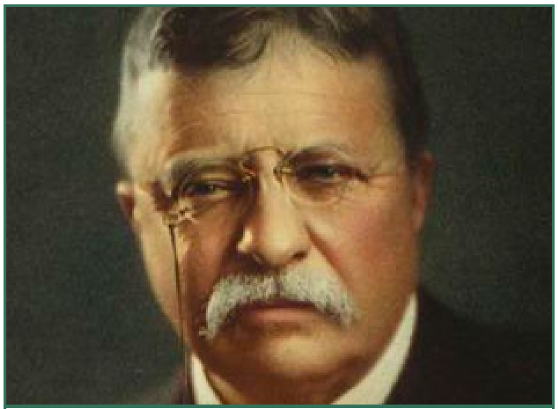
REPORT SUMMARY

The Total Market Fund closed out the year with a return of 15.0%, returning 5.05% for the quarter and 1.32% for the month. The fund outperformed its policy benchmark by 39bps for December and 65bps for the year. The portfolio continues to perform as designed, providing downside protection and capturing most of the upside. The investment team is moving forward with a policy benchmark study which will be presented to the Board for final January. ***The following manager/strategy searches and research projects are ongoing: active frontier/emerging market equity, small cap emerging market equity, real assets, diversifying strategies, strategic planning, and custodial banking RFI.***

CIO REPORT

December saw a continuation of the equity market rally with strong upward momentum. Market volatility decreased but concern regarding policy uncertainty grew. The Fed's decision to delay tapering its QE program continued to support cautious market reflection amongst institutional investors. In the Eurozone, GDP remained in positive territory decreasing slightly to 0.1% in the third quarter. In China, the economy remained strong relative to developed markets at 7.7% annualized for the fourth quarter, down from 7.8%. Recent policy initiatives in China have been viewed as positive by the markets. Emerging market economies continued to have a difficult time as economic activity slowed, with prospects for improvement in 2014 unlikely. The DJIA settled in above 16,000 as the year-long rally solidified. The University of Michigan Survey of Consumer Confidence Sentiment jumped to 82.5 and U.S. GDP was strong at 3.2% for the fourth quarter. Headline unemployment in the U.S. dropped below 7.0% to 6.7% in December. The more robust U6 declined significantly to 13.1%. New jobs continue to be added to the economy at a pace of 227,000 above economists' estimates of 200,000 for the month of December an increase from November. Initial jobless claims increased slightly, but a downward trend continued. The ADP jobs report also showed that small businesses accounted for 108,000 new jobs while large businesses with more than 500 employees added 65,000 positions. The deleveraging process, substantially completed in the U.S., will continue to have a negative impact on headline GDP growth for several years to come particularly in Europe; therefore, a more opportunistic and patient investment approach will be necessary to maximize returns. U.S. markets are showing signs of overvaluation, and a shift toward investments in Europe and the developing world is being implemented.



"Far better is it to dare mighty things, to win glorious triumphs, even though checkered by failure...than to rank with those poor spirits who neither enjoy nor suffer much, because they live in a gray twilight that knows not victory nor defeat."

— Theodore Roosevelt

The Total Market Fund closed out the year with a return of 15.0%, returning 5.05% for the quarter and 1.32% for the month. The fund outperformed its policy benchmark by 39bps for December and 65bps for the year. Monthly performance was strong, with most performance trends continuing. All asset classes produced positive absolute returns for the month, with the exception of real assets which was slightly negative due to negative returns in REITs. Equities led fund attribution returning 2.27%, with larger cap names and growth equities adding modest value over smaller cap stocks. Frontier markets added non-correlated positive returns to the developing world, but emerging markets continued to sell off and detract compared to their U.S. counterparts-- MERS core equity portfolio returned 2.82%. Fixed income was positive returning 0.28% versus the Barclays Aggregate which returned -0.57%. Returns were driven by global and emerging fixed income which returned 0.13% and 0.87% while MERS core managers produced negative returns for the month. MERS fixed income substitutes produced positive and strong returns, significantly outperforming the Barclays Aggregate Bond Index as a group. MERS total plan assets* are $8.36 billion and total MERS assets are $8.70 billion. Asset class allocations are within target bands and adequate liquidity is available.

CIO REPORT

What Worked	What Didn't Work

• Global developed equities across capitalizations
  ◦ Growth was favored over value
  ◦ Frontier
• Alternative fixed income
  ◦ Bank regulatory capital
  ◦ Triple net lease
  ◦ Infrastructure
  ◦ Unconstrained/opportunistic fixed income
• Private equity
• Timber
	• Emerging market equities
	• Core U.S. fixed income
	• Global REITs

** 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.*

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
- Real assets & inflation hedging
- Strategic increases in emerging & frontier market investments

Medium-term Trends

- Government fiscal policy intervention - decreasing
- Political instability & high volatility - increasing
- Banking sector regulatory change implementation
- 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

Economic risks

- Monetary policy mistakes - decreasing
- European credit crisis – developed world debt levels
- U.S. fiscal policy dysfunction - believe it or not decreasing
- Demographics – aging population
- Social and political instability
- Global fiscal stress – structural realignments
- China hard landing – decreasing

Performance Insights for the Month

- Currency hedge to our Australian holdings
- Growth over value
- Global and emerging market fixed income