

REPORT SUMMARY

The Total Market Fund returned of 0.16% for the month of March, underperforming its policy benchmark by only 5bps. The portfolio continues to perform as designed, providing downside protection and capturing most of the upside. *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.*

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March saw global equities deliver slightly positive performance as the S&P 500 reached fresh all-time highs. Markets experienced volatility immediately following the Russian invasion of Crimea, but fears of a global crisis subsided and markets renewed their upward trend. The Fed continued tapering its QE program at its March meeting and raised expectations of its first interest rate hike since 2006, surprising some market participants. Additionally, concerns regarding emerging markets and the possibility of deflation in Europe will remain headwinds for the markets as we enter the spring. Economic data in the Eurozone cooled its upward momentum from the fourth quarter but still remains in positive territory. Institutional investors remain concerned about the trajectory of Chinese growth as China's credit boom slows. However, recent policy initiatives to combat excessive credit growth in China continue to support markets. Emerging market economies continued to have a difficult time as economic activity slowed again in March, with prospects for improvement in 2014 likely to remain an uphill battle as countries battle slowing export growth, currency devaluation, and political crisis. Despite these headwinds, the MSCI Emerging Markets index rallied over 3% for the second straight month. The S&P 500 underperformed emerging markets in March as it added under 0.80%. Interestingly, the technology-heavy NASDAQ underperformed most markets on the month as it declined nearly 2%. This decline, concentrated in smaller-cap names, has been attributed to hedge funds liquidating their positions. The University of Michigan Survey of Consumer Confidence Sentiment decreased slightly to 80 and manufacturing data improved from the depressed levels of the winter caused by the unusually cold winter. Headline unemployment in the U.S. remained flat at 6.7%. The more robust U6 ticked up slightly to 12.7% from 12.6 % the previous month. New jobs continue to be added to the economy at a pace of 192,000 for March, slightly below economists' expectations of 200,000. The deleveraging process, largely 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 strategic shift toward investments in Europe and the developing world is being implemented. Active management and a country specific approach will be deployed in these markets going forward.



“Your net worth to the world is usually determined by what remains after your bad habits are subtracted from your good ones.”

— Benjamin Franklin

The Total Market Fund returned 0.16% for the month of March, underperforming its policy benchmark by only 5 bps. The portfolio experienced positive absolute performance across most asset classes. The overall equity program underperformed on a relative basis by 9bps returning 0.06% versus 0.14% for the MSCI World Index. Positive relative performance was driven by small cap and micro-cap equities. Core and developing equity returns were broadly negative on a relative basis. The fixed income program delivered positive absolute and relative returns for the month. Returns were driven by positive performance in emerging market bonds, global core fixed income, and triple net lease. MERS total plan assets* are \$8.62 billion and total MERS assets are \$8.96 billion. Asset class allocations are within target bands and adequate liquidity is available.

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What Worked	What Didn't Work
<ul style="list-style-type: none"> • Active internally managed micro-cap • Small cap value • Emerging Market fixed income and Global High Yield 	<ul style="list-style-type: none"> • US Core fixed income • Currency hedge to our Australian holdings • Global growth equities

** 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.

<p>Long-term Trends</p> <ul style="list-style-type: none"> • Global growth • Demographics – aging populations/global population growth • Emerging market middle class expansion • Environmental concerns and competition for natural resources <p>Investment Solutions</p> <ul style="list-style-type: none"> • Expanded mandates/Global investing • Opportunistic investing • Disciplined portfolio management–dynamic rebalancing • Long equities • Real assets & inflation hedging • Strategic increases in emerging & frontier market investments 	<p>Medium-term Trends</p> <ul style="list-style-type: none"> • Government fiscal policy intervention - decreasing • Political instability & high volatility - increasing • Banking sector regulatory change implementation • Lack of credit financing • Developed country financial sector deleveraging • Low interest rates <p>Investment Solutions</p> <ul style="list-style-type: none"> • Opportunistic investing • Fixed income substitutes • Credit underweight & positioning for inflation • Real asset investments • Neutral to slightly overweight equities 	<p>Economic risks</p> <ul style="list-style-type: none"> • Monetary policy mistakes - decreasing • European credit crisis – developed world debt levels • U.S. fiscal policy dysfunction - believe it our not decreasing • Demographics – aging population • Social and political instability • Global fiscal stress – structural realignments • China hard landing – decreasing
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<p>Performance Insights for the Month</p> <ul style="list-style-type: none"> • Value outperformed growth on a relative basis • Global and emerging market fixed income performed well • Emerging Market equities rallied
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Liquidity Overview	Market Value	% of Total Fund
Immediate	\$480,206,903	5.57%
0 -30 Days	\$4,964,020,006	57.58%
30 – 60 Days	\$566,808,157	6.57%
60 – 90 Days	\$760,039,392	8.82%
90 + Days	\$1,850,181,650	21.46%
Total Fund	\$8,621,256,108	100.00%

Investment Programs AUM	Market Value
Defined Benefit	\$ 7.80 billion
RHFV	\$ 528.18 million
HCSP	\$ 87.71 million (\$ 84.49 million in MERS Options)
ISP	\$ 45.13 million
MERS 457	\$ 14.59 million (\$ 4.98 million in MERS Options)
457	\$4.63 million
DC	\$ 482.13 million (\$ 150.58 million in MERS Options)
Total MERS Assets	\$8.96 billion

The NASDAQ Biotechnology Index



After rising 85% in 2013 and early 2014, the NASDAQ Biotechnology Index became a notable story in March as it declined over 13% on the month.