REPORT SUMMARY

Bottom Line: The Total Market Fund returned 1.99% for the month versus the policy benchmark at 2.90% for the quarter and -0.85% for the year versus the benchmark at -2.33%, outperforming the year by 148bps. 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: Asian equities and Real Assets.***

CIO REPORT

Global market volatility continued into year-end with returns moderating, providing mixed returns across global markets. U.S. large caps outperformed other equity markets on the month as the S&P 500 was one of the few markets to finish with a positive return on the year (+1.4%). Emerging market stocks continued to come under selling pressure as investor concerns over global growth grew. U.S. fourth quarter GDP numbers came in below expectations with 1.8% growth year over year. However, new jobs added to the U.S. economy exceeded expectations with 262,000 jobs added in December. Unemployment remained low at 5.0% for December while the U6, a more robust measure of total unemployment, coming in at 9.9%. Market data remained mixed but the Federal Reserve executed on its commitment to raising interest rates for the first time since 2006; raising the Fed Funds Rate to 0.50%. The U of M consumer confidence score increased to 92.6 from 91.3 a month prior. Overall, the health of the U.S. services sector remains moderate, but the manufacturing sector remains weak as a result of a strong U.S. dollar and slow growth abroad. Signs of modest growth in the European Union were displayed in a 1.6% YOY GDP growth rate for the third quarter. Growth in Asia is expected to remain weak, but global GDP is expected to end 2015 at a 2.8% growth rate. As a result of Fed policy and global growth uncertainty, all asset classes are expected to remain volatile into the new year. China's expected slow-down and structural adjustment will most likely continue into 2016, increasing volatility in global markets. Fears of China's slowing growth and a currency devaluation will likely continue to hamper developing market assets over the short term.

"A little learning is a dangerous thing, but a lot of ignorance is just as bad."

— Bob Edwards

The Total Market Fund returned 1.99% for the quarter underperforming its policy benchmark (65% MSCI ACWI IMI/ 35% Barclays Global Aggregate) by 91bps. The Fund finished a difficult and volatile year down slightly but performed well from a relative perspective; returning approximately -0.85% for the year, outperforming its blended benchmark which returned -2.33%. Additionally, the Fund outperformed its target weighted benchmark by 37bps, indicating skill and value added through active management of the portfolio. Three of the four major asset class buckets outperformed their respective benchmarks with only the Global Equity portfolio slightly underperforming its benchmark by 9 bps on the year. It should be noted that the new Diversifying Strategies allocation was the year's top performing portfolio on an absolute basis, returning 4.12%. The Fund continues to outperform for all time periods through ten years. Most importantly, it exhibits the downside protection and risk characteristics that have been carefully designed and approved by the Board.

MERS Global Equity allocation finished the quarter strong despite a negative December, returning 3.59% for the quarter. Strong returns in large cap and growth equities lead this asset class, with the S&P 500 returning 7.04% for the quarter. Hedged and value focused strategies struggled to maximize returns as the year came to a close. Core fixed income returned -0.93% for the quarter, with international fixed income underperforming U.S. fixed income. Emerging market debt posted strong returns of 0.87% for the quarter. MERS triple net real estate was flat for the quarter, but was the top performer for the year at 22.47%, lifting MERS total fixed income into positive territory for the year. Diversifying strategies returned -1.20% for the quarter, but remains the top performing asset class for the year. Real assets returns were positive for the quarter at 0.66% with gains in real estate and infrastructure offsetting negative returns in soft commodities. MERS total plan assets* were $8.83 billion and total MERS assets were $9.19 billion. The Real Assets portfolio (9.5% weight) is currently below is minimum band of 10% as a result of a tactical underweight to commodities. This underweight is expected to be temporary as capital for new commitments is called to fill out the allocation.

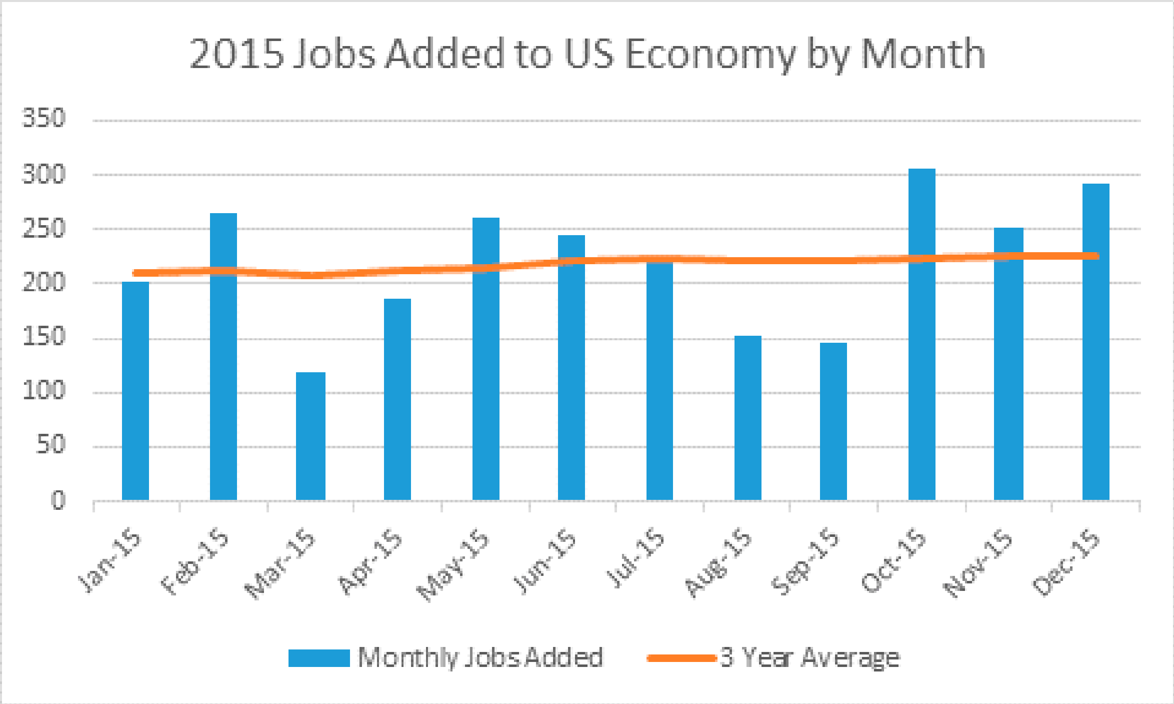
**Total Plan Assets (TPA) – includes the MERS Defined Benefit portfolio, assets in the RHFV, HCSP, ISP, 457, and DC assets invested in the MERS Total Market Fund or one of its portfolios. Total MERS Assets includes all TPA plus DC assets invested in outside mutual funds.*

CIO REPORT

Liquidity Overview	Market Value	% of Total Fund
Immediate	$417,440,064	4.73%
0 -30 Days	$4,787,141,216	54.25%
30 – 60 Days	$336,516,889	3.81%
60 – 90 Days	$909,030,009	10.30%
90 + Days	$2,374,445,877	26.91%
Total Fund	**$8,824,574,059**	**100.00%**

Investment Programs AUM	Market Value
Defined Benefit	$7.84 billion
RHFV	$636.88 million
HCSP	$111.51 million ($106.63 million in MERS Options)
ISP	$65.24 million
MERS 457	$29.90 million ($9.59 million in MERS Options)
457	$3.9 million
DC	$500.00 million ($167.82 million in MERS Options)
Total MERS Assets	**$9.19 billion**

Assets shown are a snap shot at time of reporting. Due to the timing differences in final performance reporting between the Defined Benefit portfolio and the NAV of the other MERS products, final AUM results may vary.



December saw over 292k new jobs added to the US economy, the second highest monthly total of the year and significantly above the three year average.