An Inside Look at MERS Investments

Presented by

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About MERS

- Independent nonprofit retirement services organization that serves municipal members in Michigan
- Manages more than 2,000 retirement and employee benefit plans for nearly 800 municipal members
- More than 100,000 participants in MERS
- Assets total more than $9 billion

About the MERS Retirement Board

Nine-member Retirement Board consists of the following members:

- Three Officer Board members
- Three Employee Board members
- Two appointed members
- One Retiree Board member

Responsibilities of the MERS Retirement Board

- Commitment to accountability and transparency for members
- Adheres to strong conflict-of-interest provisions
- Serves as the fiduciary of the funds and has oversight of the system

Fiduciary Responsibility

Below are some examples of how MERS follows basic fiduciary principles:

- Acts solely in the interest of participants and their beneficiaries
- Select and monitor fund lineup, investment managers, and index funds available
- Reduce costs for participating employers and participants
- Monitor state and federal laws, ensuring our plans are in compliance
- Actively maintain qualified status with Internal Revenue Service (IRS)

Investment Responsibilities of the MERS Retirement Board

- Acts as sole fiduciary
- Sets actuarial rate of return
- Sets general investment policy and appoints Investment Committee

Investment Responsibilities of the MERS Investment Committee

- Serves as Board's investment policy development arm
- Monitors investment management activity and policy development recommendations developed by MERS Office of Investments
- Approves recommendations to hire/fire managers with exception of the Emerging Manager Program
- Approves Real Asset & Private Equity investments above $50M

Investment Responsibilities of the MERS Portfolio Review Committee

- Decision making body chaired by CIO and consisting of senior investment staff
- Approval on selection of managers for Emerging Manager Program
- Approval on Real Asset & Private Equity investments below $50M
- Determines tactical shifts to make within the portfolio
- Reports decision to the Investment Committee

Investment Responsibilities of the MERS Office of Investments

- Carries out all investment activity on behalf of the fund
- Provides monthly report on the fund's activities and performance
  - Report any material changes to Investment Committee and Board
- Internal Fixed Income and Equity Management
- Monitor external investment managers

MERS Investment Policy Statement

What is the MERS Investment Policy Statement?

The purpose of the Investment Policy Statement (IPS) is to ensure investment activities are carried out within the framework established by MERS Policy and administrative documents

- Assists the Board, Investment Committee and staff in effectively monitoring investments
- Offers a road map to assist in making prudent and informed decisions
- Addresses:
  - Goals of MERS Investment Program
  - Investment Policies
  - Performance objectives and evaluation
  - Major Investment programs
  - Investment processes and procedures

MERS Investment Philosophy and Beliefs

- Capital preservation is paramount
- Markets are shockingly inefficient
- Keep it simple
- Volatility is not a true measure of risk, permanent impairment of capital or shortfall is risk
- Diversification is critical because the future is unknown
- Mean reversion drives everything
- The focus should be on risk-adjusted returns — returns cannot be evaluated without considering the risk taken to achieve those returns

MERS Defined Benefit Portfolio

MERS Investment Statement of Investment Themes

- Global Economic & Population Growth
- Active & Passive Investments
- Opportunistic Investing
- Expanded Mandates
- Mean Reversion
- Private Investments

Primary Investment Goals and Objectives

- Exceed the actuarial investment assumption on a long-term basis
- Maintain adequate liquidity to pay benefits
- Adopt a strategic asset allocation plan
- Minimize the costs through the efficient use of internal and external resources

Secondary Investment Goals and Objectives

- Maintain above median peer rankings for the 3, 5, and 10 year time periods
- Exceed the Fund's Policy Benchmark, which currently consists of:
  - 65% MSCI ACWI IMI
  - 35% Barclays Global Aggregate
- Exceed the Fund's Target Weighted Benchmark

Asset Allocation Policy

- Asset Allocation is the single most important determinant of achieving the statement investment goals

- The Office of Investments conducts a full asset allocation study every three years to assess portfolio construction and strategy

Asset Allocation Factors

- Projection of actuarial assets, liabilities, benefit payments and cost of contributions
- Historical and expected long-term capital market risk and returns
- Expected correlations of returns among various asset classes
- An assessment of future economic conditions, including inflation and interest rate levels
- Liquidity requirements

MERS Current Asset Allocation

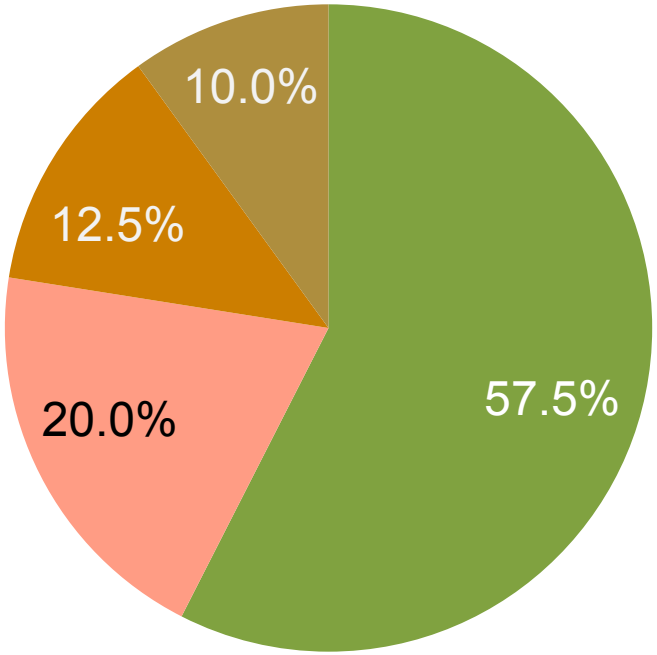
Set in 2013

Main Goals:

- Capital Growth
- Capital Preservation and Income
- Inflation Protection

Recent Changes:

- Reduced Fixed Income allocation
- Increased Equity allocation
- Created Diversifying Strategies allocation



Global Equity

Global Fixed Income

Real Assets

Diversifying Strategies

MERS Investment Menu

Retiree Health Funding Vehicle, Investment Services Program,

Defined Contribution Plan, Health Care Savings Program and 457 Program

- The MERS Retirement Board and Office of Investments selects and monitors the investment choices that are available to you on the MERS Investment Menu
- They actively review the fund lineup, investment managers, and index funds available and make changes as needed, based on strict criteria
- The following are some examples of the criteria used to guide decisions:
  - Comparative risk ratio against peers and benchmarks
  - Comparative expense ratio against peers in its category
  - Consistent investment style
  - Stable investment management team
  - Material legal regulatory or reputation changes

Retirement Strategies

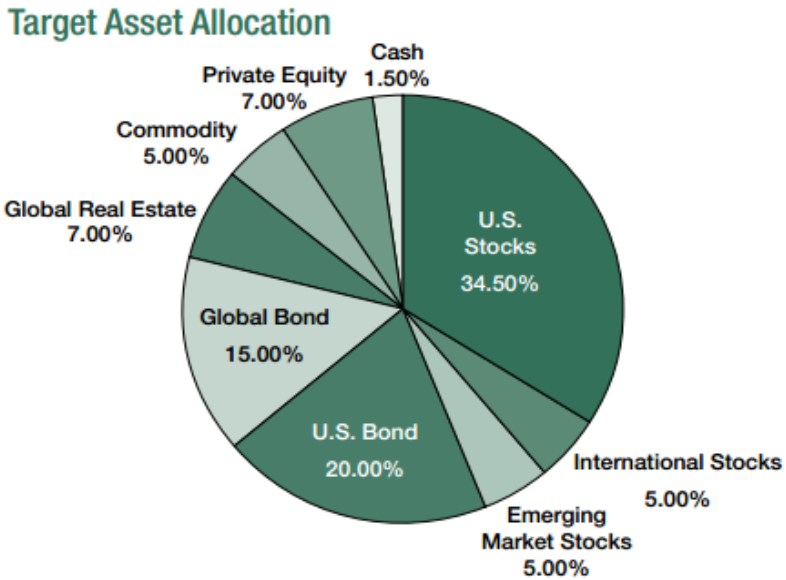
- The Retirement Strategies offer participants in the Defined Contribution Plan, Health Care Savings Program and 457 Program a simple, effective, all-in-one investment choice
- Each fund is named for a “target date
  - Funds furthest from their target dates emphasize growth potential by allocating retirement investments almost entirely to stocks
  - As investors move closer to - and into - retirement, the funds automatically adjust to a more conservative asset mix
- Retirement Strategies are managed by AllianceBernstein
  - They design and implement the asset allocation and actively manage the glide path
  - The investment components are passively managed by State Street Global Advisors
- MERS actively monitors and manages these external investment managers

Portfolios Built For You

Total Market Fund

- A fully diversified portfolio combining traditional stocks and bonds with alternative asset classes including real estate, private equity, and commodities

- The objective is to provide current income and capital appreciation while minimizing the volatility of the capital markets



Portfolios Built For You

MERS Global Stock Portfolio

Focus on above average growth with a long time horizon and may experience substantial fluctuations

MERS Capital Appreciation Fund

Focus on above average growth with a long time horizon as it may experience substantial fluctuations

MERS Established Market Fund

Focus on stable growth with a moderate time horizon and may experience moderate fluctuations

MERS Balanced Income Fund

Focus on a small growth with a moderately short time horizon and may experience some fluctuations

MERS Capital Preservation Fund

Focus on stability with a short term time horizon and aims to minimize fluctuations

MERS Diversified Bond Portfolio

Focus on stability with a short term time horizon and aims to minimize fluctuations

Additional Funds Available Under the MERS Investment Menu

- MERS offers the following types of funds for participants to build their own portfolios with

- Stable Value
- Bond Index
- Large Cap
- Mid Cap
- Small Cap

- Real Estate
- International Stock Index
- Short-Term Managed Income
- High Yield Bond Fund
- Emerging Market Stock Fund

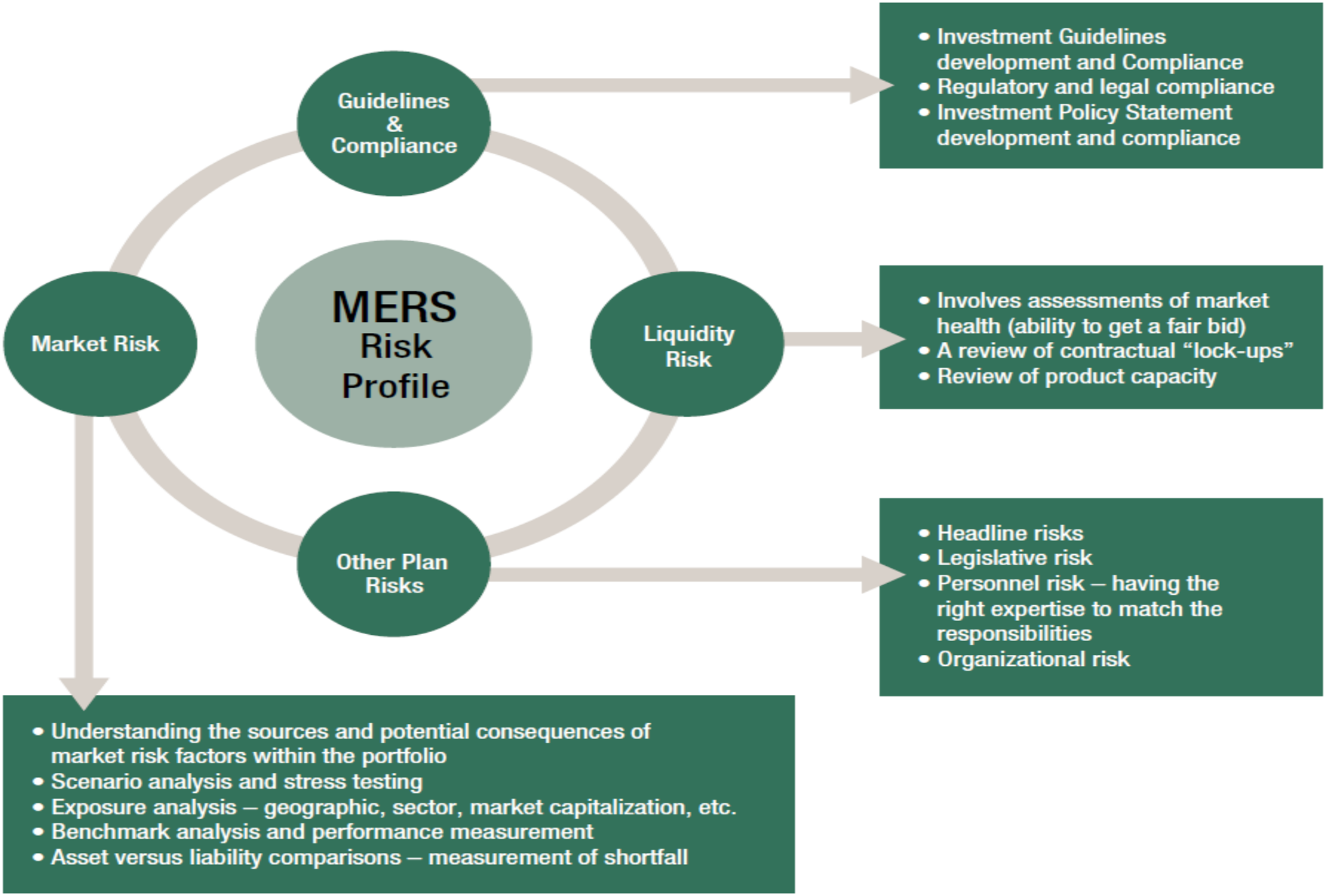
Investment Manager Due Diligence & Selection

Criteria for Manager Selection	Importance
Organization	Moderate
Structure, size, financial condition, client base	
People	Highest
Investment professionals, experience, compensation	
Process	Highest
Investment philosophy, style, portfolio construction, sell discipline	
Procedures	High
Trading, risk management, compliance, reporting	
Performance	High
Results relative to an appropriate benchmark and peers	
Price	Moderate to High
Investment management fees	

Investment Manager Monitoring & Retention Policy

- Staff meets with each manager at least twice every twelve months
- Qualitative assessment focuses on organizational and staff stability, adherence to investment philosophy and process
- Quantitative assessment focuses on performance versus benchmark, peer comparison, and risk analysis
- Courses of action:
  - A manager will be placed on probation as a result of a significant and potentially adverse development
  - A comprehensive review of a manager will be undertaken as a result of serious underperformance

Risk Management & Controls



Key Benefits

Regardless of the MERS program you are in, you receive an experienced team that oversees your investments

Please take time to fill in your survey

There are session surveys in the back of your book. Please take the time to fill in the survey to assist us in planning future events!

This presentation contains a summary description of MERS benefits, policies or procedures. MERS has made every effort to ensure that the information provided is accurate and up to date. Where the publication conflicts with the relevant Plan Document, the Plan Document controls.