REPORT SUMMARY

The Total Market Fund returned of 1.67% for the month of June, outperforming its policy benchmark by 3bps. 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, real assets, diversifying strategies, strategic planning, and custodial banking RFI.***

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"A lagging indicator is something that tells you what is going to happen after it already happened."

— Coreen T. Sol CFA

June saw global equities continue their upward momentum with the S&P 500 once again reaching fresh all-time highs. Market volatility declined throughout the month to multi-year lows. The Fed's tapering of its QE program and the possibility of raising interest rates early next year continued to support cautious market reflection amongst institutional investors. Additionally, concerns regarding emerging markets seemed to have dissipated as both equity and fixed income developing assets were among the top performing asset classes in June. Deflation fears continue to be present in Europe, but the European Central Bank signaled that it was willing to continue an accommodative approach for the foreseeable future to spur growth. Economic data in the Eurozone continued to recover, albeit at a slowing pace compared to last year. In Japan, inflation continued to accelerate and consumer spending took a hit as a result of a significant increase in the nation's consumption tax. In China, growth has stabilized below 8% as the government announced new measures to modestly stimulate growth as the nation's real estate sector slows. Other emerging market economies began to improve as financial asset volatility has decreased. However, emerging market countries will continue to struggle with slow export growth, currency devaluation, and political crisis. Despite these headwinds, the MSCI Emerging Markets index was positive in June returning 2.70% while the S&P 500 returned 2.07%. The University Of Michigan Survey Of Consumer Confidence Survey increased slightly from 81.2 to 82.5. Headline unemployment in the U.S. held at 6.1%. Employment prospects continued to improve with job openings reaching a 13-year high. New jobs added to the economy, coming in above expectations with 298,000 added in June. U.S. inflation eased its acceleration as the CPI held at 2.1% in June, increasing fears that the Fed may have to increase interest rates sooner than expected. 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, although opportunities within private lending have accelerated as a result. 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 the developing world is being implemented. Active management and a country specific approach will be deployed in these markets going forward.

The Total Market Fund returned 1.67% for the month, outperforming its policy benchmark by 3bps. The portfolio experienced positive absolute returns for all asset classes, with relatively equal dispersion with the exception of real assets. Within the equity allocation, core equity and small caps posted strong relative returns while emerging and frontier market portfolios lagged their respective benchmark. Micro cap found its footing after a volatile second quarter and private equity was essentially flat. The equity allocation underperformed the Global Equity blended benchmark by 57bps, returning 2.47% versus 3.04%. Real assets and fixed income portfolios added positive returns across all sub asset classes, returning 0.53% and 0.40%, respectively. Global performance was strong with emerging market and global bonds topping performance at 0.89% and 0.90% versus the domestic Barclays Aggregate at 0.05%. Fixed income alternatives added limited alpha. MERS total plan assets* are $8.82 billion and total MERS assets are $9.17 billion. Asset class allocations are within target bands and adequate liquidity is available.

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MERS Portfolio Characteristics

- Outperforms in down markets
- Lower risk than market index
- Attempts to keep pace or slightly lag in up markets
- Maintains the stability of the Plan's funded status
- Maintain adequate liquidity
- Minimize the costs
- Exceed the actuarial investment assumption on a long-term basis

What Worked

- Mid, small and micro cap equities
- Private equity
- Fixed income
  - EM debt
  - Global bonds
- Real Estate
- Timber

What Didn't Work

- Developing equities
- Agriculture and Farmland was flat
- Infrastructure
- FX hedge detracted

** 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 – under review
- 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 financial sector deleveraging
- Low interest rates

Investment Solutions

- Opportunistic investing
- Cash levels slightly elevated
- 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 - decreasing
- Demographics – aging population
- Social and political instability
- Global fiscal stress – structural realignments
- China hard landing – neutral

Performance Insights for the Month

- Micro cap and small cap equity rebounded returning 3.52% and 3.46%
- Timber returned 0.94% for the month and 22.98% for the one year

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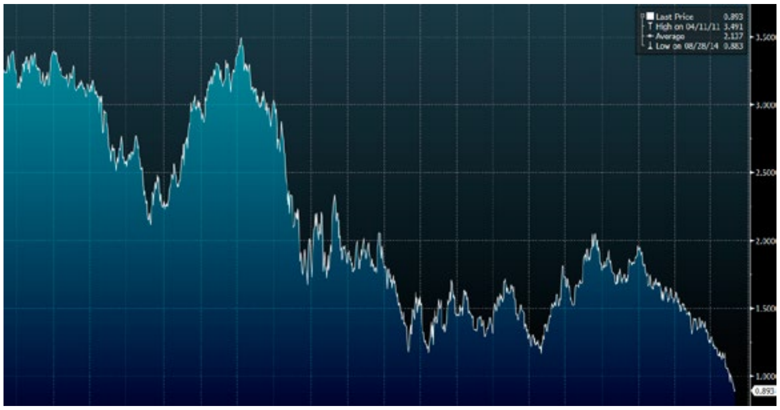
Liquidity Overview	Market Value	% of Total Fund
Immediate	$195,288,271	2.21%
0 -30 Days	$5,374,149,139	60.89%
30 – 60 Days	$583,682,671	6.61%
60 – 90 Days	$805,648,644	9.13%
90 + Days	$1,866,950,595	21.15%
Total Fund	**$8,825,719,320**	**100.00%**

Investment Programs AUM	Market Value
Defined Benefit	$ 7.97 billion
RHFV	$ 560.17 million
HCSP	$ 92.96 million ($ 89.26 million in MERS Options)
ISP	$ 46.56 million
MERS 457	$ 16.48 million ($ 5.60 million in MERS Options)
457	$4.82 million
DC	$ 480.46 million ($ 147.34 million in MERS Options)
Total MERS Assets	**$9.17 billion**



For the first time ever, the German 10 Year bond yield fell below 1%, reflecting renewed concerns about slowing European growth and accelerating deflationary pressures.