

REPORT SUMMARY

The Total Market Fund returned 1.13% versus the policy benchmark at 2.32% for the quarter. 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

Overall modest returns in the first quarter were the result of high volatility that caused markets to sharply sell off to start the year followed by a strong subsequent rally through the end of the quarter. US large caps performed in line with most developed equity markets. Emerging market equities outperformed as they rallied strongly off of the February lows. New jobs added to the U.S. economy exceeded expectations with 215,000 jobs added in March. Unemployment remained low at 5.0% for March with the U6, a more robust measure of total unemployment, coming in at 9.8%. After hiking interest rates for the first time since 2006 in December 2015, the Fed paused on further rates hikes due to market volatility and downside risks to economic growth. The U of M consumer confidence score dipped modestly to 91 from 91.7. Overall, the health of the U.S. service sector remains moderate, but the manufacturing sector remains weak as a result of a strong U.S. dollar and slow growth abroad. While official first quarter GDP results for the US have yet to be released, various Federal Reserve models point to growth slowing to near 1% in the first quarter. Signs of modest growth in the European Union were displayed in a 1.6% YOY GDP growth rate for the fourth quarter. Growth in Asia is expected to remain weak, but global GDP is expected to end 2016 at a 3% growth rate. As a result of Fed policy and global growth uncertainty, all asset classes are expected to remain volatile for the rest of 2016. China's expected slow-down and structural adjustment will most likely continue through 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.

The Total Market Fund returned 1.13% for the quarter underperforming its policy benchmark (65% MSCI ACWI IMI/ 35% Barclays Global Aggregate) by 119bps. A portion of underperformance can be attributed to a weakening of the US Dollar vs other major currencies. This resulted in the Barclays Global Aggregate, a component of the policy benchmark, returning 5.9% on the quarter. Another portion of underperformance can be attributed to an accounting lag of several of MERS' emerging market managers who report monthly performance after State Street Performance has closed the books for the month. As a result, strong March returns in emerging markets will be largely reflected on April 2016's performance report.

MERS Global Equity was largely flat on the quarter, returning 0.17%. Mid cap equities outperformed on the quarter with a return of more than 3.7%. Core fixed income returned 3.7% for the quarter providing downside protection and volatility dampening. Emerging market debt posted strong returns of 5% for the quarter. MERS triple net real estate continued its strong performance with a return of 9.5% on the quarter. Diversifying strategies returned -2.5% for the quarter, hurt by equity market neutral hedge funds and multi-strategy credit. Real assets returns were positive for the quarter at 2.4% with gains in real estate and nearly a 13% return in commodities due to MLP's. MERS total plan assets* were \$8.91 billion and total MERS assets were \$9.30 billion.

**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.*

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.



“ We can't help everyone,
but everyone can help
someone. ”

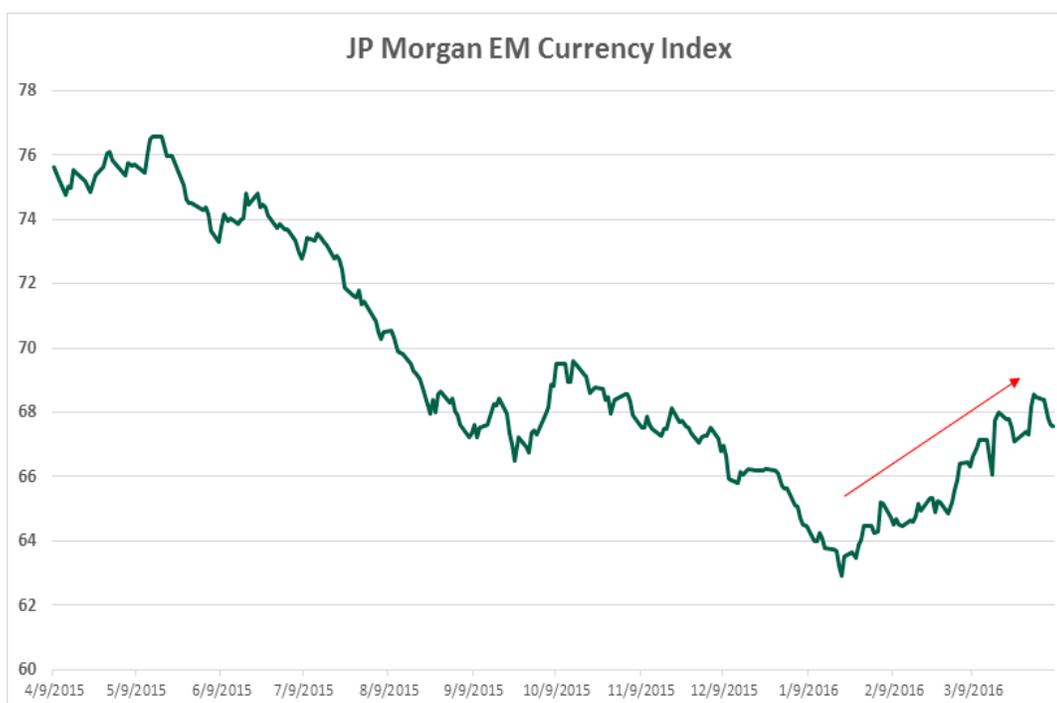
— Ronald Reagan

CIO REPORT

Liquidity Overview	Market Value	% of Total Fund
Immediate	\$430,878,739	4.83%
0 -30 Days	\$4,876,875,456	54.70%
30 – 60 Days	\$411,577,085	4.62%
60 – 90 Days	\$801,352,300	8.99%
90 + Days	\$2,394,902,641	26.86%
Total Fund	\$8,915,586,225	100.00%

Investment Programs AUM	Market Value
Defined Benefit	\$7.90 billion
RHFV	\$652.43 million
HCSP	\$118.46 million (\$112.88 million in MERS Options)
ISP	\$64.71 million
MERS 457	\$33.69 million (\$10.36 million in MERS Options)
457	\$3.86 million
DC	\$524.87 million (\$169.44 million in MERS Options)
Total MERS Assets	\$9.30 billion

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Following several years of declines, a broad basket of emerging market currencies rallied over 5% in March. This marked the highest monthly gain for emerging market currencies in over 18 years.