
INVESTMENT SECTION

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.

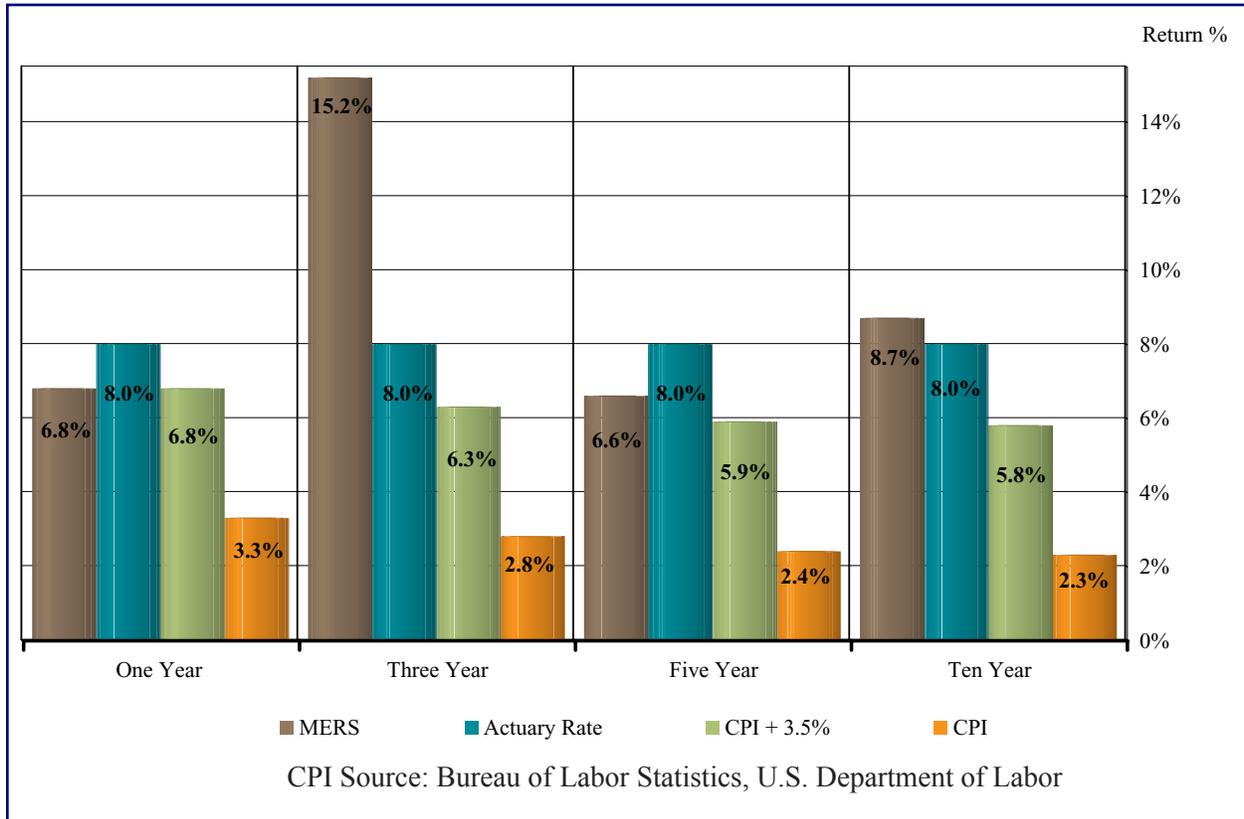
The long-term objectives for the investment assets are:

- 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

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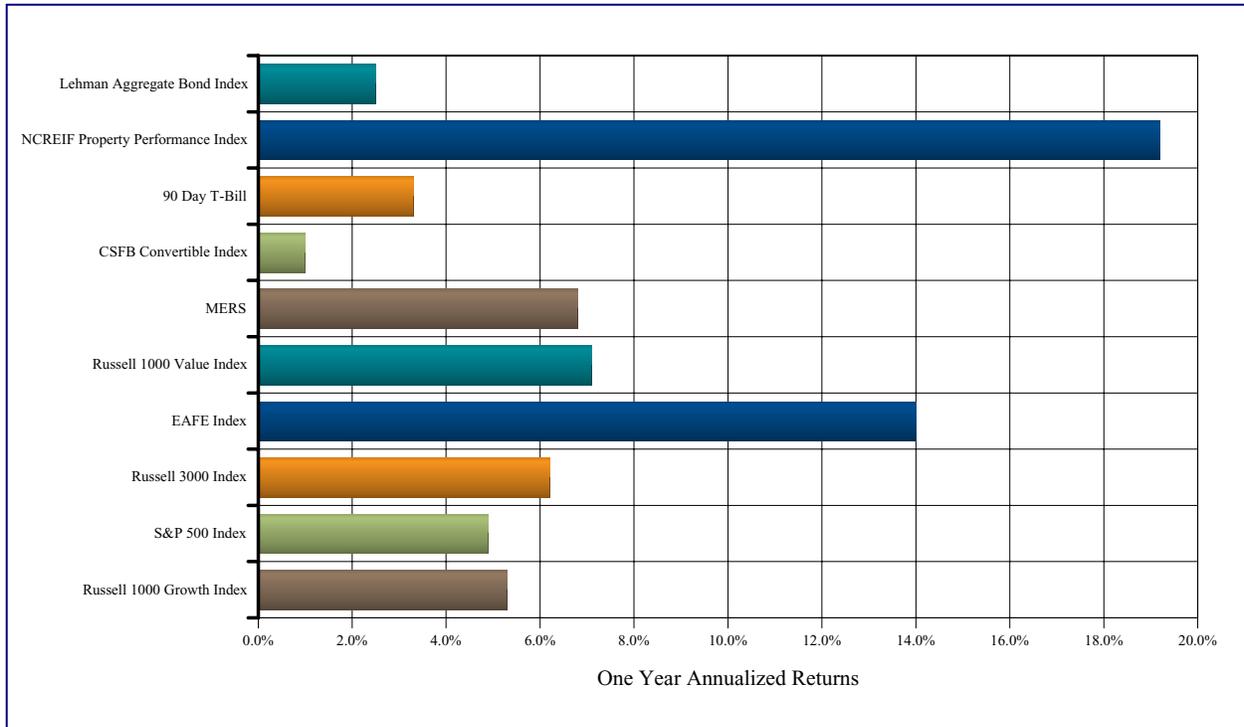
The real rate of return is defined as the rate at which the long-term total return on the Retirement System’s assets exceeds the long-term inflation rate. The graph below illustrates that MERS has achieved returns greater than the Consumer Price Index (CPI) plus 3.5% and the actuarial assumption rate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

MERS 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.

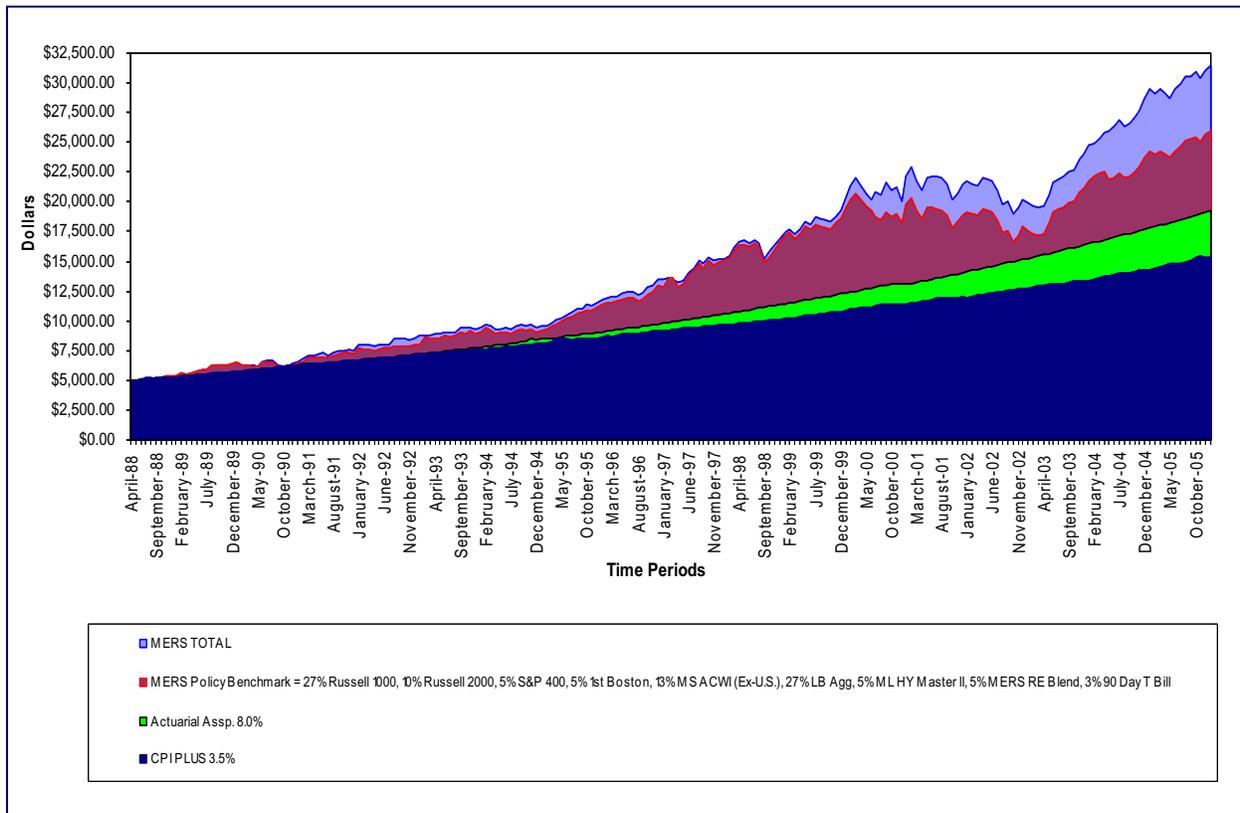
MERS COMPARED TO MARKET INDICES FOR 2005



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The portfolio has enjoyed its third consecutive positive year of performance. MERS' Defined Benefit portfolio had a one-year return of 6.8%, allowing MERS to exceed its actuarial assumption rate of return for the ten-year, three-year and two-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 \$5,000 for over 15 years. It compares the fund to its various benchmarks and demonstrates the value added from active portfolio management.

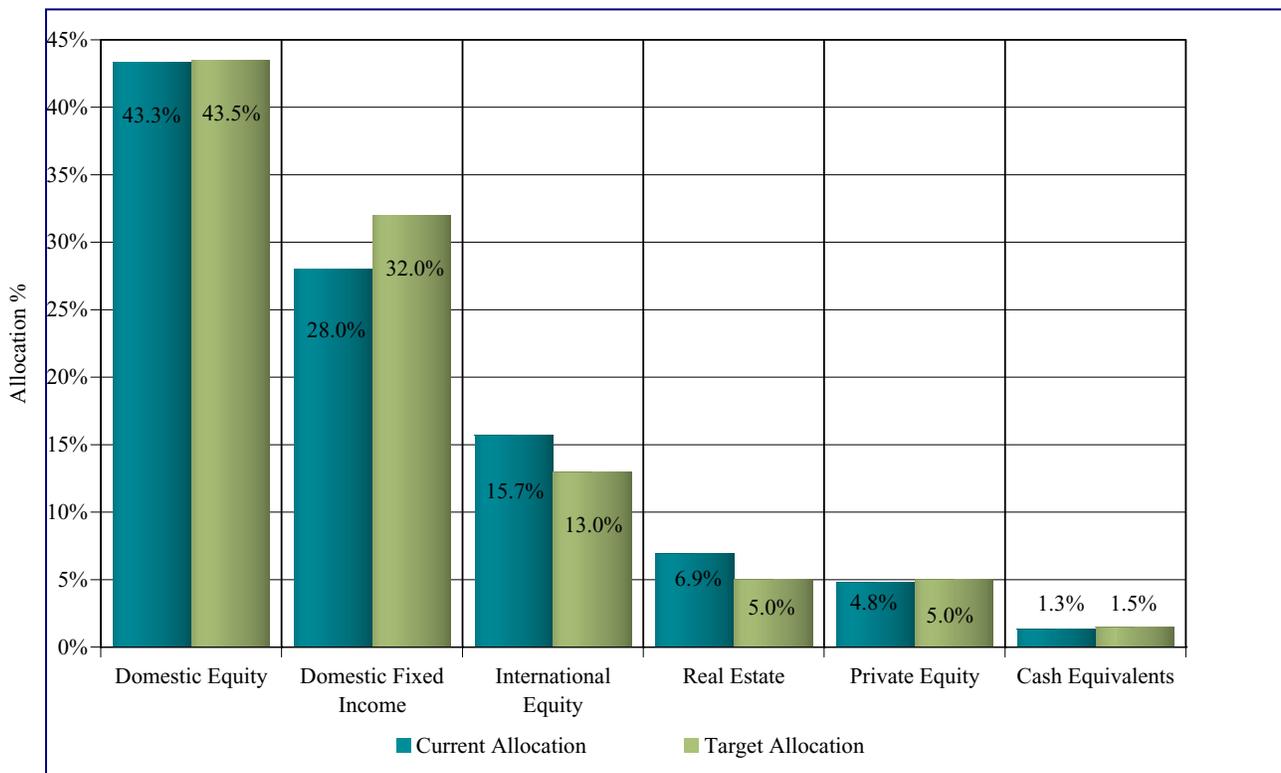
GROWTH OF \$5,000 PERIOD ENDING DECEMBER 31, 2005



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 2005, resulting in the modification of MERS’ asset allocation mix. Commodities were added as a stand alone asset class and the funds exposure to international and alternative investments were increased while reducing the overall risk of the portfolio. 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 and global 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 following bar chart.

CURRENT ASSET ALLOCATION VERSUS TARGET ALLOCATION



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Total Fund Investment Results

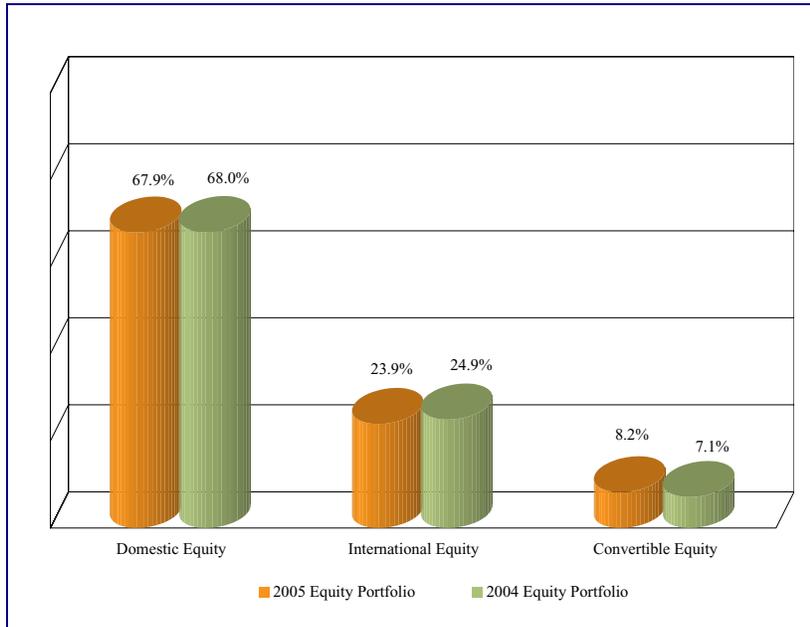
The investment portfolio produced a total gross return for the fiscal year of 6.8%. Domestic and international equities contributed significantly to the portfolio's performance in 2005, with MERS international portfolio returning 19.3%. MERS exposure to passive large caps and mid cap stocks provided significant positive complimentary performance, returning 7.9% and 13.0% for the year respectively. Domestic small cap stocks and value managers struggled in 2005. International small cap also produced strong returns of 31.3%. Fixed income markets also produced strong returns of 2.4%, per the Lehman Brothers Aggregate Bond Index. MERS' fixed income portfolio returned 2.2%. High yield bonds continued to add value, yielding 6.0%. 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 2.2% for the year. The Dow Jones Industrial Average and the Russell 3000 Index returned 1.7% and 6.1%, respectively, in 2005. MERS currently manages 9.3% of its assets internally.

The MERS' portfolio was ranked in the 79th percentile within The Northern Trust (TNT) Public Fund Universe for the fiscal year ending December 31, 2005. MERS was ranked 30th and 23rd for the three and five-year periods, respectively. The TNT Universe is comprised of 34 public plans with a total market value of \$237 billion. The plans ranged in size from \$56 million to \$36 billion, with a median market value of \$3.7 billion and an average market value of \$6.8 billion. The portfolio returned 15.2% and 6.6% for the three and five-year periods, respectively, versus its policy benchmark at 13.9% and 5.6%. 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

SCHEDULE OF INVESTMENT RESULTS GROSS OF FEES

	One Year Annualized	Three Year Annualized	Five Year Annualized
MERS Total Fund	6.8%	15.2%	6.6%
Policy Portfolio	6.8%	13.9%	5.6%
Median Public Plan	7.9%	14.7%	6.0%
Domestic Stocks	3.8%	18.7%	5.9%
Russell 3000 Index	6.1%	15.9%	1.6%
Convertibles	-1.2%	11.4%	0.6%
CSFB Convertible Index	1.0%	12.1%	4.2%
International Stocks	19.3%	26.9%	5.1%
MSCI Eafe Free Index	14.0%	24.2%	4.9%
Domestic Fixed Income	2.2%	5.2%	6.5%
Lehman Aggregate Bond Index	2.4%	3.6%	5.9%
High Yield Bond	6.0%	14.6%	N/A
Merrill Lynch High Yield Master II	2.7%	13.4%	N/A
Real Estate	22.7%	18.2%	13.2%
NCREIF Property Performance	19.2%	13.1%	11.0%

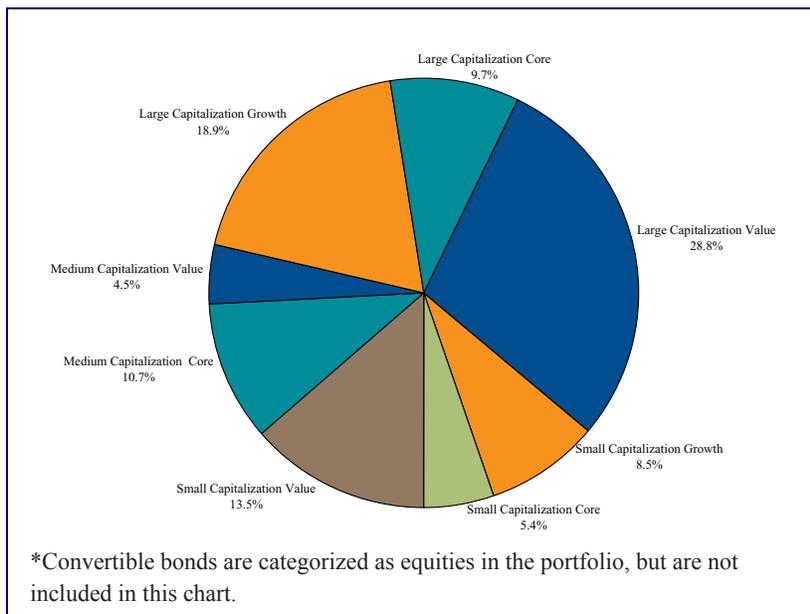
TOTAL EQUITY PORTFOLIO COMPARISON 2004 VERSUS 2005



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 ending December 31, 2005.

Total Equities – The total equity portfolio includes U.S. common stocks, international stocks and convertible securities, representing 58.9% of the total portfolio as of December 31, 2005. The year-end composition of the equity portfolio is shown and is compared to the 2004 equity allocation.

TOTAL DOMESTIC EQUITY PORTFOLIO 2005



Domestic Equities – As of December 31, 2005, the U.S. stock portfolio had a market value of \$2.116 billion and represented just over 43.3% 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.

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The returns for this asset class were positive in 2005 as the economy continued to grow, although at a slower pace. GDP for the U.S. economy grew at a rate of 1.7%. During this period, the domestic common stock portfolio returned 3.8% versus the Russell 3000 Index with a return of 6.1%. The large cap growth portfolio had returns of 4.1% compared to the Russell 1000 Growth Index of 5.3%. MERS' small cap portfolio returned -2.2% versus the Russell 2000 Index at 4.5%. Value style managers generally fared worse than growth managers, but all sectors of the equity markets produced positive returns.

Passive management accounts for 18.4% 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, the S&P 400 in 2004 and added the S&P 600 in 2005. 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: 18.9% large cap growth, 28.8% large cap value, 9.7% large cap core, 10.7% mid cap core, 4.5% mid cap value, 13.5% small cap value and 8.5% small cap growth, and 5.4% small cap core.

TOP TEN EQUITY HOLDINGS AS OF DECEMBER 31, 2005

Asset Description	Shares	Market Value	Percentage of Total Market Value
Exxon Mobil Corporation	566,700	31,831,539.00	0.65%
Pfizer Inc.	920,200	21,459,064.00	0.44%
The Boeing Company	286,290	20,109,009.60	0.41%
General Electric Company	540,040	18,928,402.00	0.39%
Yahoo! Inc.	475,900	18,645,762.00	0.38%
Citigroup Inc.	373,200	18,111,396.00	0.37%
UnitedHealth Group Inc.	283,860	17,639,060.40	0.36%
Medtronic Inc.	300,540	17,302,087.80	0.35%
Chevron Corporation	297,121	16,867,559.17	0.34%
Countrywide Financial Corporation	480,418	16,425,491.42	0.34%

International Equities - The allocation to non-U.S. stocks comprises 15.7% 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 31.3% 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 19.3% for the one-year period ending December 31, 2005; the portfolio returned 26.9% and 5.1% for three and five years, respectively.

Convertibles - The convertible portfolio is 4.5% 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 -1.2% for the fiscal year versus the Merrill Lynch All US Convertible Bond Index of 1.0%. The three-year and five-year returns for the portfolio are 11.4% and .63%, respectively, versus the benchmark of 12.1% and 4.2% for the same periods.

Domestic Fixed Income - The U.S. fixed income markets provided additional diversification, but underperformed 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 28% 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 5.2% and 6.5% 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, 2005

Asset Description	Par Value	Market Value	Percentage of Total Market Value
U.S. Treasury 4.13% 5/15/2015	\$ 30,000,000	\$ 29,342,700	0.60%
U.S. Treasury 4.25% 5/15/2015	15,410,000	15,210,749	0.31%
U.S. Treasury Inflation Index 1.88% 7/15/2015	15,134,420	14,883,794	0.30%
U.S. Treasury 5.25% 11/15/2028	13,215,000	14,413,601	0.29%
Teva Pharma Convertible 0.5% 2/1/2024	6,615,000	7,855,313	0.16%
Carnival Corp Convertible 1.13% 4/29/2033	9,130,000	7,167,050	0.15%
U.S. Treasury 4.25% 10/31/2007	6,660,000	6,640,486	0.14%
FNCL 6.0% 4/1/2035	5,821,262	5,876,273	0.12%
Schlumberger Convertible 2.13% 6/1/2023	4,500,000	5,827,500	0.12%
Tyco Int'l Convertible 3.13% 1/15/2023	3,880,000	5,286,500	0.11%

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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 6.0% versus its benchmark, the Merrill Lynch High Yield Master II Index, at 2.7%. High Yield Bonds contributed significantly to the performance of the overall portfolio.

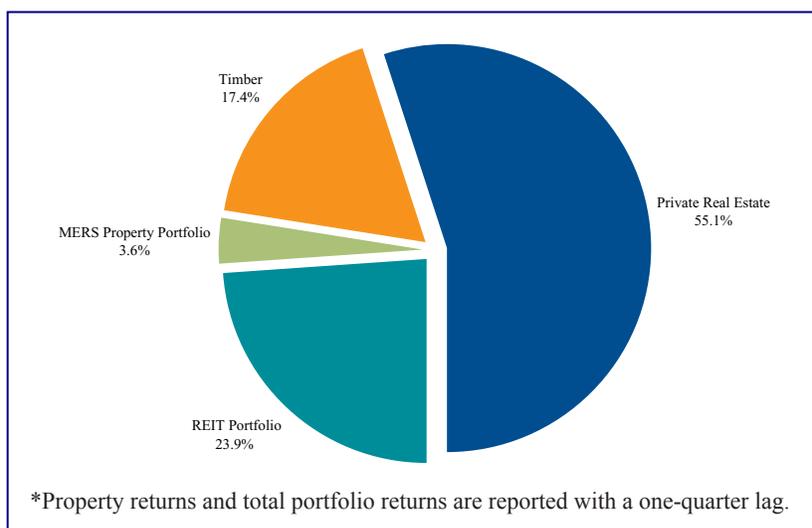
Real Estate Portfolio - MERS' real estate investments represented 6.9% of the total portfolio at year-end and produced a total return of 22.7% for the year. The portfolio is well diversified by property type, geographic region and risk category. The publicly traded assets, comprised of Real Estate Investment Trusts (REITS), are 23.9% of the real estate portion.

The return for the public securities portion of the portfolio was 14.6% versus the North American Real Estate Investment Trust (NAREIT) All Equity Index at 12.2%.

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 21.8% versus the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index of 20.1%. Private real estate is split between stable and enhanced properties that returned 23.2% and 27.4%, respectively. The NCREIF Index represents approximately 4,500 properties, with an aggregate value in excess of \$175 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 18.2% and 13.2% for the three-year and five-year periods, respectively.

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, Mesiraw II and Mesiraw 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. The portfolio is broadly diversified with investments in the U.S., Europe and Asia. The portfolio has a value of \$152 million and has committed \$432.7 million in future

REAL ESTATE INVESTMENTS



investments. 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 on-going 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 8.1%. 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, 2005, MERS earned \$229,939 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, 2005, 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 2006. 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.

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INVESTMENT SUMMARY FOR DEFINED BENEFIT PLAN AS OF DECEMBER 31, 2005

Type of Investment	Market Value	Percent of Market Value
Domestic Fixed Income		
US Government Bonds	\$ 107,373,399	2.20%
Corporate Bonds	410,580,590	8.42%
Bond Index Funds	395,695,889	8.11%
Mortgages	62,878,859	1.29%
US Agency Bonds	305,542,090	6.26%
Sub Total Domestic Fixed Income	1,282,070,827	26.28%
Global Fixed Income	216,862,161	4.45%
Total Fixed Income	1,498,932,988	30.73%
Equities		
Domestic Stock	1,450,607,014	29.74%
Domestic Index Funds	413,681,230	8.48%
Convertibles	160,995,931	3.30%
Sub Total Domestic Equities	2,025,284,175	41.52%
International Stock	428,749,407	8.79%
International Index Funds	337,558,721	6.92%
Sub Total International Equities	766,308,128	15.71%
Total Equities	2,791,592,303	57.23%
Venture Capital & Partnerships		
Hedge Funds	20,480,180	0.42%
Private Equity	154,511,909	3.17%
Total Venture Capital & Partnerships	174,992,089	3.59%
Real Estate		
Private Securities	256,001,844	5.25%
Public Securities Index Fund	107,437,178	2.20%
Total Real Estate	363,439,022	7.45%
Sub Total Investments	4,828,956,402	99.00%
Cash Equivalents		
Commercial Paper and Cash	242,250,239	4.97%
Total Cash Equivalents	242,250,239	4.97%
Sub Total Investments & Cash	5,071,206,641	103.97%
Payables - Purchases of Investments	(317,984,276)	-6.52%
Receivables - Sale of Investments & Interest	124,507,109	2.55%
Total Investments	\$ 4,877,729,474	100.00%

Note: Includes receivables and payables for sales and purchases of securities with settlement dates after December 31, 2005

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SCHEDULE OF INVESTMENT FEES YEAR ENDED DECEMBER 31, 2005

Investment Managers	Average Assets Under Management	Annual Fee	Average Basis Points
Acadian Asset Management	\$ 163,312,220	\$ 796,592	48.78
Ariel Capital Management	104,954,361	440,628	41.98
Barclays Global Investors- Russell 1000	510,625,962	399,740	7.83
Barclays Global Investors- Russell 2000	NA	620	NA
Barclays Global Investors- AIE	165,486,540	1,023,537	61.85
Barclays Global Investors- EAFE	159,784,012	109,558	6.86
Barclays Global Investors- Core	392,005,548	412,392	10.52
CSFB Private Equity Fund	NA	3,463,124	NA
Delaware Investment Advisors	213,701,232	418,293	19.57
Evergreen Investments	217,002,882	533,978	24.61
J.P. Morgan Strategic Property Fund	45,586,143	522,537	114.63
Kennedy Capital Management	334,016,204	949,016	28.41
LSV Asset Management	319,578,375	359,912	11.26
Mondrian International	224,689,490	473,110	21.06
Reams Asset Management- Core	257,679,526	357,680	13.88
Reams Asset Management- High Yield	229,663,244	574,158	25.00
Trust Company of the West	217,570,667	735,141	33.79
Urdang Investment Management	73,816,472	429,082	58.13
Wasatch Advisors	136,578,375	1,114,338	81.59
Wellington Management	372,395,772	930,989	25.00
Wellington Management- Mid Cap	95,413,800	599,776	62.86
Western Asset Management	263,264,572	459,614	17.46
The Townsend Group	NA	295,706	NA
Total Investment Manager Fees	\$ 4,497,125,397	\$ 15,399,521	34.24
Investment Custodian			
The Northern Trust Company		362,989	
Investment Performance Measurement Consultant			
The Northern Trust Company		66,500	
Securities Lending Agent			
The Northern Trust Company		533,538	
Total Investment Fees		\$ 16,362,548	

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SCHEDULE OF INVESTMENT COMMISSIONS

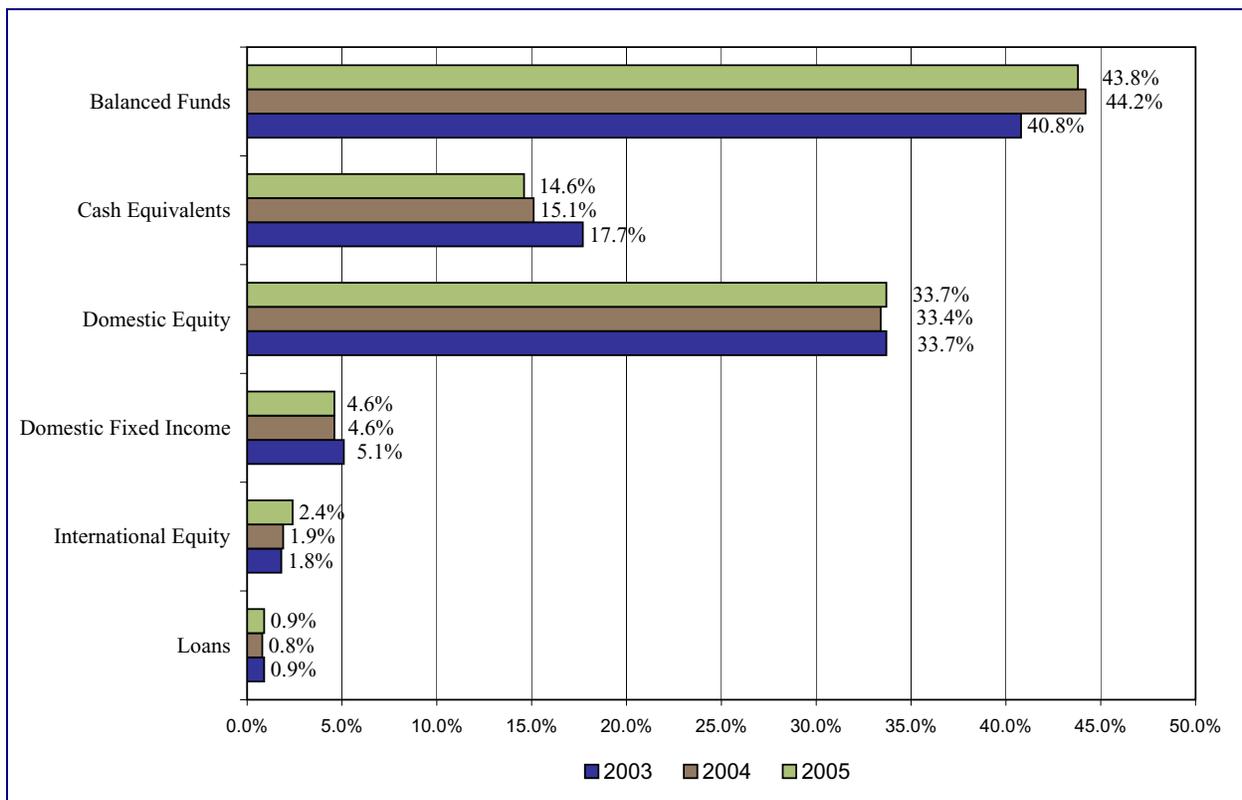
Brokerage Firm	Shares Traded	Total Dollars	Commission/Share
REDI	35,753,852	\$ 362,513	\$ 0.01
Smith, Moore & Co	5,883,502	189,182	0.03
Barrett	4,497,850	151,896	0.03
William Smith	3,593,250	125,854	0.04
Midwood Securities Inc.	6,388,519	104,908	0.02
Capital Institutional Services	2,497,353	104,257	0.04
First Albany	2,579,919	97,852	0.04
Tejas Securities c/t Natl Finl	2,728,294	91,292	0.03
Merrill Lynch	2,265,193	90,773	0.04
Fano Securities	2,345,802	87,152	0.04
Cantor Fitzgerald	2,620,478	80,797	0.03
Liquidnet	3,361,485	76,810	0.02
Abel Noser	2,373,436	72,835	0.03
Investment Technology	2,922,243	63,007	0.02
Morgan Stanley	3,830,539	60,013	0.02
Bear Stearns	1,475,122	59,669	0.04
Jefferies & Co	1,742,971	59,121	0.03
Goldman Sachs	3,565,577	54,940	0.02
Friedman Billings & Ramsey	1,162,490	54,078	0.05
Investor's Capital	1,675,293	52,589	0.03
Banc of America	2,210,930	52,378	0.02
Moness, Crespi, Hardt & Co., Inc	929,500	43,048	0.05
Wells Fargo	1,081,135	41,919	0.04
Citigroup Global Markets	1,286,360	41,741	0.03
Knight Securities	1,566,733	41,714	0.03
Subtotal (25 Largest)	100,337,826	2,260,338	0.02
Remaining Total	35,803,069	1,229,545	0.03
Total Commissions	136,140,895	\$ 3,489,883	\$ 0.03

B. MERS' 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, 2005, the Defined Contribution Plan had net assets of \$164.1 million and 7,393 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, 2005, 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.