REPORT SUMMARY

The Total Market Fund returned -1.37% for the month of June, outperforming its policy benchmark by 22bps. The portfolio continues to perform as designed, providing downside protection and capturing most of the upside. The investment team is moving forward with an asset allocation study which will be presented to the Board for final approval in October. The following manager/strategy searches and research projects are ongoing: active frontier equity, public infrastructure equity, review of private investing strategy, and custodial banking RFI.

CIO REPORT

In the second quarter, the global financial markets posted strong returns across equities, while fixed income markets experienced elevated volatility as the Fed signaled that it may "taper" its quantitative easing program. The Fed's policy shift resulted in much of the quarter's gains evaporating in the month of June. The Eurozone remained the negative outlier as recessionary conditions persisted, particularly in the south. Eurozone GDP came in at a -0.2% for the first quarter, up from -0.6% in the previous quarter. In China, the economy slowed, but growth remained strong relative to developed markets at 7.7% for the second quarter. Emerging markets continued to have a difficult time, producing negative returns for public markets. The U.S. markets continued to move upward to new highs with the DJIA stopping short of 15,000. Economic growth remained positive with US GDP at 1.8% in the first quarter. Tax increases and spending cuts from the sequester continued to weigh on growth. Headline unemployment in the U.S. spiked in June, increasing to 7.6% as did the more robust U6 at 14.2%. New jobs are being added to the economy. Initial jobless claims came in at 346,000 as estimated and below May's 354,000. The deleveraging process will have a negative impact on headline GDP growth for several years to come; therefore, a more opportunistic and patient investment approach will be necessary to maximize returns. Recent results show that slower economic growth does not mean that asset prices will not appreciate. U.S. markets are showings signs of being overvalued and a shift toward Europe and the developing world is being reviewed.

> "In the depth of winter, I finally learned that within me there lay an invincible summer."
>
> *— Albert Camus*

The Total Market Fund returned -1.37% for the month, outperforming its policy benchmark by 22bps. Negative absolute performance was realized in all asset classes with the exception of private equity, which produced a positive 4.69% return for the month. Negative returns were inspired by fears of an end to the Fed's quantitative easing program, resulting in significant volatility for the public markets. Fixed income was negative across different geographic locations and strategies, as were equities with the exception of microcap which produced positive absolute returns of 1.49%. MERS triple net lease strategy, which serves as a fixed income substitute, produced modest positive returns of 0.48% providing validation for the strategic shift. MERS total plan assets* are $7.69 billion and total MERS assets are $8.00 billion. Asset class allocations are within target bands and adequate liquidity is available.

What Worked	What Didn't Work
• Private equity • Private real estate • Triple net lease real estate • Micro cap equities on an absolute basis • Domestic equities outperformed on a relative basis versus developed and global	• Fixed income, fixed income, and fixed income • Equities ◦ International, frontier, and emerging market equities • Commodities

** Total Plan Assets (TPA) – includes the MERS Defined Benefit portfolio, assets in the RHFV, HCSP, ISP, 457, and DC assets invested in the MERS Total Market Fund or one of its portfolios. Total MERS Assets includes all TPA plus DC assets invested in outside mutual funds.*

CIO REPORT

Investment Trends

The world can change at a moment's notice, but markets tend to run in cycles lasting a year or in some cases several years. Because of this it is important to track the economic and political trends nationally, as well as globally. Knowing the trends and understanding the possible investment solutions allow for strategic investing with little opportunity wasted.

Long-term Trends

- Global growth
- Demographics – aging populations/global population growth
- Emerging market middle class expansion
- Environmental concerns and competition for natural resources

Investment Solutions

- Expanded mandates/Global investing
- Opportunistic investing
- Disciplined portfolio management – dynamic rebalancing
- Long equities
- Strategic increases in emerging & frontier market investments

Medium-term Trends

- Government fiscal policy intervention
- Political instability & high volatility
- Lack of credit financing - improving
- Developed country deleveraging
- Low interest rates

Investment Solutions

- Opportunistic investing
- Fixed income substitutes
- Credit underweight & positioning for inflation
- Real asset investments
- Neutral to slightly overweight equities

Economic risks

- Monetary policy mistakes
- European credit crisis – developed world debt levels
- U.S. fiscal policy dysfunction
- Demographics – aging population
- Social and political instability
- Global fiscal stress – structural realignments
- China hard landing

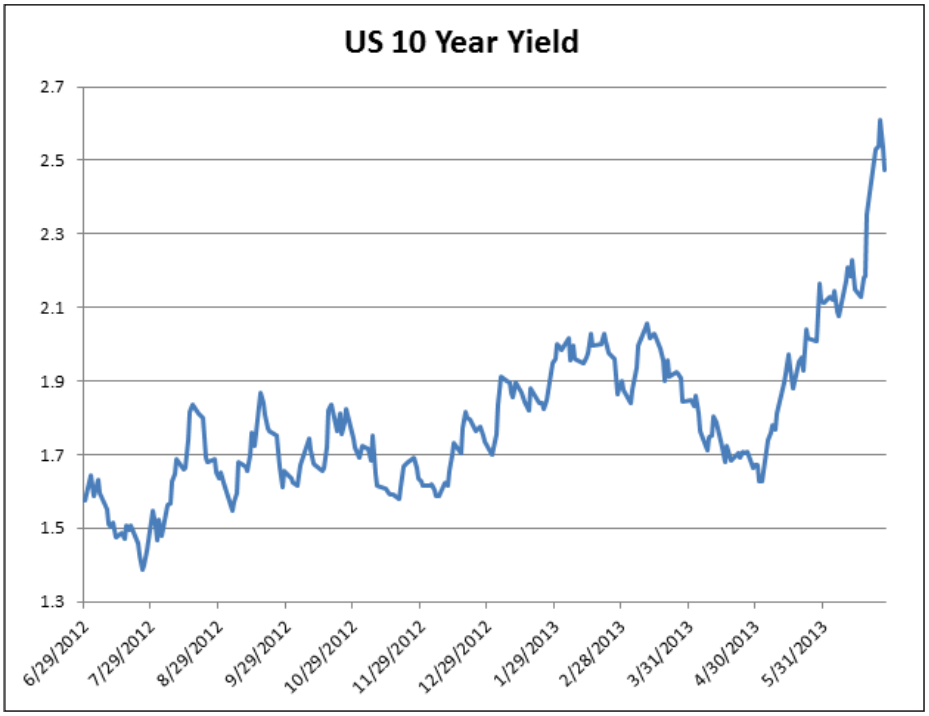
Performance Insights for the Month

- Microcap was the only public equity sub asset class to produce positive returns for the month, proving its worth as a more liquid private markets alternative
- Triple net lease provided positive cash flow in a down market
- Private equity was our friend

Value Added

	1 Year			3 Year			5 Year		
	Allocation	Selection	Total	Allocation	Selection	Total	Allocation	Selection	Total
Global Equity	0.50	1.11	1.61	(0.38)	1.14	0.76	(0.51)	1.25	0.74
Fixed Income	0.99	0.82	1.81	0.48	0.43	0.91	0.33	0.21	0.54
Real Estate	0.08	0.02	0.10	(0.10)	0.03	(0.07)	(0.26)	(0.27)	(0.53)
Private Equity	0.01	(0.99)	(0.98)	0.14	(0.82)	(0.68)	(0.10)	(0.78)	(0.88)
Commodities	(0.81)	(0.05)	(0.86)	(0.17)	0.08	(0.09)	0.18	0.19	0.37
Cash	(0.55)	0.01	(0.54)	(0.62)	0.06	(0.56)	(0.99)	0.11	(0.88)

CIO REPORT

Liquidity Overview	Market Value	% of Total Fund
Immediate	$1,007,721,492	12.87%
0 -30 Days	$3,597,374,074	45.96%
30 – 60 Days	$169,397,716	2.16%
60 – 90 Days	$2,220,725,026	28.37%
90 + Days	$832,521,471	10.64%
Total Fund	**$7,827,739,779**	**100.00%**

Investment Programs AUM	Market Value
Defined Benefit	$ 7.04 billion
RHFV	$ 435.97 million
HCSP	$ 74.36 million ($ 71.71 million in MERS Options)
ISP	$ 8.60 million
MERS 457	$ 9.70 million ($ 3.25 million in MERS Options)
457	$3.82 million
DC	$ 426.27 million ($ 127.55 million in MERS Options)
Total MERS Assets	**$8.00 billion**