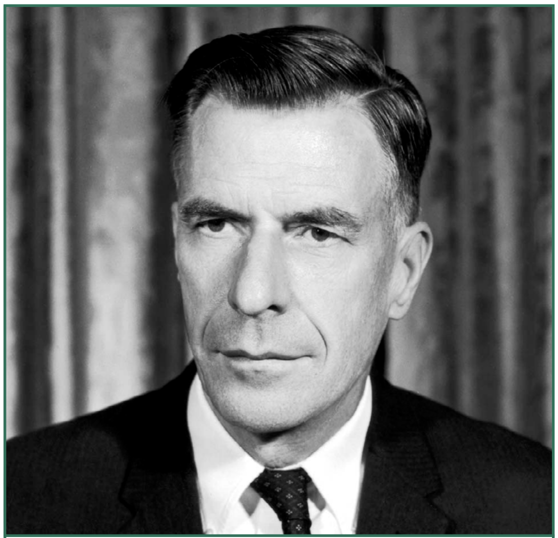
CIO REPORT

The Total Market Fund returned 4.59% for the quarter, outperforming the policy benchark by 69bps. 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, Implementation, Emerging Market equities/ debt, and Real Assets.*

The 3rd quarter saw an acceleration of growth across most financial markets globally, with the S&P 500 hitting new all-time highs. US economic numbers were broadly positive. Growth remained positive but muted with US GDP falling to just a 1.3% annual growth rate in the second quarter. Monthly job reports slightly disappointed expectation during the quarter with the most recent September report coming in with 156,000 jobs. Unemployment, also continue to be stable at 5%, with wage pressures toward the upside. With economic data stabilizing in the U.S. but struggling in Europe on Eurozone stability fears and the potential 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 but there is a growing split amongst Fed Governors and a small hike in December remains a possibility. The U of M consumer confidence score increased from 89.8 from 91.2. The U.S. services sector remains stronger than the manufacturing sector but both have stabilized at a low level of growth in the third quarter. Signs of modest growth in the European Union were displayed in a 1.6% YOY GDP growth rate for the second quarter. However, the aforementioned banking sector and Brexit outcome provide challenges to growth in the medium term. Growth in Asia is expected to remain weak and global GDP growth is expected to soften to 2.9% in 2016, down from expectations of 3.5% growth a year ago. 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. Geopolitical instability will remain at high levels and will be closely monitored to assess regional and macro market risks.



"Politics is the art of choosing between the disastrous and the unpalatable."

— John Kenneth Galbraith

The Total Market Fund returned 4.59% for the quarter, outperforming the policy benchmark (65% MSCI ACWI IMI/ 35% Barclays Global Aggregate) by 69bps. All asset classes were positive, posting strong risk adjusted returns across most markets. MERS Global Equity portfolio saw strong returns across all sub-asset classes and a continuation of strong returns in small, micro and developing market sectors. Microcap and developing market equities produced the strongest returns within the equity portfolio, returning 9.57% and 8.49% respectively. Fixed income returns were positive with global bonds outperforming domestic strategies while emerging markets debt continue to lead the fixed income asset class, returning 5.48%. Diversifying Strategies produced strong returns in line with expectations, returning 4.14% lead by credit focused strategies. Real Assets continued to lead the fund, returning 7.19% on the quarter, with returns being driven by real estate, MLP's, and metals and mining private equity. MERS total plan assets* are $9.40 billion and total MERS assets are $9.80 billion.

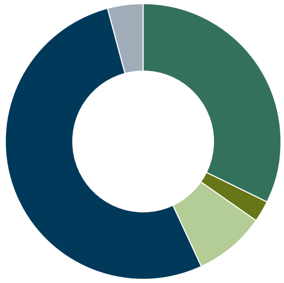
Geopolitical factors to monitor:

- East Asia tensions: Tensions between China, the U.S., and neighbors are mounting.
- Emerging Market domestic politics: Political risks in Brazil, Turkey and South Africa are rising despite economic stabilization.
- Developed Market: 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.

**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

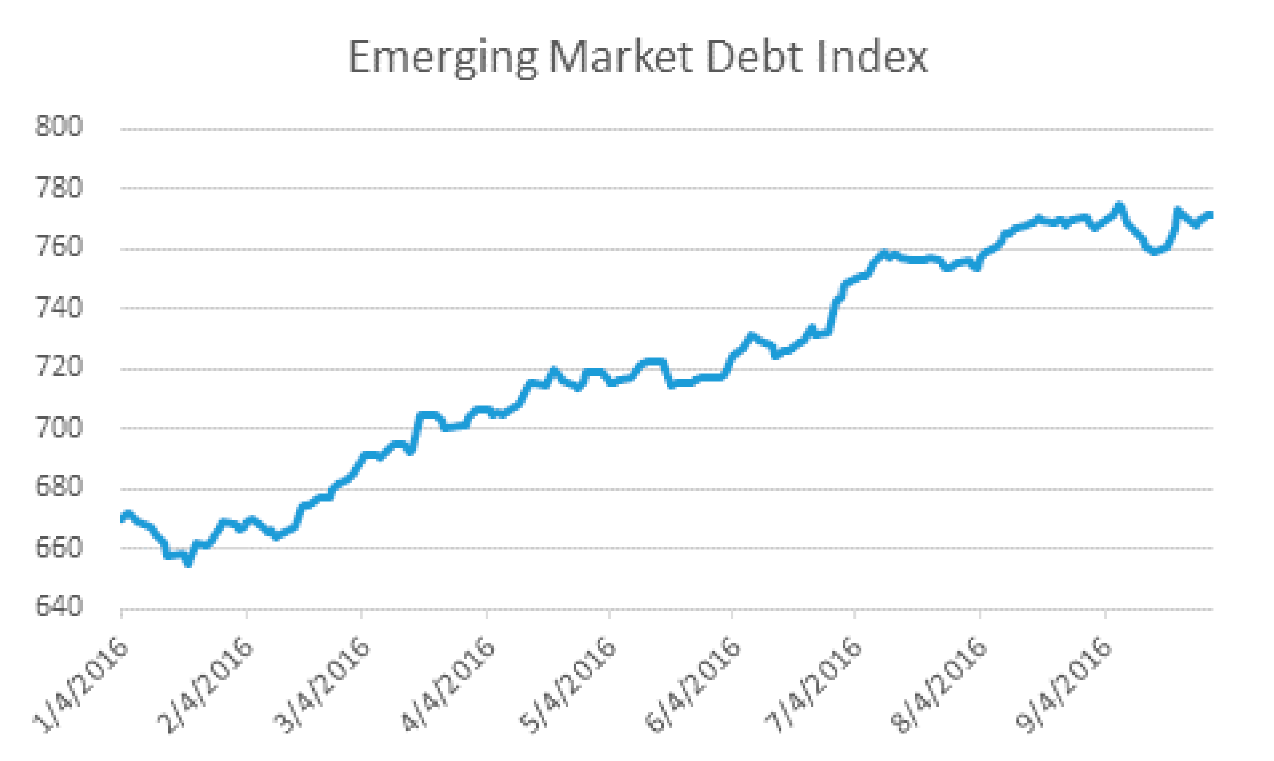
Assets Allocated by MERS Programs*



Excluding MERS Defined Benefit plan

Investment Programs AUM	Market Value
Defined Benefit	$8.29 billion
RHFV	$723.84 million
HCSP	$136.80 million ($130.17 million in MERS Options)
ISP	$67.52 million
MERS 457	$41.63 million ($11.30 million in MERS Options)
457	$3.10 million
DC	$539.29 million ($177.00 million in MERS Options)
Total MERS Assets	**$9.80 billion**

Liquidity Overview	Market Value	% of Total Fund
0 -30 Days	$4,737,833,081	50.41%
30 – 60 Days	$648,524,728	6.90%
60 – 90 Days	$1,441,280,405	15.33%
90 + Days	$2,571,295,523	27.36%
Total Fund	**$9,398,933,737**	**100.00%**



The JP Morgan Emerging Market Debt index has risen over 15% this year as global investors have piled into the highest yielding assets classes as a consequence of record low interest rates across the world.