REPORT SUMMARY

Bottom Line: The Total Market Fund returned of -1.66% for the month of September, outperforming its policy benchmark by 163bps. 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, and diversifying strategies.***

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"Never give up, for that is just the place and time that the tide will turn."

— E.M. Harriet Beecher Stowe

September saw financial markets once again violently reverse course as equities posted significant and broad-based losses. Elevated market volatility is now firmly established within investor psychology and is expected to continue. 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. 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 began to stall and recessionary fears accelerated. 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 fell to 7.4% YoY for the third quarter as the government announced new measures to modestly stimulate growth as the nation's real estate sector slowed. Concerns about growth, inflation, and political risk, especially in Brazil drove the MSCI Emerging Markets index down -7.62% while the S&P 500 returned -1.40%. The University Of Michigan Survey Of Consumer Confidence Survey increased to 84.6. 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 well above expectations with 248,000 added in September. U.S. inflation stayed flat as the CPI remained at a subdued 1.7% YoY in September. 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 -1.66% for the month, outperforming its policy benchmark by 163bps. All asset classes were negative with the exception of diversifying strategies which produce modest positive returns of 0.19%. Overall performance was driven largely by global equities which returned -2.37% for the month. U.S. large cap equities held up better than small and micro-cap which underperformed large caps by over 200 basis points. Developing and international equities struggled with international small caps falling by 5.18%. Private equity and frontier markets where bright spots in the equity allocation returning strong absolution returns. Real assets returned -0.10%, with real estate and agricultural investment producing strong returns of 1.99% and 3.56%. Currency hedging of our Australian holdings added 5.34% on the month. MERS global fixed income allocation returned -1.18%, outperforming the Barclays Global Aggregate by 161bps on a relative basis. Finally, MERS diversifying strategies allocation was slightly positive as cash flowing strategies overcame the j-curve effect of some strategies, returning a positive 0.19% for the month. MERS total plan assets* are $8.78 billion and total MERS assets are $9.11 billion. Asset class allocations are within target bands and adequate liquidity is available.

** 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.*

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MERS Portfolio Characteristics

- Positioned to outperform in down markets
- May lag in periods of extended bull markets
- Provided superior risk-adjusted returns
- Hedge against inflation
- Maintain adequate liquidity
- Minimize costs
- Exceed actuarial investment assumption on a long-term basis

What Worked	What Didn't Work
• Frontier equities • Private equity • U.S. large cap equities on a relative basis • Private real estate • Agriculture • Fixed income substitutes 　◦ Triple net lease	• Small and microcap equities • Fixed income • International and emerging market small cap equities • Passive commodities

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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

- 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 – priority
- 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 - neutral
- U.S. fiscal policy dysfunction - decreasing
- Demographics – aging population
- Social and political instability - increasing
- Global fiscal stress – structural realignments
- China hard landing – neutral

Performance Insights for the Month

- Private equity returned 2.76% for the month and 21.06% YTD – the top performing sub-asset class
- Frontier markets where the only public equities to produce positive returns

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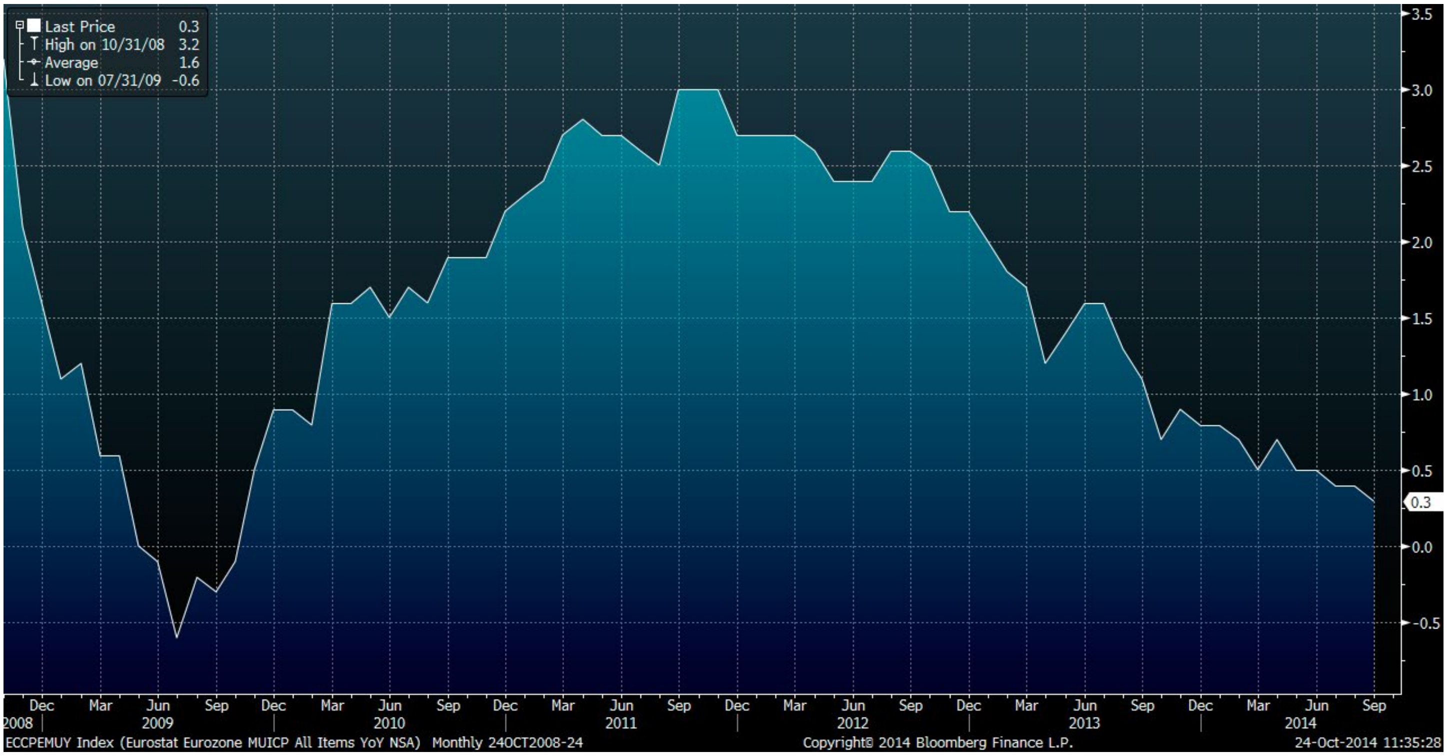
Liquidity Overview	Market Value	% of Total Fund
Immediate	$564,270,091	6.42%
0 -30 Days	$4,588,415,174	52.24 %
30 – 60 Days	$519,487,267	5.92%
60 – 90 Days	$1,030,473,855	11.73%
90 + Days	$2,079,880,136	23.68%
Total Fund	**$8,782,526,526**	**100.00%**

Investment Programs AUM	Market Value
Defined Benefit	$ 7.87 billion
RHFV	$ 567.88 million
HCSP	$ 94.09 million ($ 89.77 million in MERS Options)
ISP	$ 84.84 million
MERS 457	$ 17.98 million ($ 6.14 million in MERS Options)
457	$4.70 million
DC	$ 468.05 million ($ 143.41 million in MERS Options)
Total MERS Assets	**$9.11 billion**



This is a chart of the Eurozone Inflation Rate. The year over year inflation rate printed at 0.3% in September, the lowest since 2009, raising concerns of deflation and recession in Europe.