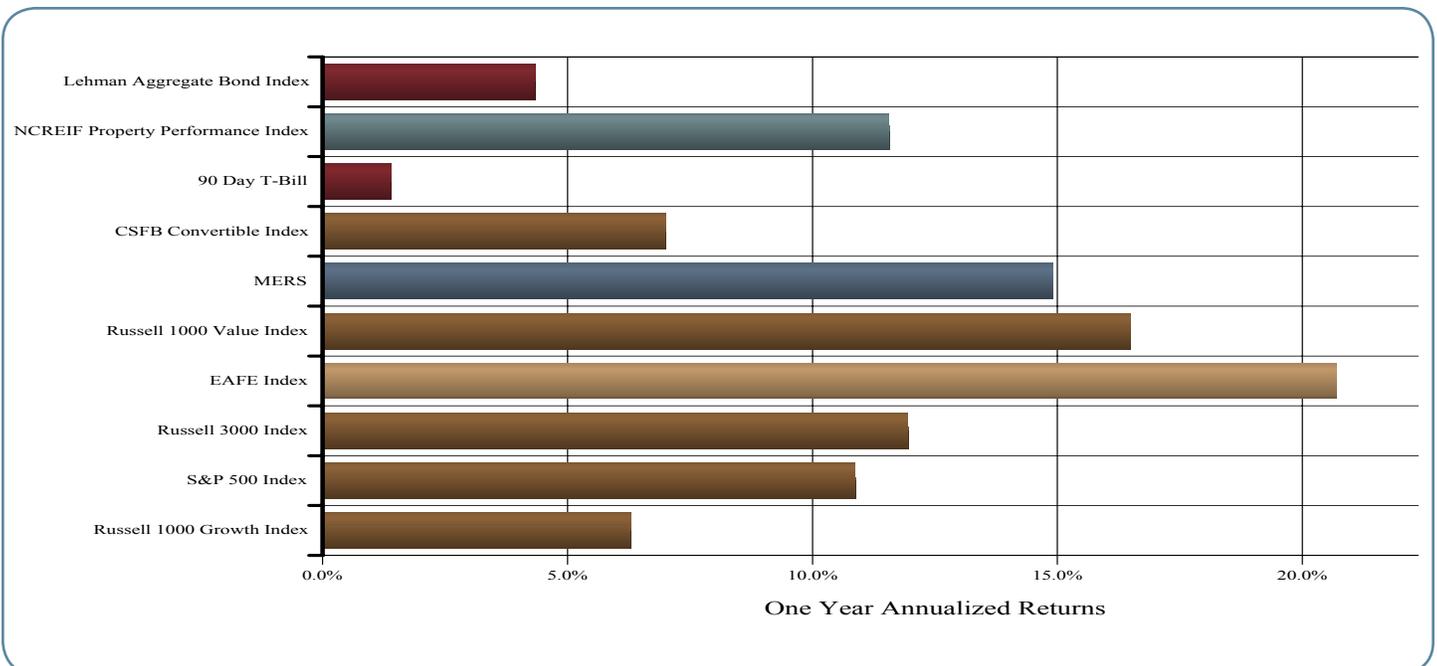
The real rate of return is defined as the rate at which the long-term total return on the Retirement System's assets exceeds the long-term inflation rate. The graph on the following page illustrates that MERS has achieved returns greater than the Consumer Price Index (CPI) plus 3.5% and the actuarial assumption rate of 8% over 10 years.

### MERS of Michigan Actual Returns versus Goals



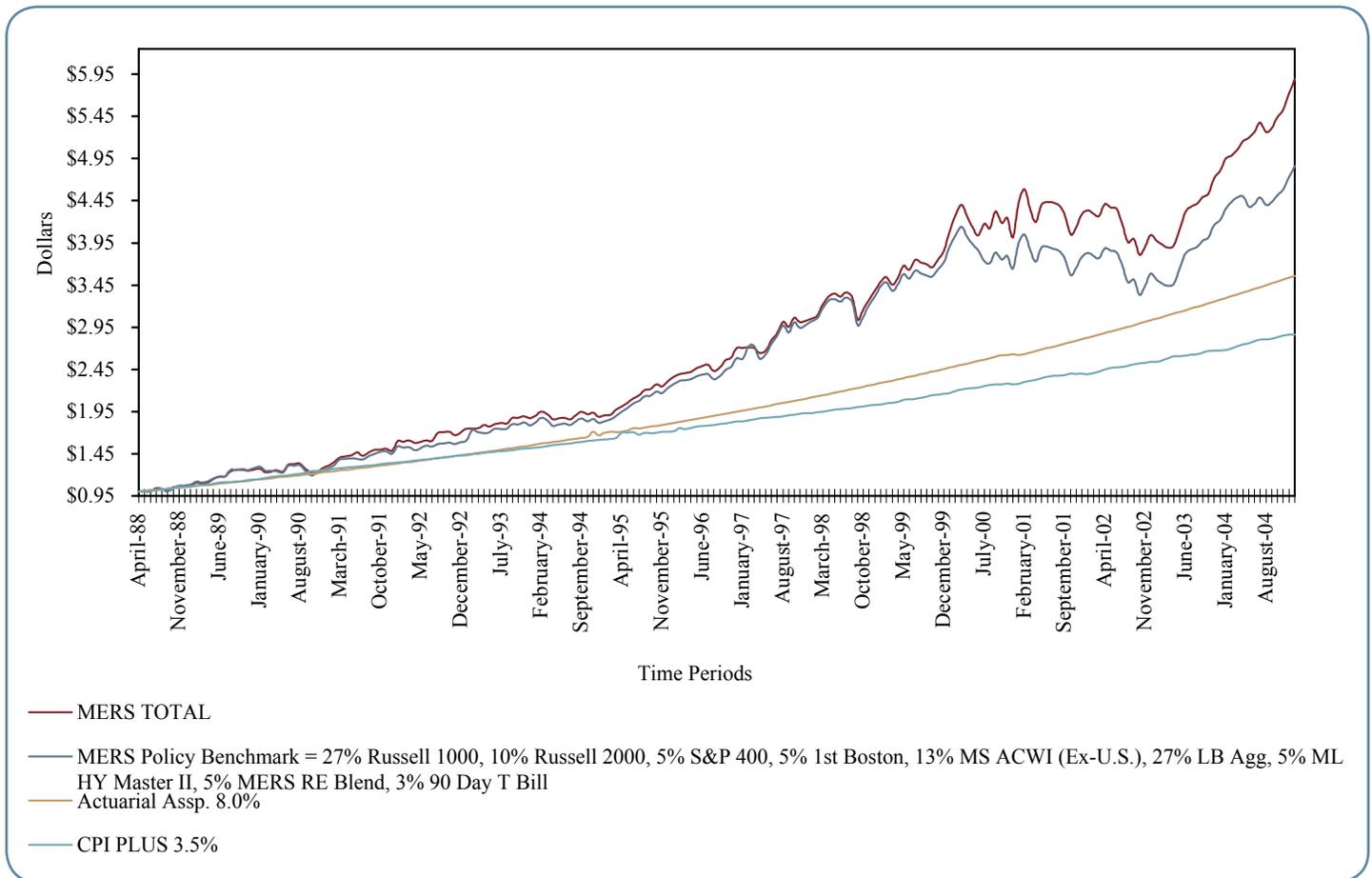
The portfolio is constructed to reduce volatility in down markets, yet still participate significantly when the equity markets rebound. The chart below comparing MERS to the major market indices demonstrates the value of diversification and MERS ability to quickly rebound in up market conditions.

### MERS Compared to Market Indices for 2004



The portfolio has enjoyed its second consecutive positive year of performance. MERS defined benefit portfolio had a one-year return of 14.9%, allowing MERS to exceed its actuarial assumption rate of return for the ten-year, three-year, and one-year periods. The combination of passive and active management, diversification across asset classes, and its disciplined adherence to its asset allocation plan has allowed MERS to provide value through multiple market cycles. The chart below illustrates the growth of a dollar over the last 14 years. It compares the fund to its various benchmarks and demonstrates the value added from active portfolio management.

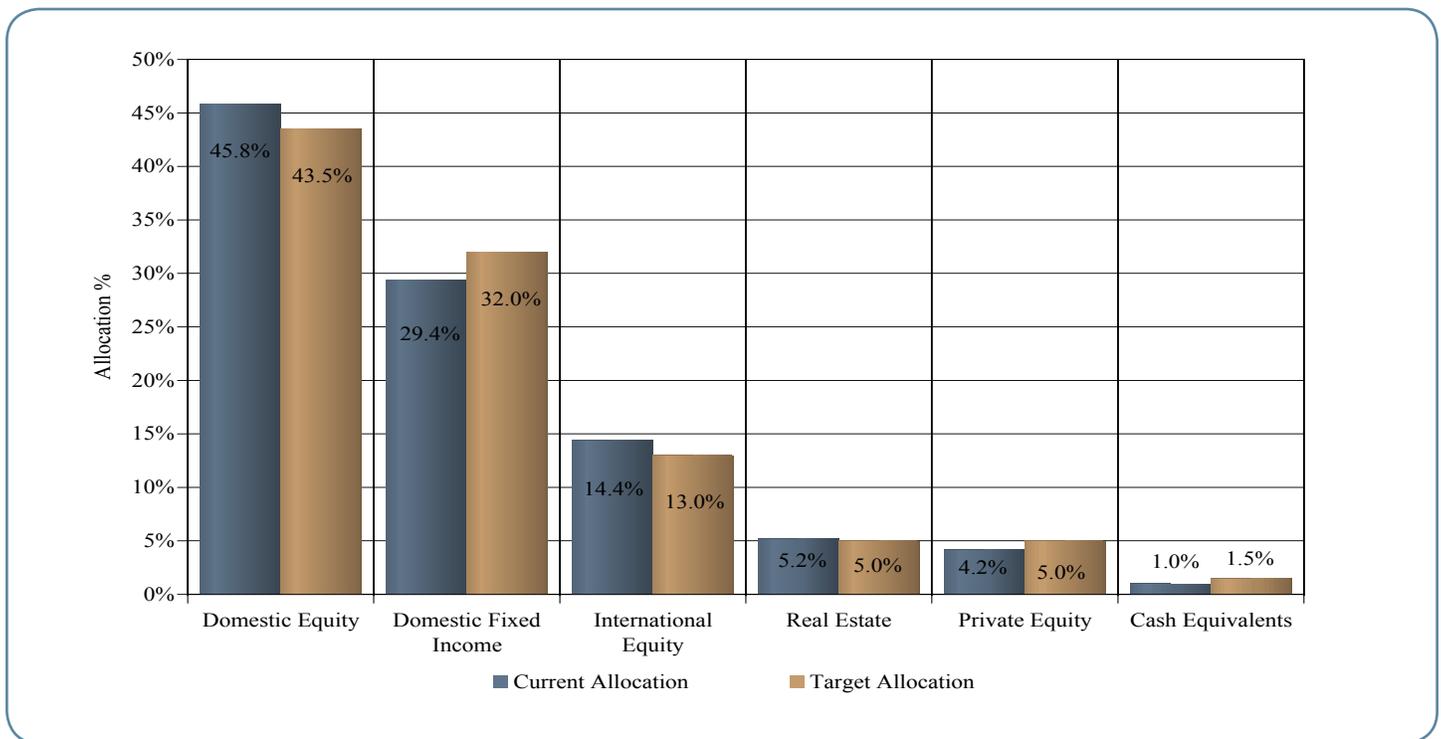
**Growth of a Dollar**  
**Period Ending December 31, 2004**



**Asset Allocation**

With long-term investment objectives as the central focus, the Retirement Board conducts a periodic asset allocation study to select a strategic asset allocation plan. A study was completed in 2001, resulting in two new asset classes (private equity and high yield bonds). The allocation plan designs a portfolio with the optimal mix of asset classes for the long-term investment time horizon. The characteristics of expected return, risk, and correlation of return for various asset categories are carefully projected. The result is a portfolio that is broadly diversified in domestic and international stocks, domestic fixed income securities, high yield bonds, real estate, private equity, and cash equivalents. Both active and passive strategies are employed. Due to market movements, the different asset classes fluctuate in performance. Thus, it is reasonable to expect the actual allocation to differ from that of the target as is demonstrated in the preceding bar chart.

**Current Asset Allocation versus Target Allocation**



**Total Fund Investment Results**

The investment portfolio produced a total gross return for the fiscal year of 14.9%. Domestic and International equities contributed significantly to the portfolio’s outstanding performance in 2004. MERS exposure to small caps stocks both provided significant positive outperformance, returning 26.6% for the year. International small cap also produced strong returns of 40.4%. Fixed income markets also produced strong returns of 7.5%. MERS addition of a global bond mandate produced positive returns of 10.7% in the fourth quarter. High yield bonds continued to add value, yielding 8.8%. Real estate and cash positions also added positive returns to the overall portfolio. All major equity indices finished in positive territory. The technology heavy NASDAQ Index returned 9.1% for the year. The Dow Jones Industrial Average and the Russell 3000 Index returned 5.3% and 11.9%, respectively, in 2004.

The MERS portfolio ranked in the top decile within the Northern Trust (TNT) Public Fund Universe, returning 14.9% for the fiscal year and ranked in the 4th percentile. MERS was ranked 15th and 13th for the two and three-year periods, respectively. The TNT universe is comprised of 34 public plans with a total market value of \$198 billion.

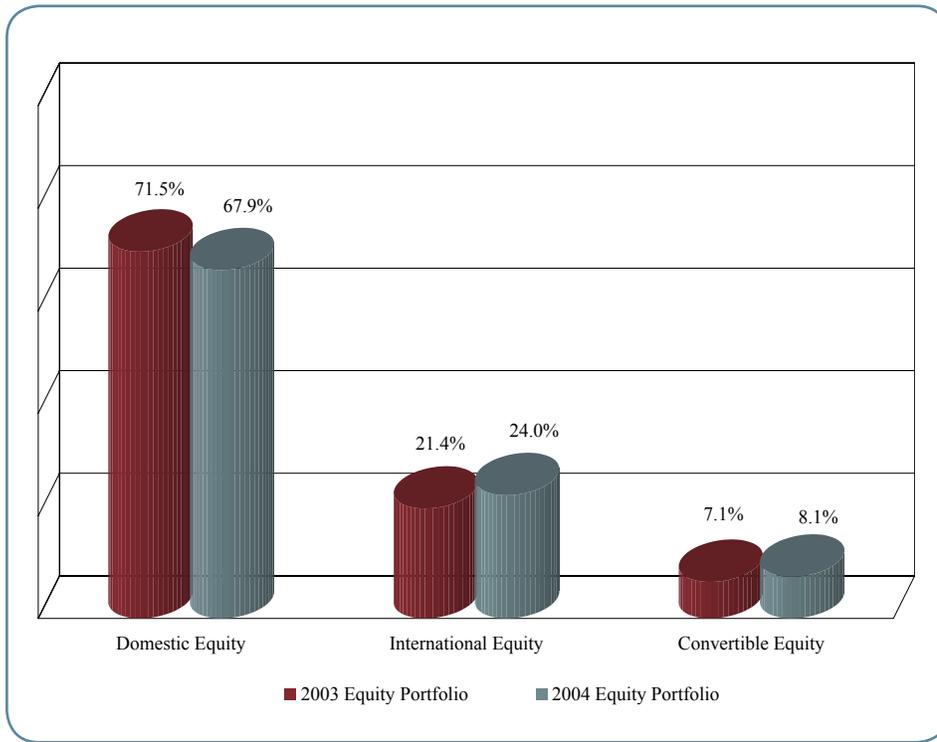
The plans ranged in size from \$54 million to \$33.7 billion with a median market value of \$3.1 billion and an average market value of \$5.8 billion. The portfolio returned 9.5% and 4.6% for the three and five-year periods, respectively, versus its policy benchmark at 8.2% and 4.3%. The policy portfolio benchmark reflects the return that would have been achieved had MERS invested exclusively in passively managed index funds. *It should be noted that convertible bonds, high yield bonds, and private equity do not have investable indices and their use in the policy benchmark is for comparative purposes only and do not reflect a real investment alternative to active management.* MERS continues to achieve returns that outpace both inflation and the funds actuarial rate of 8%. The returns of the portfolio are calculated using a time-weighted rate of return in accordance with the standards of the Association for Investment Management and Research (AIMR). The following table shows the annualized returns gross of fees for fiscal year ended December 31, 2004.

### **Schedule of Investment Results Gross of Fees**

	<b>One Year Annualized</b>	<b>Three Year Annualized</b>	<b>Five Year Annualized</b>
MERS Total Fund	14.9%	9.5%	4.6%
Policy Portfolio	11.5%	8.2%	4.3%
* Median Public Plan	12.4%	8.6%	4.3%
Domestic Stocks	18.6%	10.5%	3.9%
Russell 3000 Index	12.0%	4.8%	-1.2%
Convertibles	9.5%	5.4%	0.9%
CSFB Convertible Index	7.0%	8.1%	1.7%
International Stocks	25.9%	12.3%	-3.3%
MSCI Eafe Free Index	20.7%	12.3%	-80.0%
Domestic Fixed Income	7.5%	7.6%	8.6%
Lehman Aggregate Bond Index	4.3%	6.2%	7.7%
High Yield Bond	8.8%	9.4%	N/A
Merrill Lynch High Yield Master II	10.9%	11.7%	N/A
Real Estate	17.1%	12.3%	12.9%
NCREIF Property Performance	11.6%	7.4%	8.9%

\* The Median Public Plan returns are shown Gross of Fees

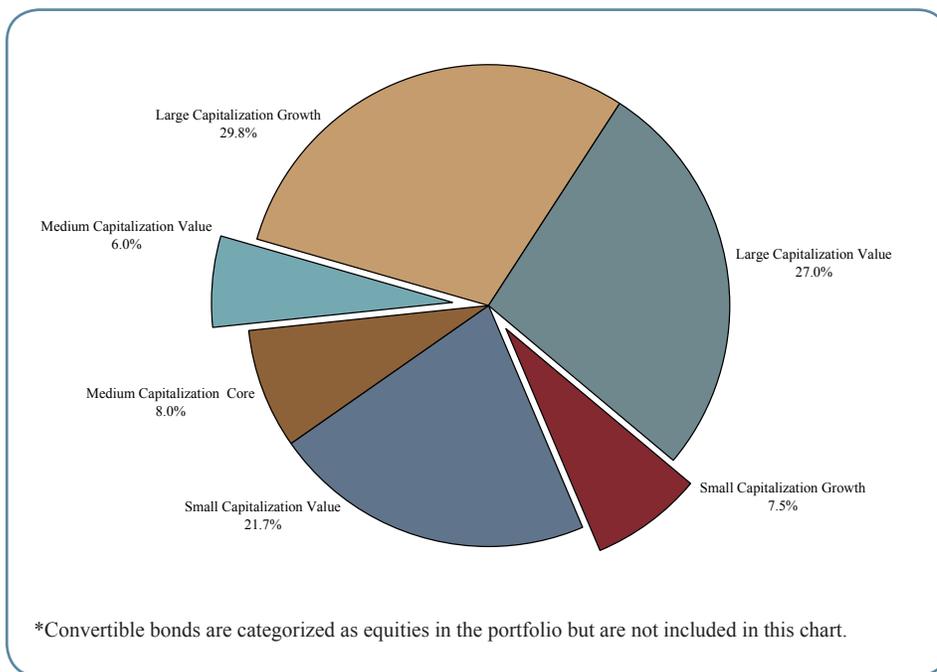
**Total Equity Portfolio Comparison 2003 versus 2004**



**Total Equities** – The total equity portfolio includes U.S. common stocks, international stocks, and convertible securities, representing 60.3% of the total portfolio as of December 31, 2004. The year-end composition of the equity portfolio is shown and is compared to the 2003 equity allocation.

**Domestic Equities** – As of December 31, 2004, the U.S. stock portfolio had a market value of \$1.877 billion and represented just over 40.9% of the total portfolio (Convertible bonds, which are treated as equities will be discussed separately). The Retirement Board employs U.S. stocks in the portfolio primarily because their historical returns over inflation help to preserve and enhance the fund’s ability to achieve the long-term real rate of return objective.

**Total Domestic Equity Portfolio 2004**



The returns for this asset class returned to positive territory in 2004 as the economy grew at a higher than expected rate, with a real GDP increase for the U.S. economy of 4.4%. During this period, the domestic common stock portfolio returned 18.6% versus the Russell 3000 Index with a return of 12.0%. The large cap growth portfolio had returns of 13.8% compared to the Russell 1000 Growth Index of 6.3%. MERS small cap portfolio returned 26.6% versus the Russell 2000 Index at 18.3%. Value style managers generally fared better than growth managers, but all sectors of the equity markets produced positive returns.

Passive management accounts for 9.6% of the U.S. equity portfolio and is expected to provide broad market diversification. These funds are designed to track the performance of the market at a low cost. MERS began managing an S&P 500 Index internally in 2003 and added S&P 400 in 2004. An outside manager currently provides the management of the Russell 1000 Enhanced Index. Enhanced or risk controlled indexes closely track the performance of the index, seeking to capture small amounts of alpha with a similar risk profile.

The U.S. equity asset class is diversified by capitalization using small, mid, and large companies and by style using value and growth. The stocks within the portfolio can be classified by style as follows: 29.8% large cap growth, 27.0% large cap value, 8.0% mid cap core, 6.0% mid cap value, 21.7% small cap value, and 7.5% small cap growth.

### **Top Ten Equity Holdings as of December 31, 2004**

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<b>Asset Description</b>	<b>Shares</b>	<b>Market Value</b>	<b>Percentage of Total Market Value</b>
Countrywide Financial Corp	605,888	22,423,914.88	0.49%
Electronic Arts Inc	326,010	20,108,296.80	0.44%
Apollo Group Inc	247,540	19,978,953.40	0.43%
Armor Holdings Inc	396,113	18,625,233.26	0.41%
General Electric Co	509,600	18,600,400.00	0.40%
Yahoo! Inc	485,810	18,305,320.80	0.40%
eBay Inc	148,600	17,288,124.00	0.38%
Dell Inc	408,300	17,205,762.00	0.37%
Research In Motion Ltd	186,020	15,331,768.40	0.33%
Microsoft Corp	517,710	13,833,211.20	0.30%

\*Convertible bonds are categorized as equities in the portfolio but are not included in this chart.

**International Equities** - The allocation to non-U.S. stocks comprises 13.0% of the total portfolio. Of this, 23.6% is passively managed in the Barclays EAFE Index Fund, with the remaining actively managed in three separate active strategies. Mondrian Investment Partners Limited large cap value, Acadian Asset Management's small cap, and BGI's Active International Equity large cap portfolios were added to the portfolio in 2003. This strategy is employed in recognition of today's global economy and provides further diversification for the total equity portfolio.

Historically, international equities have tended to outperform domestic equities during bull markets and underperform during bear market conditions. This year, the international portfolio outperformed most broad domestic market measures with the exception of small cap stocks. Although it should be noted that MERS allocation to international small cap equities produced the highest absolute returns for the portfolio with a return of 40.4% for the year.

The benchmark for the international equity portfolio is the MSCI ACWI Free ex-U.S. index for large cap mandates and the MSCI EAFE Small for small cap mandates, both computed by Morgan Stanley Capital International. The international portfolio returned 25.9% for the one-year period ending December 31, 2004; the portfolio returned 12.3% and -3.3% for three and five years, respectively.

**Convertibles** - The convertible portfolio is 4.9% of total portfolio assets and is part of the overall equity strategy. Convertible securities are used to lower the volatility of the equity portfolio while producing higher returns than available in fixed income securities. The convertible section of the portfolio is managed by Trust Company of the West (TCW) and returned 9.5% for the fiscal year versus the First Boston Convertible Bond Index of 7.0%. The three and five-year returns for the portfolio are 5.4% and .94%, respectively, versus the benchmark of 8.1% and 1.7% for the same periods. The portfolio performed well given its quality bias relative to the benchmark. The portfolio outpaced its additional hurdle (to achieve 80% of the return S&P 500), returning 87.4% of the S&P 500, which gained 10.9%.

**Domestic Fixed Income** - The U.S. fixed income markets provided additional diversification, but under performed relative to equities. Bonds are traditionally regarded as a hedge in a disinflationary or deflationary environment. They generally lag equities when the economy rebounds and low interest rates push yields lower. The fixed income portfolio is 29.4% of the total portfolio, including high yield bonds that are discussed below. It serves to diversify the equity risk component within the fund, providing asset protection during market downturns.

The domestic fixed income performance is measured against the Lehman Brothers Aggregate Bond Index and Lehman Brothers U.S. Universal. The long-term returns for this sector of the portfolio are 7.6% and 8.6% for the three and five-year periods, respectively. The portfolio is 65.8% actively managed and 34.2% passively managed. The passive portion is managed within an enhanced or risk controlled portfolio.

### Top Ten Fixed Income Holdings as of December 31, 2004

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Asset Description	Par Value	Market Value	Percentage of Total Market Value
US TSY 3.0% 11/15/2007	\$ 35,380,000	\$ 35,161,705	0.77%
US TSY 2.875% 11/30/06	32,870,000	32,767,446	0.71
US TSY 3% 02/15/08	15,065,000	14,942,070	0.33
US TSY 2.375% 11/15/09	10,320,000	10,271,599	0.22
US TSY 1.5% 07/31/05	10,000,000	9,938,700	0.22
US TSY Infx .875% 04/15/10	9,964,273	9,867,320	0.21
US TSY 4.25% 11/15/14	9,065,000	9,088,750	0.20
FOAMEX L.P. 9.875% 06/15/07	10,785,000	8,843,700	0.19
CIT Group FRN 11/04/05	8,495,000	8,506,638	0.19
US TSY 5.375% 2/15/31	7,245,000	7,834,236	0.17

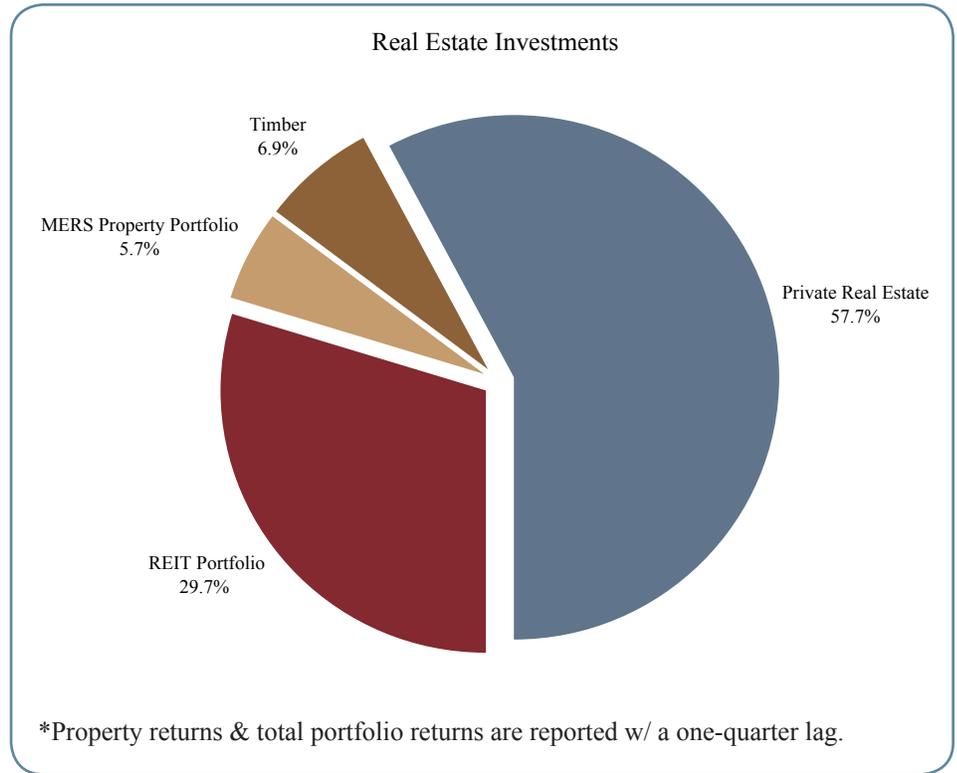
**High Yield Bonds** - The MERS Board adopted a new asset allocation structure in 2001 adding high yield bonds as a distinct asset class with a 5% allocation target within the portfolio. The portfolio seeks to invest in lower grade fixed income investments that provide higher returns than traditional core fixed income assets within the risk budget approved by the Board. The portfolio returned 8.8% versus its benchmark, the Merrill Lynch High Yield Master II Index, at 10.9%. High Yield Bonds contributed significantly to the performance of the overall portfolio.

**Real Estate Portfolio - MERS**

real estate investments represented 5.2% of the total portfolio at year-end and produced a total return of 14.8% for the year. The portfolio is well diversified by property type, geographic region, and risk category. The publicly traded assets, comprised of Real Estate Investment Trusts (REITs), are 29.7% of the real estate portion; 70.3% of these assets are in commingled-pooled funds, which include timber investments.

The 4th quarter return for the public securities portion of the portfolio was 17.1% versus the North American Real Estate Investment Trust (NAREIT) All Equity Index at 25.6%. The REIT markets participated in the equity rally, driving strong positive performance in the real estate portion of MERS portfolio. The private securities portion of the real estate allocation returned 12.7% versus the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index of 11.6%. Private real estate is split between stable and enhanced properties that returned 12.7% and 15.9%, respectively. The NCREIF Index represents approximately 4,000 properties, with an aggregate value in excess of \$145 billion and encompasses retail, industrial, office and apartment property types geographically diversified across all regions of the country. The real estate portfolio had returns of 12.3% and 12.9% for the three- and five-year periods, respectively.

**Real Estate Investments**



**Private Equity** - The MERS Board adopted a new asset allocation structure in 2001, adding private equity as a distinct asset class with a 5% allocation target within the portfolio. This asset class invests predominately in private markets via such vehicles as venture capital, leveraged buyouts, distressed debt, and other special situation investment opportunities. The objective is to achieve higher total returns for the fund utilizing a diversified portfolio within the risk budget established by the MERS Board. In 2001, the fund committed \$50 million to two funds, Mesirow II and Mesirow VII. In 2002, MERS hired Credit Suisse First Boston's (CSFB) Customized Fund Investment Group to invest the remaining capital and to serve as the consultant over all future private equity investments. They will be making investments domestically and in Europe over the next three years. Capital calls of \$27.1 million were made thus far; the remaining funding will be called in the next two years enabling MERS plans to become fully invested in the asset class. Additional commitments will be made on an ongoing basis to ensure that the fund is fully invested at the target level established by the board. In 2004, a co-investment fund was added to the program. This will allow MERS to take larger positions in individual companies in the pursuit of higher returns. Cash awaiting deployment is invested in short-term cash instruments, S&P 500 futures contracts, and a global macro total return fund.

**Short-Term Cash Portfolio** - Cash equivalents are employed by the fund to meet the liquidity needs of funding pension benefit payments. These investments allow the external managers a vehicle for the investment of funds during brief periods of time between the sale of an existing security and the purchase of a replacement. The dedicated cash portfolio has an allocation of 1.5%. In addition, all residual cash from MERS actively managed portfolios are managed through this account. The portfolio is managed internally using various fixed income securities with investment guidelines designed for the preservation of principal, liquidity, and the highest credit quality.

A complete list of the holdings for all asset categories can be made available to the public upon request.

**Directed Brokerage/Commission Recapture Program**

MERS utilizes commission recapture brokers to reduce expenses to the overall fund. Securities Exchange Commission (SEC) investment advisor guidelines stipulate that commissions are classified as assets of the fund and a portion of those costs may be returned to the fund to offset expenses. In the fiscal year ended December 31, 2004, MERS earned \$478,380 in commission rebates.

**Derivatives**

In accordance with the Investment Guidelines, MERS allows the active international manager to enter into forward foreign currency exchange contracts in the international portfolio to match settlement deadlines. Forward contracts are used to hedge against changes in exchange rates related to foreign equities, primarily denominated in European and Asian currencies. This is used to reduce the risk of currency exposure in the portfolio. As of December 31, 2004, Mondrian Investment Partners Limited was utilizing forward currency contracts held in the international large cap value portfolio to hedge the U.K. sterling. This action was taken to protect the underlying assets from currency risk. Additionally, MERS began utilizing futures contracts to equitize residual cash in its portfolio. MERS purchased 150 long S&P 500 futures contracts, expiring March 2005. These contracts were backed by agency issues held in a segregated account with MERS futures broker. Derivatives are not used for speculation or used to leverage the investment portfolio.

The Retirement System does not use swap agreements, stock options, caps/floors or floating rate securities that are priced from underlying collateral.

**Schedule of Investment Fees Year Ended December 31, 2004**

<b>Investment Managers</b>	<b>Average Assets Under Management</b>	<b>Annual Fee</b>	<b>Average Basis Points</b>
Acadian Asset Management	\$ 122,946,083	\$ 641,784	52.2
Ariel Capital Management	88,091,734	388,453	44.1
Armstrong Shaw Associates, Inc.	221,230,034	266,955	12.07
Barclays Global Investors	1,081,516,763	1,639,289	15.16
CSFB Private Equity Fund	NA	1,739,364	NA
Evergreen Investments	229,596,952	136,919	5.96
J.P. Morgan Strategic Property Fund	37,210,293	373,989	100.51
Kennedy Capital Management	400,232,996	1,015,233	25.37
Lend Lease Rosen	72,231,218	110,357	15.28
Mesirow Partnership Fund	NA	527,500	NA
Mondrian International	157,560,763	438,453	27.83
Money Management Group	NA	1,362,924	NA
Reams Asset Management	491,404,106	922,224	18.77
Trust Company of the West	201,632,572	703,265	34.88
Urdang Investment Management	51,256,549	301,026	58.73
Wasatch Advisors	118,815,922	928,619	78.16
Wellington Management	483,655,184	1,224,918	25.33
Western Asset Management	265,190,689	505,230	19.05
World Asset Management	147,862,732	20,850	1.41
The Townsend Group	NA	335,357	NA
<b>Total Investment Manager Fees *</b>	<b>\$ 4,170,434,589</b>	<b>\$ 13,582,711</b>	<b>33.43</b>

**Investment Custodian**

The Northern Trust Company 263,532

**Investment Performance Measurement Consultant**

The Northern Trust Company \*\* 79,500

**Securities Lending Agent**

The Northern Trust Company 446,856

**Total Investment Fees**

**\$ 14,372,599**

\* Investment manager fee for investments in Real Estate Private Securities are netted against the reported partnership or trust fund income.

\*\* Includes the addition of the Alerts product provided by TNT to measure guideline compliance.

**Schedule of Investment Commissions**

<b>Brokerage Firm</b>	<b>Shares Traded</b>	<b>Total Dollars</b>	<b>Commission/Share</b>
REDI	35,346,662	\$ 431,984	\$ 0.01
Fano Securities	9,685,213	311,917	0.03
Smith, Moore & Co	9,320,662	300,583	0.03
Arcadia Securities	276,800	276,800	1.00
Rockhouse Securities	5,840,513	237,532	0.04
Capital Institutional Services	4,892,183	215,115	0.04
Barrett	6,127,685	208,562	0.03
Investment Technology	7,451,015	183,448	0.02
Cantor Fitzgerald	5,152,213	173,293	0.03
Merrill Lynch	4,883,539	158,369	0.03
William Smith	4,249,895	151,462	0.04
Wells Fargo	2,972,469	97,140	0.03
Morgan Stanley	2,881,320	89,800	0.03
Goldman Sachs	4,062,682	88,515	0.02
Moness, Crespi, Hardt & Co., Inc	1,825,750	80,203	0.04
Bank of New York	1,555,236	65,628	0.04
UBS	2,377,207	64,485	0.03
Northern Trust	1,285,773	62,302	0.05
Frank Russell	1,264,720	60,636	0.05
Charles Schwab	1,548,134	58,628	0.04
Lehman Brothers	1,760,889	52,481	0.03
Thomas Weisel	1,151,790	50,852	0.04
Citigroup	981,495	45,409	0.05
Bank of America	2,141,892	44,185	0.02
Investor's Capital	1,256,901	40,228	0.03
Subtotal (25 Largest)	120,292,638	3,549,557	0.03
Other	55,476,027	1,308,178	0.02
<b>Total Commissions</b>	<b>175,768,665</b>	<b>\$ 4,857,735</b>	<b>\$ 0.03</b>

*Investment Section*

**Investment Summary for Defined Benefit Plan as of December 31, 2004**

Type of Investment	Market Value	Percent of Market Value
<b>Domestic Fixed Income</b>		
US Government Bonds	\$ 155,839,940	3.40%
Corporate Bonds	387,909,623	8.46%
Bond Index Funds	385,556,293	8.41%
Mortgages	68,651,930	1.50%
US Agency Bonds	210,470,454	4.59%
<b>Sub Total Domestic Fixed Income</b>	<b>1,208,428,240</b>	<b>26.36%</b>
Global Fixed Income	222,265,853	4.85%
<b>Total Fixed Income</b>	<b>1,430,694,093</b>	<b>31.21%</b>
<b>Equities</b>		
Domestic Stock	1,112,972,013	24.28%
Domestic Index Funds	755,478,667	16.48%
Convertibles	158,514,436	3.46%
<b>Sub Total Domestic Equities</b>	<b>2,026,965,116</b>	<b>44.22%</b>
International Stock	353,700,553	7.71%
International Index Funds	308,050,251	6.72%
<b>Sub Total International Equities</b>	<b>661,750,804</b>	<b>14.43%</b>
<b>Total Equities</b>	<b>2,688,715,920</b>	<b>58.65%</b>
<b>Venture Capital &amp; Partnerships</b>		
Hedge Funds	38,312,497	0.84%
Private Equity	67,884,364	1.48%
<b>Total Venture Capital &amp; Partnerships</b>	<b>106,196,861</b>	<b>2.32%</b>
<b>Real Estate</b>		
Private Securities	166,368,312	3.63%
Public Securities Index Fund	94,559,844	2.06%
<b>Total Real Estate</b>	<b>260,928,156</b>	<b>5.69%</b>
<b>Sub Total Investments</b>	<b>4,486,535,030</b>	<b>97.87%</b>
<b>Cash Equivalents</b>		
Commercial Paper	172,944,208	3.77%
Short Term Investments/Cash	2,327,026	0.05%
<b>Total Cash Equivalents</b>	<b>175,271,234</b>	<b>3.82%</b>
<b>Sub Total Investments &amp; Cash</b>	<b>4,661,806,264</b>	<b>101.69%</b>
Payables - Purchases of Investments	(159,923,488)	-3.49%
Receivables - Sale of Investments & Interest	81,792,243	1.80%
<b>Total Investments</b>	<b>\$ 4,583,675,019</b>	<b>100.00%</b>

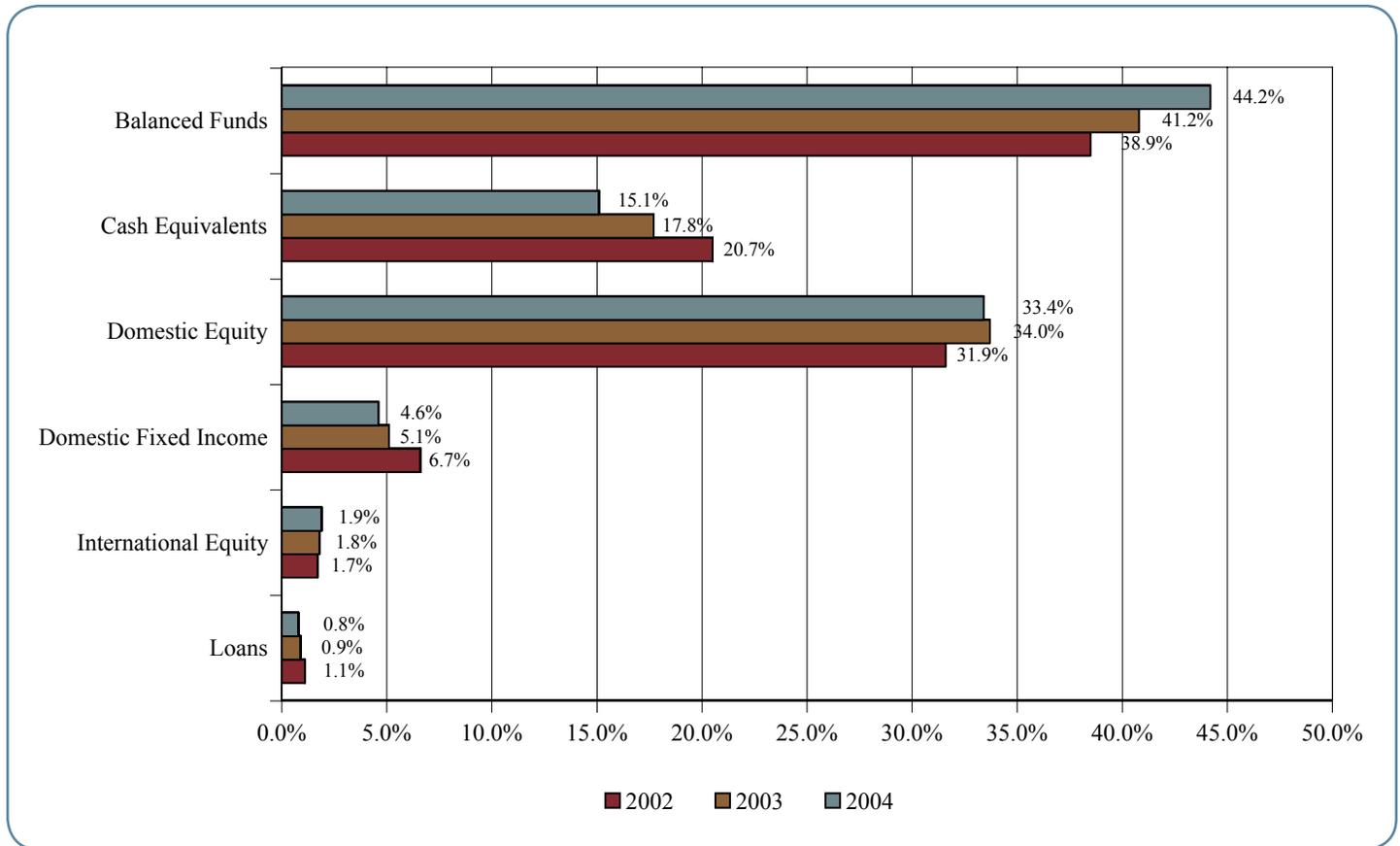
Note: Includes receivables and payables for sales and purchases of securities with settlement dates after December 31, 2004

**B. Defined Contribution Plan**

**Investment Activity**

The MERS Defined Contribution Plan became operative on July 8, 1997, under Section 401(a) of the Internal Revenue Code. This plan is available for adoption by all of MERS member municipalities. It is an alternative option to MERS Defined Benefit Plan. As of December 31, 2004, the Defined Contribution Plan had net assets of \$144.1 million and over 5,000 members. Each member is responsible for directing the investment of his or her accumulated account balance. Members receive investment performance information from MERS third-party administrator, International City/County Management Association - Retirement Corporation (ICMA-RC). The assets as of December 31, 2004, are allocated as follows:

**Asset Allocation of Defined Contribution Plan**



**Investment Options**

ICMA-RC offers the following investment options:

**Total Return Funds** – The actively managed funds invest in both domestic and international equities, fixed income, balanced accounts, cash, and investment contracts. Included in this category are the Aggressive Opportunities Fund, International Fund, Growth Fund, Growth and Income Fund, Equity Income Fund, Asset Allocation Fund, U.S. Government Securities Fund, and Cash Management Fund. The index funds are comprised of the Overseas Equity Index Fund, Mid/Small Company Index Fund, Broad Market Index Fund, 500 Stock Index Fund, and Core Bond Index Fund.

**Plus Fund** – The Plus Fund consists primarily of portfolios of investment contracts purchased from financial institutions and accordingly, maintains a stable capital value in the absence of credit default.

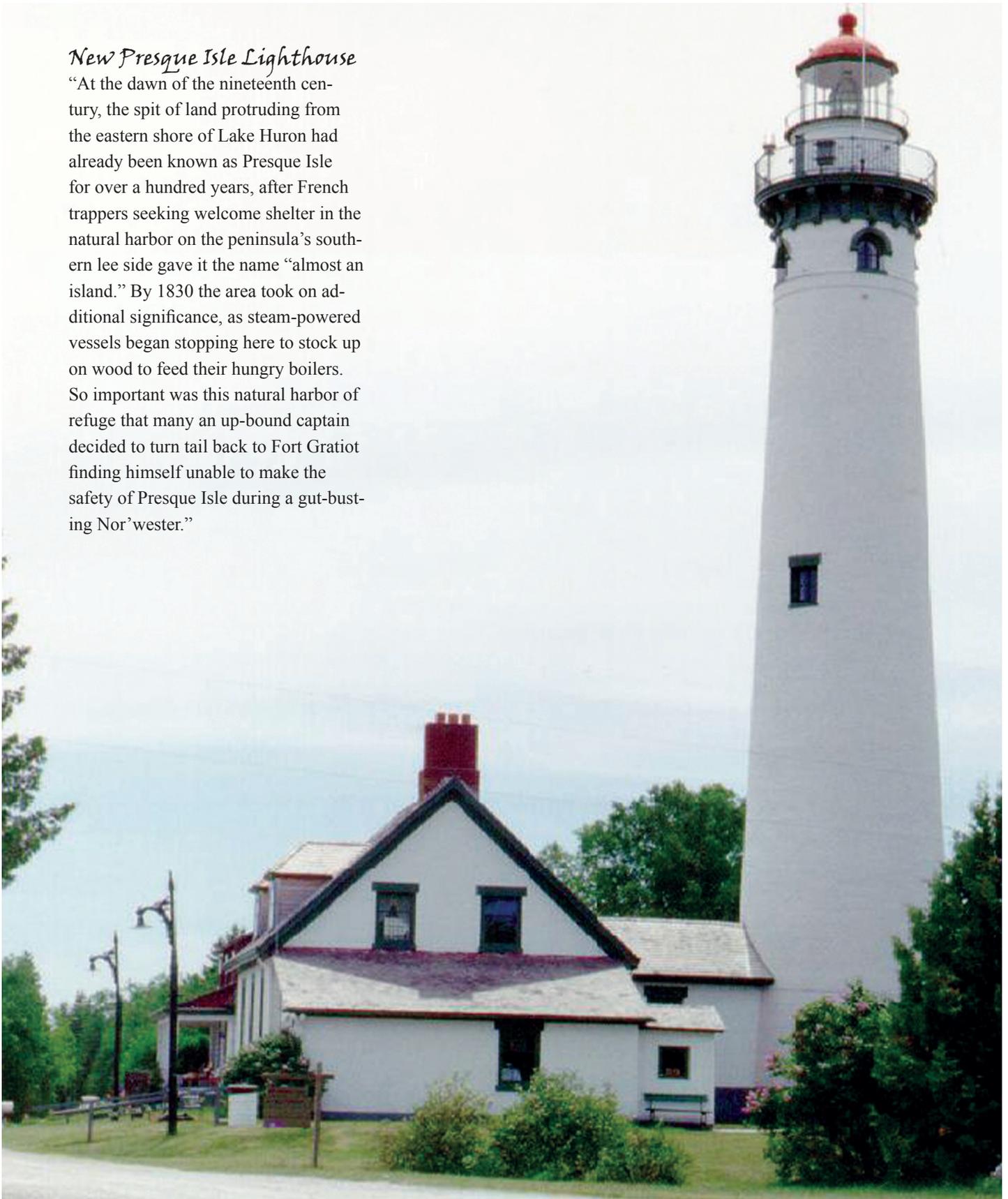
**Model Portfolio Funds** – These five funds invest in actively managed funds, index funds, and investment contracts in varying proportions. They allow the investor to choose one investment vehicle to provide the level of diversification that best meets their risk tolerance and investment objectives. In descending order of market risk, they are the All-Equity Growth Fund, Long-Term Growth Fund, Traditional Growth Fund, Conservative Growth Fund, and Savings Oriented Fund.

**Lifestyle Investing** – Allows investors the opportunity to select one fully diversified fund that is designed to meet their individual time horizons and risk tolerance. This strategy can be accomplished through either the allocation of individual stocks, bonds, and cash, or it can be done by combining existing mutual funds, creating a “fund of funds.” Once the asset mix is established it will automatically be rebalanced at a predetermined future date based upon your age.

**Mutual Fund Series** - This is a group of 14 segregated accounts. The portfolio of each segregated account consists of shares of a single designated mutual fund that are acquired, held, and redeemed by the Trust in response to investments and withdrawals from the account by participants. The series includes the following: PIMCO Total Return, PIMCO High Yield Fund, Fidelity Puritan Fund, Lord Abbott Large Company Value Fund, American Century Value Fund, Calvert Social Investment Fund Equity Portfolio, Fidelity Contrafund, Fidelity Magellan Fund, Gabelli Value Fund, MFS Large Company Growth Fund, American Century Ultra Fund, T. Rowe Price Small-Cap Value Fund, T. Rowe Price Small-Cap Stock Fund, and the INVESCO Small Company Growth Fund.

*New Presque Isle Lighthouse*

“At the dawn of the nineteenth century, the spit of land protruding from the eastern shore of Lake Huron had already been known as Presque Isle for over a hundred years, after French trappers seeking welcome shelter in the natural harbor on the peninsula’s southern lee side gave it the name “almost an island.” By 1830 the area took on additional significance, as steam-powered vessels began stopping here to stock up on wood to feed their hungry boilers. So important was this natural harbor of refuge that many an up-bound captain decided to turn tail back to Fort Gratiot finding himself unable to make the safety of Presque Isle during a gut-busting Nor’wester.”



Pepper, Terry. “New Presque Isle Light,” *Seeing the Light: The Lighthouses of Lake Huron*, March 15, 2005. <<http://www.terrypepper.com/lights/huron/newpresqisl/newpresqisl.htm>>. June 17, 2005.