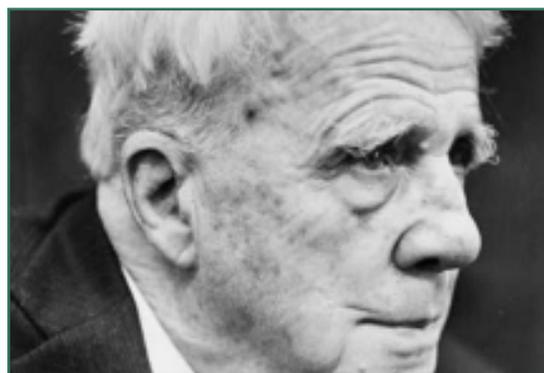


REPORT SUMMARY

The Total Market Fund returned 1.91% for the month of March, closing out the quarter at 4.77%, underperforming its policy benchmark by 11bps and 32bps respectively. 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 in July. 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

Global financial markets finished the quarter with a flourish, posting strong returns across most markets on positive economic data. The Eurozone remained the negative outlier as recessionary conditions intensified. Chinese economic activity increased but at a slower pace than expected. The Eurozone once again rose to the headlines with the Cyprus bailout rising to the top of investors' concerns in March. I would expect to see heightened volatility in developed Europe later in 2013. Despite concerns about Europe, the U.S. markets continued to move upward to new all-time highs. Most recent economic data shows US GDP grew at 2.5% in the first quarter. Tax increases and spending cuts resulting from the sequester continued to weigh on growth. Private sector job growth weakened in March as monthly payroll numbers disappointed. Unemployment in the U.S. remains elevated at 7.6% and the U6 unemployment at 13.8%, although these numbers are steadily improving as new jobs are being added. The deleveraging process will have a negative impact on headline GDP growth for several years to come. 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. Equity markets tend to be leading indicators and recent moves in the Dow and S&P 500 to new all-time highs amid temporarily slow economic growth should be viewed positively.



“
In three words I can sum up everything
I've learned about life: it goes on
”
— Robert Frost

The Total Market Fund returned 4.77% for the quarter, underperforming its policy benchmark by 32bps. Positive absolute performance was realized across all asset classes. Returns were driven largely by US equities and to a lesser degree by alternative assets and higher yielding fixed income. Commodities produced negative returns for the quarter on disappointing growth in China. MERS total plan assets* are \$7.71 billion and total MERS assets are \$8.03 billion. Asset class allocations are within target bands and adequate liquidity is available.

What Worked	What Didn't Work
<ul style="list-style-type: none"> • Broad portfolio diversification • Equities <ul style="list-style-type: none"> ◦ Small and microcap • Bank regulatory capital 	<ul style="list-style-type: none"> • Active high yield • Real assets • Private real estate • Global allocations struggled • Private equity versus public equities

* Total Plan Assets (TPA) – includes the MERS Defined Benefit portfolio, assets in the RHFV, HCSP, 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
- Opportunistic investing
- Disciplined portfolio management- dynamic rebalancing
- Long equities

Medium-term Trends

- Government fiscal policy intervention
- Political instability & high volatility
- Lack of credit financing
- 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
- Strategic increases in emerging & frontier market investments

Economic risks

- European Credit Crisis – developed world debt levels
- U.S. Fiscal Policy Dysfunction
- Demographics – aging population
- High Unemployment Rates in Europe (particularly among the young)--social and political instability
- Volatility in US and international markets
- Global Fiscal Stress – structural realignments

Performance Insights for the First Quarter

- Domestic equities were the top performing asset class at 11.66%
- Active midcap equities produced the top absolute return at the sub-asset class level at 14.09%
- Active core and core plus fixed income added value on a relative basis
 - Infrastructure and triple net lease produced strong absolute returns
- Orchard Global Capital, MERS bank regulatory alternative managed led fixed income with a return of 5.36%

