

## CIO REPORT

**The Total Market Fund returned 2.81% for the quarter, outperforming the policy benchmark by 110bps. The portfolio continues to perform as designed, providing downside protection and capturing most of the upside over longer time periods. The following manager/ strategy searches and research projects are ongoing: Asset Allocation, Asian equities and Real Assets. Work will begin shortly on developing an internal core fixed income strategy and building a dynamic asset allocation model.**

Global market volatility was low throughout most of the quarter but spiked in June on concerns with Brexit, the VIX index testing February. Crude oil prices stayed within a tight trading range, closing the quarter just over \$48/barrel. Headline economic data was volatile. U.S. first quarter GDP numbers retreated significantly to 0.5% growth quarter over quarter (2.0% YOY). New jobs added to the U.S. economy increased to 287,000 for June, well below estimates of 180,000, supporting the case that May's abysmal 11,000 was a statistical anomaly. With economic data stabilizing in the U.S. but struggling in Europe on Eurozone stability and the pending banking crisis in Italy, the market anticipates that the Federal Reserve may pause on its commitment to normalizing interest rates in 2016. Recent comments by Fed officials support this view. The U of M consumer confidence score decreased to 93.5 from 94.7. Overall, the U.S. services sector remains somewhat strong, but the manufacturing sector remains weak as a result of continued U.S. dollar strength versus our trading partners and slow growth abroad. Signs of modest growth in the European Union were displayed in a 1.7% YOY GDP growth rate for the first quarter but the recent growth in Asia is expected to remain weak and global GDP is expected to soften to 3% growth in 2016, down from expectations of 3.5% growth a year ago. The vote in Britain to leave the European Union will serve as a headwind to growth in the medium term. As a result of Fed policy and global growth uncertainty, all asset classes are expected to remain volatile throughout the year. China's slow-down and structural adjustment will continue through 2016, increasing volatility in global markets. Fears of China's slowing growth and potential currency devaluation seem to be dissipating and China finds a stronger policy footing. Geopolitical instability will remain at high levels and will be closely monitored to assess region and macro market risks.

The Total Market Fund returned 2.81% for the quarter, outperforming the policy benchmark (65% MSCI ACWI IMI/ 35% Barclays Global Aggregate) by 110bps. All asset classes outperformed with the exception of fixed income as global and emerging market debt significantly outperformed U.S. fixed income assets. MERS Global Equity allocation benefited from the rebound in both emerging markets and strong performance across the asset class. Developing markets produced the strongest returns at 6.72%, driven by strong performance in emerging market small cap and frontier markets. Fixed income returns were broadly positive with international bonds and emerging market debt producing the strongest returns at 2.61% and 6.85% respectively. Diversifying strategies produce strong returns in line with expectations, returning 2.67% for the quarter. Real assets returns were 3.77% on the quarter, with returns evenly distributed across real estate, energy and agricultural holdings. MERS total plan assets\* are \$9.0 billion and total MERS assets are \$9.39 billion.

#### Geopolitical factors to monitor:

- East Asia tensions: Tensions between China, the U.S., and neighbors are mounting.
- EM domestic politics: Political risks in Brazil, Turkey and South Africa are rising despite economic stabilization.
- DM: Watching for fiscal policy to turn positive in light of voter revolts.
- Eurozone Stability: Brexit contagion and Italian banking crisis will increase market uncertainty.
- Oil supply: Risks to supply remain in place due to rising political risk induced by low prices.



“ Success is not final, failure is not fatal: it is the courage to continue that counts. ”

— Winston Churchill

\*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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Liquidity Overview	Market Value	% of Total Fund
Immediate	\$241,652,566	2.69%
0 -30 Days	\$3,809,411,532	42.35%
30 – 60 Days	\$1,073,507,757	11.93%
60 – 90 Days	\$1,487,621,121	16.54%
90 + Days	\$2,383,245,619	26.49%
<b>Total Fund</b>	<b>\$8,995,438,595</b>	<b>100.00%</b>

Investment Programs AUM	Market Value
Defined Benefit	\$7.94 billion
RHFV	\$681 million
HCSP	\$126.59 million (\$120.58 million in MERS Options)
ISP	\$65.68 million
MERS 457	\$37.05 million (\$10.79 million in MERS Options)
457	\$2.85 million
DC	\$536.07 million (\$173.76 million in MERS Options)
<b>Total MERS Assets</b>	<b>\$9.39 billion</b>



The British Pound fell nearly 10% in the aftermath of the United Kingdom’s vote to leave the European Union.