REPORT SUMMARY

The Total Market Fund returned -0.30% for the month and 1.58% for the quarter, outperforming its policy benchmark by 55bps.
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.

CIO REPORT

The first quarter produced broadly positive returns across global markets. Commodity prices continued to be under stress. Oil prices rallied back above $50 at the end of the quarter after hitting fresh lows near $42 in mid-March. The University of Michigan Consumer Confidence Survey remained near multi-year highs but closed the quarter lower at 93. First quarter U.S. GDP remained positive, growing at a 3% pace year over year. In contrast, the Eurozone continued to struggle with annual GDP in 2014 of 0.9%, although estimates are anticipated higher growth for the first quarter. New jobs to the US economy came in below economists' estimates with an increase of 126,000 in March. The headline unemployment rate trended lower ending March at 5.5%. Overall, the U.S. economy continues to move in a positive direction while many foreign economies are showing signs of slowing growth; particularly in emerging markets. Expectations for global GDP growth in 2015 have improved to 3.0% for the U.S. and a slightly slower 2.9% for the world. Improved credit conditions in Europe and their QE program are providing support for the recovery process. However, high unemployment has remained an issue both politically and economically. China's expected slow-down will most likely continue through 2015 with the stabilization of growth as the best outcome. The economic strength of the US relative to the rest of the world will likely continue into 2015 but emerging market and Eurozone valuations may create attractive opportunities for investment. In addition, the global economic weakness continued to put downward pressure on interest rates across the globe, especially in Europe where German and Swiss government debt has recently traded with negative yields. With the Fed likely to make a rate hike later in the year, fixed income markets will likely remain volatile.

"Happiness is not a reward – it is a consequence."

— Robert Green Ingersoll

The Total Market Fund returned 1.58% for the first quarter, outperforming its policy benchmark by 55bps. Equity markets drove overall fund performance for the quarter, returning 2.28%. Small and micro-cap stocks outperformed large cap, returning 3.01% and 3.24% respectively while the S&P 500 returned 0.95%. Active mid cap continued to surprise on the upside returning 6.16% for the quarter. Developing equities produced negative returns for the quarter at -0.30% with the exception of MERS emerging market small cap managers who returned 4.68% and 4.95% for the quarter. Private equity also detracted value, returning -1.07%. Core fixed income provided diversifying upside posting a positive 1.25%, with domestic managers outperforming global. Emerging market debt was essentially flat, returning 0.16%. Diversifying strategies returned 2.95%. Real assets were broadly negative returning -1.43%; with commodity and infrastructure returning -7.08% and -2.41% respectively while agriculture, timber, and real estate generated positive returns. MERS total plan assets* are $9.02 billion and total MERS assets are $9.41 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.*

CIO REPORT

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

- Core Equities
- U.S. Fixed Income
- Diversifying Strategies
- U.S. Micro & Small Cap Equity
- Private Real Estate
- Timber
- Fixed Income Substitutes
  - Triple Net Lease

What Didn't Work

- Private Equity
- Emerging Market and Global Fixed Income
- Emerging Market & Frontier Equity
- Passive Commodities
- Infrastructure
- Agriculture

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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
- Currency volatility

Investment Solutions

- Opportunistic investing
- Cash levels slightly elevated
- Fixed income substitutes
- Credit underweight & positioning for inflation
- Real asset investments
- Neutral to slightly overweight equities
- Active currency management

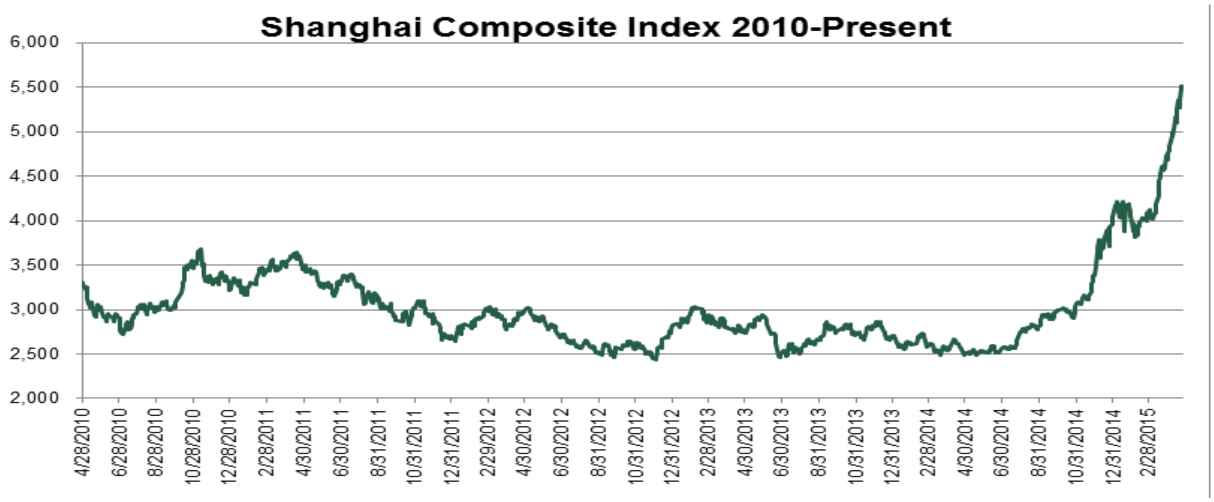
Economic risks

- 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

CIO REPORT

Liquidity Overview	Market Value	% of Total Fund
Immediate	$654,644,362	7.25%
0 -30 Days	$4,862,041,631	53.87%
30 – 60 Days	$349,491,350	3.87%
60 – 90 Days	$967,551,458	10.72%
90 + Days	$2,192,229,433	24.29%
Total Fund	**$9,025,958,234**	**100.00%**

Investment Programs AUM	Market Value
Defined Benefit	$ 8.09 billion
RHFV	$ 610.84 million
HCSP	$ 101.01 million ($ 96.72 million in MERS Options)
ISP	$ 86.40 million
MERS 457	$ 21.68 million ($ 7.71 million in MERS Options)
457	**$4.47 million**
DC	**$ 494.77 million ($ 174.75 million in MERS Options)**
Total MERS Assets	**$9.41 billion**



5 Year chart of the Shanghai Composite Index tracking stocks traded on the Shanghai Stock Exchange.

The index broke out of its 5 year trading range and is now up over 120% in one year.