



Growing your future

MUNICIPAL EMPLOYEES'
RETIREMENT SYSTEM OF MICHIGAN

2010 comprehensive annual financial report for the fiscal year ended 12.31.2010



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Anne M. Wagner – Chief Executive Officer
Leon E. Hank, CPA – Chief Financial Officer

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ABOUT MERS

The Municipal Employees' Retirement System (MERS) of Michigan exists to provide quality retirement and related services with cost-effective plan administration for members and beneficiaries. We are an independent public nonprofit organization that has partnered with Michigan municipal organizations for more than 65 years, helping them deliver on their promise of a retirement for their employees.

WHAT WE OFFER

MERS Retirement Solutions

MERS Defined Benefit Plan – *Traditional pension that rewards longevity*

MERS Defined Benefit is a traditional pension plan that promises employees a lifetime retirement benefit. At retirement, members receive a specific monthly benefit calculated using a pre-determined formula based on salary and service. The plan is funded by the municipality (with or without pre-tax employee contributions). We also allow municipalities non-membership access to the MERS Total Market Fund, through our Investment Services Program. Groups benefit from our professionally managed fund and economies of scale, while maintaining local control of their pension administration.

MERS Defined Contribution Plan – *Individual accounts that employees manage*

MERS Defined Contribution Plan provides employees with an account they manage. At retirement, benefits are based solely on the amount contributed by the employee and employer, and the performance of investments. We offer access to MERS investments, while streamlining the number of funds, making for simple and strategic investing.

MERS Hybrid Plan – *Offers the best of both retirement plans*

MERS Hybrid Plan is two plans in one. Employees will have the security of a Defined Benefit Plan and the flexibility and investment choice of a Defined Contribution Plan. At retirement, employees receive a modest lifetime benefit and a separate account (made up of member and employer contributions and investment interest earned).

MERS OPEB Solutions

MERS Health Care Savings Program – *The flexible, affordable answer to rising health care costs*

MERS Health Care Savings Program is a tax-favored individual medical investment account sponsored by employers. Once the employee leaves, the account balance is available for tax-free reimbursement of medical expenses for the employee and eligible dependents.

MERS Retiree Health Funding Vehicle – *A simple approach to a complex problem*

The Retiree Health Funding Vehicle is a medical trust which allows municipalities to save and grow assets to offset retiree health care liability. The funding vehicle allows employers to proactively set aside assets to begin funding their liability, and to take advantage of the economies of scale of the MERS portfolios.

MERS Group Buying Solutions

MERS Premier Advantage – *An exciting health care option for Medicare-eligible members*

MERS Premier Advantage is a Medicare Advantage program, designed exclusively for MERS members who are eligible for Medicare. MERS partnered with Humana to cover all Medicare Part A and Part B benefits, as well as many other medical expenses and comprehensive prescription drug coverage, all at a lower out-of-pocket cost than Medicare.

MERS Group Life & Disability Insurance Program – *Secure. Smart. Simple.*

MERS pools employer purchasing power to preserve the quality and affordability of Life, Accidental Death and Dismemberment, Short Term Disability, and Long Term Disability Insurance. MERS partners with The Standard Insurance company to offer affordable insurance.

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Michigan cherries

Did You Know?

- Michigan produces more cherries than any other state
- It takes six to eight pounds of tart cherries to make one pound of dried cherries
- Cherries contain powerful antioxidants that help fight cancer and heart disease
- Eating the equivalent of 20 cherries per day may help arthritis and headaches
- Michigan produces about 190 million pounds of tart cherries, and 43 million pounds of sweet cherries

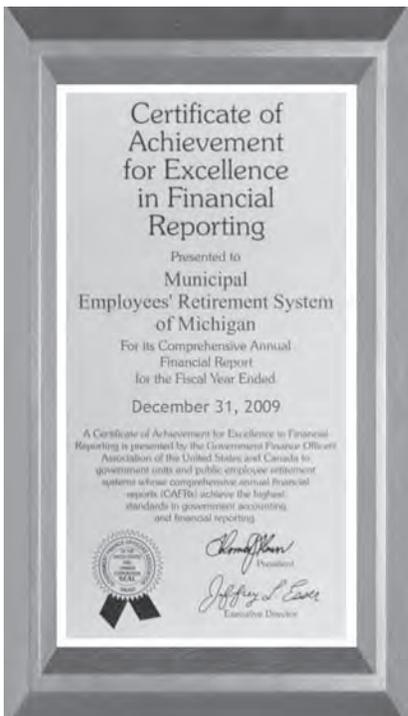


2010 ACHIEVEMENTS

Certificate of Achievement for Excellence in Financial Reporting

MERS received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the December 31, 2009

Comprehensive Annual Financial Report. This marks the 22nd consecutive year MERS has received this honor.



Public Pension Standards Award in 2010

MERS also received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award in 2010, in recognition of meeting the professional standards for plan design and administration as set forth in the Public Pension Standards. This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).



Letter of Transmittal, June 30, 2011

Dear Board Members:

It is a pleasure to submit the 2010 Comprehensive Annual Financial Report (CAFR) for the Municipal Employees' Retirement System (MERS) of Michigan. Included in this year's report is all of the required financial information regarding the System for the fiscal year ending December 31, 2010.

The activities and accomplishments in this report reflect MERS steady strides in fulfilling the goals determined by the Retirement Board, namely, all members will: 1) have accurate information regarding their benefit provisions, 2) experience excellent service and 3) participate in a cost-effective, innovative retirement system. Using professionally planned administration and sound investment practices, we continually strive to exceed member expectations in all aspects of service delivery.

Our theme this year is Growing Your Future. Planning, planting, growing and harvesting crops are similar to making choices for retirement. Michigan is a great agriculture state with a variety of soil types. This diversity results in an ability to grow a large variety of crops – from fruit on the west side of the state, to sugar beets on the east, mint in the lower middle and forests in the upper regions. Farms of all shapes and sizes dot the Michigan landscape. MERS likewise has diverse members with diverse plan types located all across the state. While U.S. financial markets have been persistent in recovery efforts, unemployment and declining housing values remain problematic in the economy. However, the past two years have shown performance improvement as the MERS portfolio exceeded 17% in 2009 and 14% in 2010, following the meltdown of the financial markets in 2008. An updated Experience Study provided by MERS

actuary, Gabriel, Roeder, Smith & Company, indicated that these returns leave the long-term return (30-plus years) more than 100 basis points above the Board-adopted 8% assumed investment rate of return.

Report Structure and Contents

MERS management staff has prepared these financial statements and is responsible for the integrity and fairness of the information presented. This report meets the reporting requirements of state law as stipulated by Michigan Complied Laws. The accounting policies used in preparing these financial statements conform with U.S. generally accepted accounting principles (GAAP). The financial information incorporated throughout this report is consistent with what is displayed in the financial statements. Where necessary, some amounts are based on judgments and estimates using industry best business practices.

Although the ultimate responsibility for the financial report rests with the Retirement Board, I as MERS CEO, and staff assist the Board members in fulfilling its responsibilities. All necessary steps have been taken to provide a system of internal controls and supporting processes to ensure transactions are authorized, assets safeguarded, and all supporting records are properly retained and managed. Controls cover a range of internal activities including, but not limited to, hiring and training staff, assessing and following proper processes, and communicating policies and guidelines to all members via various media avenues. Internal audits are conducted on a systematic but random basis. The Retirement Board reviews generated reports of audits no less than quarterly.

MERS external auditor, Andrews Hooper Pavlik PLC., conducted an independent audit

of the financial statements, in accordance with generally accepted auditing standards, on page 11. This audit is described in the Independent Auditor's Report located in the Financial Section. MERS management has provided the external auditors with unrestricted access to MERS staff to discuss their audit and related findings. This process is done annually to ensure the independent substantiation of the System's financial reporting, and the sufficiency of the internal controls.



The Management's Discussion and Analysis, located in the **Financial Section**, serves as a narrative and overview of the financial statements. MERS provides a full copy of this CAFR to the Governor, the members of both Michigan Legislative branches, and the Office of the State Treasurer as required by law.

This report also includes an **Introductory Section** outlining the System's achievements and structure; the **Investment Section** comprising investment activities and performance information; the **Actuarial Section** containing all the facts pertaining to the actuarial assumptions and methods, and includes the actuary's certification letter. Lastly, the **Statistical Section** provides schedules of various aspects of the system including a listing of all MERS participating municipalities.

MERS Profile

MERS is a statewide voluntary organization created in 1945 by the Michigan Legislature. In 1996, the System was granted independence by the Legislature. At that time MERS had fewer than 500 employer members. Today, more than

750 communities throughout Michigan have selected MERS as their retirement plan provider.

As a statewide voluntary organization, MERS provides an investment pool and system administration for retirement purposes to local governmental entities throughout Michigan. These include cities, counties, townships, road commissions, authorities, and medical care facilities to name a few. MERS offers a menu of benefit provisions through pension trust funds. These provisions may be adopted by member employers to create a retirement plan for their employees. The Retirement Board serves as the fiduciary of the funds while providing oversight responsibilities of the System.

MERS is committed to providing service, security and solutions to our member groups. Service to our segmented customer base is our highest priority including our employers, actively employed members and retired members. In addition, we have many deferred members. Security is likewise extremely important. Ensuring the integrity of the System's information database and investment assets are core requirements for providing retirement information and monthly distributions on a timely basis. Solutions are a mainstay of the MERS System. This means we work with our members to provide the best plan options to meet their needs at the local level.

In 2010, 16 new municipalities, eight in the Defined Benefit Plan and eight in the Defined Contribution Plan, joined MERS. In addition, 11 new divisions in existing member municipalities also joined. In total, these new groups brought in more than \$97 million in assets.

As MERS continues to grow, we will be flexible to innovation while at the same time safeguarding the rules and regulations required of a mature, well-managed retirement system. To that end, the Retirement Board operates from a Governance Policy that contains all the policies required for operating the system. These policies are outlined in four broad categories, namely: the Ends or Achievements as determined to be the harbinger of success for the System's operation, the limitations of the Chief Executive Officer, the relationship of

the Chief Executive Officer to the Retirement Board, and the Retirement Board's processes and procedures.

2010 Accomplishments

Awards

MERS was the proud recipient of the **Government Finance Officers Association (GFOA) Annual Award for our 2009 Comprehensive Annual Financial Report (CAFR)** for the 22nd consecutive year. We also received the GFOA award for MERS Popular Annual Financial Report, which was mailed to all active and retired members of the System.

Last year marks the eighth straight year we received the Budget Award from GFOA. MERS is one of four pension systems in the country to submit their budget for this award.

MERS Communication Department received the Bronze award in the annual Gold Ink Awards, a international print competition, for its entry of the MERS Retirement Solutions Handbook.

Projects

The year 2010 was a big project year for MERS. Beginning in January, the **Expanded Capabilities Project**, better known as ExCap, got underway. This project was the outgrowth of our exploration to undertake the administration of the Defined Contribution (DC) Plan and expand our transition capabilities. The project group was comprised of approximately 20 MERS staff members from every department. This group met bi-weekly to devise a project plan, identify inefficiencies and develop corresponding solutions.

The adoption of the MERS Defined Contribution Plan in 1996 occurred during a time of great change for MERS staff. It was the year the system became independent, moved the office and hired new staff members. The Retirement Board wisely selected an external third party administrator to administer the newly formed plan.

As MERS internal capabilities expanded, we felt the need to examine the potential for managing Defined Contribution internally. After months of planning and discussion, the ExCap members gave the project a "Go forward" vote in July and worked during the remainder of the year to design all of the details to ensure a smooth transition. The conversion occurred in a very seamless fashion in January 2011.

The MERS **Service Center** was expanded and training methods were improved as a result of the ExCap project. The center is equipped with competent, well-trained staff that handle telephone calls for all MERS products and services using call center industry standards. Approximately 3,500 calls per month were received, including refund requests, account changes, and tax withholding changes.

Another important landmark resulting from ExCap was the introduction of two new online portals: the **myMERS Member Portal** for employee members and the **Employer Portal** for employer members. Both portals are accessible through the MERS website. This new technology provides our members with immediate access to their various accounts through a single, secure login.

The first phase of the **Customer Relationship Management** (Microsoft CRM) project rolled out as well, with plans for additional features to be implemented in phase two in 2011. This system allows better coordination and tracks member touch points.

The MERS Finance Department has been working on the **Great Plains** software project that replaces PeopleSoft Financials. Development and testing have been completed and one final customization requirement is still needed before being fully implemented. MERS financial history for years 1999 through 2010 has been transitioned to this new software.

Service

On the **education** front, a new seminar was added for those members in mid-career, called "Build a Better Retirement." Our goal is to assist our members as early as possible in their careers, and start them thinking about retirement. Our various seminars continued to be very successful during the year with 419 attending the onsite retirement seminar; 232 attending Successful Retirement; and 20 attending the Build a Better Retirement Seminar.

Off-site group presentations were provided to more than 2,000 members with separate one-on-one appointments provided to more than 1,400 members.

Other statistics: 1,723 Defined Benefit retirement applications were processed, 2,421 new membership applications, 1,107 deaths for retirees and/or their beneficiaries, and 868 verifications for service credit purchase estimates were provided. MERS is now requiring cash payment for all service credit purchases by either the employer or the employee.

Our goal is to offer excellent service to our employers. Regional managers completed more than 1,231 service visits to MERS employers and prospective members. In addition, 257 actuarial requests were processed.

The MERS **Library and Records Center** manages the System's records and provides service to the MERS staff. In 2010, the Library staff scanned 337,976 pages and 80,479 member records. The record inventory in FileNet, our record system, houses over 139,000 records from MERS business units. The Library also worked with a vendor to create a database named ERIS to house all historical documents including, newsletters, Board motions, Board policies from 1983 to present, Attorney General opinions from 1946 to 1988, Plan Document changes, and all changes to MERS law from 1946 to the present. All foundational material is in the system and searchable by topic.

Leadership Development class was continued for a fourth year with approximately 54 MERS employees participating. The goal of the class is to provide a forum for discussion and growth for those staff members who are interested in expanding their leadership qualities and potential.

Meetings

The **Retirement Board** meets six times annually beginning in January and continues every other month through November. One of the meetings includes an annual retreat in July to discuss strategic planning for the system. Every fall, an Annual Meeting is held to conduct the system's business. Last year the meeting was in Kalamazoo with more than 400 members attending.

The MERS **Strategic Planning Group**, comprised of department officers and their managers, meets monthly, and each June the group participates in a strategic planning session. The recommendations and observations from the session are forwarded to the Retirement Board for its review and discussion at the Board's July retreat.

Acknowledgments

In closing, this report reflects the combined efforts of the MERS staff and the Retirement Board. My sincere appreciation goes to the entire staff for their unfailing efforts to ensure the successful operation of the system. I would also like to extend my deep appreciation to the Retirement Board members for their tireless efforts and dedication in overseeing the system. Their conscientious service and diligence is exemplary. I am also grateful to the many organizations and advisors who work in partnership with MERS to help assure the success of our system.

Respectfully submitted,

Anne M. Wagner
Chief Executive Officer

Letter from the Chairperson, June 30, 2011**Dear Board Members,**

It is a pleasure to present the 65th Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Retirement System (MERS) of Michigan on the behalf of the MERS Retirement Board. This report is for the fiscal year ending December 31, 2010 and provides the relevant financial information pertaining to the status of our Retirement System.

Each year, as stipulated by the MERS Plan Document, the Retirement Board convenes a meeting of member delegates to conduct such business as is required for the operation of the System, including election of board members. The meeting agenda includes the business meeting with reports from the board chairperson, the System's actuary, and updates on the performance of the investment portfolio, in addition to educational sessions. Last year the meeting was held in the city of Kalamazoo on September 13-15, 2010, at the Radisson Plaza Hotel.

During the Annual Meeting, the member delegates elected: Michael Brown, County Administrator for Barry County, as an employer board member; and Sally Dreves, Human Resource Technician from Grand Traverse County, as an employee member. Both were elected to three-year terms. The Board reappointed Bruce Johnson as one of our investment experts. At the January board meeting, I was selected by the Retirement Board to serve as chairperson for another one-year term and Michael Brown was selected to serve as chairperson pro tem. The Retirement Board is comprised of nine members: three employer and three employee members elected by the delegates on three-year rotating terms; as well as one retiree and two investment experts appointed by the Board.

The Retirement Board annually reviews the MERS investment policy with continued scrutiny of our investment assumption, which

is currently 8%. For 2010, the MERS investment portfolio returned in excess of 14%. This is the second straight year, following the disastrous financial markets of 2008, that the portfolio provided double digit returns.

A major project undertaken by the MERS staff in 2010 was the Expanded Capabilities Project, referred to as "ExCap." It resulted in smoothly transitioning the MERS Defined Contribution Plan (DC) from external to internal administration. The appeal for such an effort was two-fold, namely to provide increased education for those MERS members in Defined Contribution and lower the plan fees overall. With those goals accomplished, MERS is pleased to acknowledge the completion of this project and congratulates those staff members who worked so diligently to accomplish its success.

MERS is very fortunate to have members with diverse backgrounds and experience serve on the Retirement Board. Their expertise and knowledge allows them to diligently fulfill the Board's fiduciary responsibilities. Likewise, the MERS staff continues in their unwavering commitment to accomplish the Board's goals of providing accurate information, excellent service and cost-effective plan administration to all MERS members.

In closing, our members can remain confident in the security of the System as we focus on the long-term objectives of sustainable retirement and providing solutions to our members at all levels of the spectrum. MERS vision statement "Our present is your future," continually reminds us of the impact of what we do every day on the future of our members. It is indeed a privilege to serve as the chairperson of this outstanding organization.

Sincerely,

**Larry Opelt, Chairperson
MERS Retirement Board**



MERS RETIREMENT BOARD AND CHIEF EXECUTIVE OFFICER – 2009/2010

Back row: Ms. Sally Dreves, Ms. Beverly Crumley, Mr. Bruce Johnson, Mr. James Wiersma, Mr. Michael Brown, Mr. John Ogden, and Ms. Lori Newberg. **Front row:** Mr. Larry Opelt, Ms. Anne Wagner, and Mr. Randy Girard.

Officer Members: John Ogden, Michael Brown, Randy Girard

Employee Members: Sally Dreves, Beverly Crumley, Lori Newberg

Public Members: Bruce Johnson, James Wiersma

Retiree Member: Larry Opelt, Chairperson

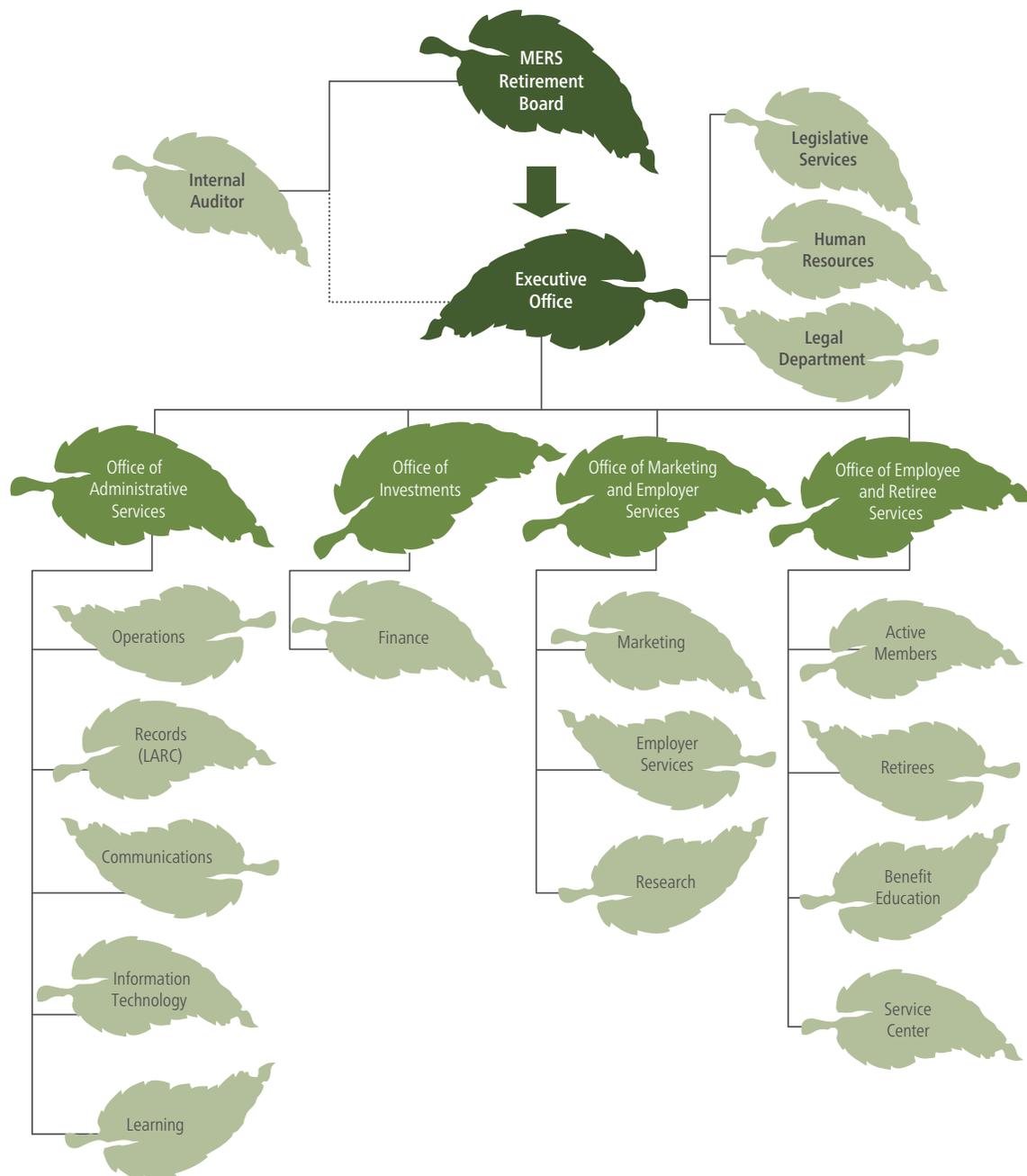


MERS OFFICERS – 2010

From left to right: Jeb Burns, Debra Peake, Mike Moquin, Anne Wagner, Carrie Lombardo, Leon Hank, Caryn Mateer

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN

Organizational Structure – 2010



OUTSIDE PROFESSIONAL SERVICES

Professional Consultants

Actuary

Gabriel, Roeder, Smith & Company

Auditor

Andrews Hooper Pavlik PLC

Human Resource Advisors

Gallagher Benefit Services, Inc.

Investment Custodian

State Street Bank and Trust Company

Legal Counsel

Ice Miller, LLP

Miller, Canfield, Paddock & Stone, PLC

Legislative Consultants

Karoub Associates

Medical Advisor

Consulting Physicians

Security Lending Agent

State Street Bank and Trust Company

Systems Implementation and Maintenance

Tegrit Financial Group

Rimini Street

Summit Technologies

Robbins-Gioia

Service Express

Crowe-Horwath

Third-Party Administrators

Tegrit Administrators, LLC

Investment Managers

Domestic Equity

AMBS Investments

BRC Investment Management

C.S. McKee

Hellman Jordan

Irving Magee

Kennedy Capital Management

Seizert Capital

Wellington Management

International Equity

Acadian Asset Management

BlackRock

Driehaus Global Growth

Hexam

Mondrian Investment Advisors

Fixed Income

BlackRock

C.S. McKee

Credit Suisse

First International Advisors

Reams Asset Management

TCW Funds

High Yield

Stone Harbor

Stone Tower

Overlay

Clifton Group

Real Estate

The Townsend Group

Hancock Timber

Urdang Capital Management

Private Equity

Credit Suisse

Mesirow Financial

Commodities

Cargill Risk Management

Mount Lucas

ACKNOWLEDGEMENTS

The MERS Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2010 was prepared by the Office of Finance and Technology Services (OFT). Special thanks go out to the individuals who assisted with the report. All contributed significant amounts of time and energy to help complete this report. Preparation would not have been possible without the efforts of these individuals.

Office of Finance and Technology Services – Management

Betsy Waldofsky, Finance Director

Luke Huelskamp, Senior Finance & Budget Director

Marlaine Taylor, Municipal Accounting Supervisor

Office of Finance and Technology Services – Technical and Support Staff

Danielle Grice, Accounting Analyst

Jen Wyble, Office Administrator

Karen Butka, Administrative Assistant

Meaghan Krebs, Employer Support Specialist

Robin Towsley, Accounts Payable Coordinator

Sharlene Pallick, Accounting Technician

Additional MERS Staff

Ana Carlson, Senior Graphic Designer, Office of Marketing & Employer Services

Bekki Becsey, Editor, Office of Marketing & Employer Services

Bob Griffin, Investment Officer & Portfolio Manager, Office of Investments

Claudia Konieczny, Investment Analyst, Office of Investments

Jen Mausolf, Marketing/Product Development Manager, Office of Marketing & Employer Services

Joe Thompson, Internal Auditor

Lisa Bond-Brewer, Communications Director, Office of Marketing & Employer Services

Mike Charette, Senior Investment Officer & Portfolio Manager, Office of Investments

Nita Campbell, Digital Print and Mail Services Supervisor, Office of Organizational Development

Special thanks are also extended to our auditors Andrews Hooper Pavlik PLC, actuary Gabriel, Roeder, Smith & Company, and Tegrity Group.