



Portfolio and Economic Update

Jeb Burns, MERS Chief Investment Officer

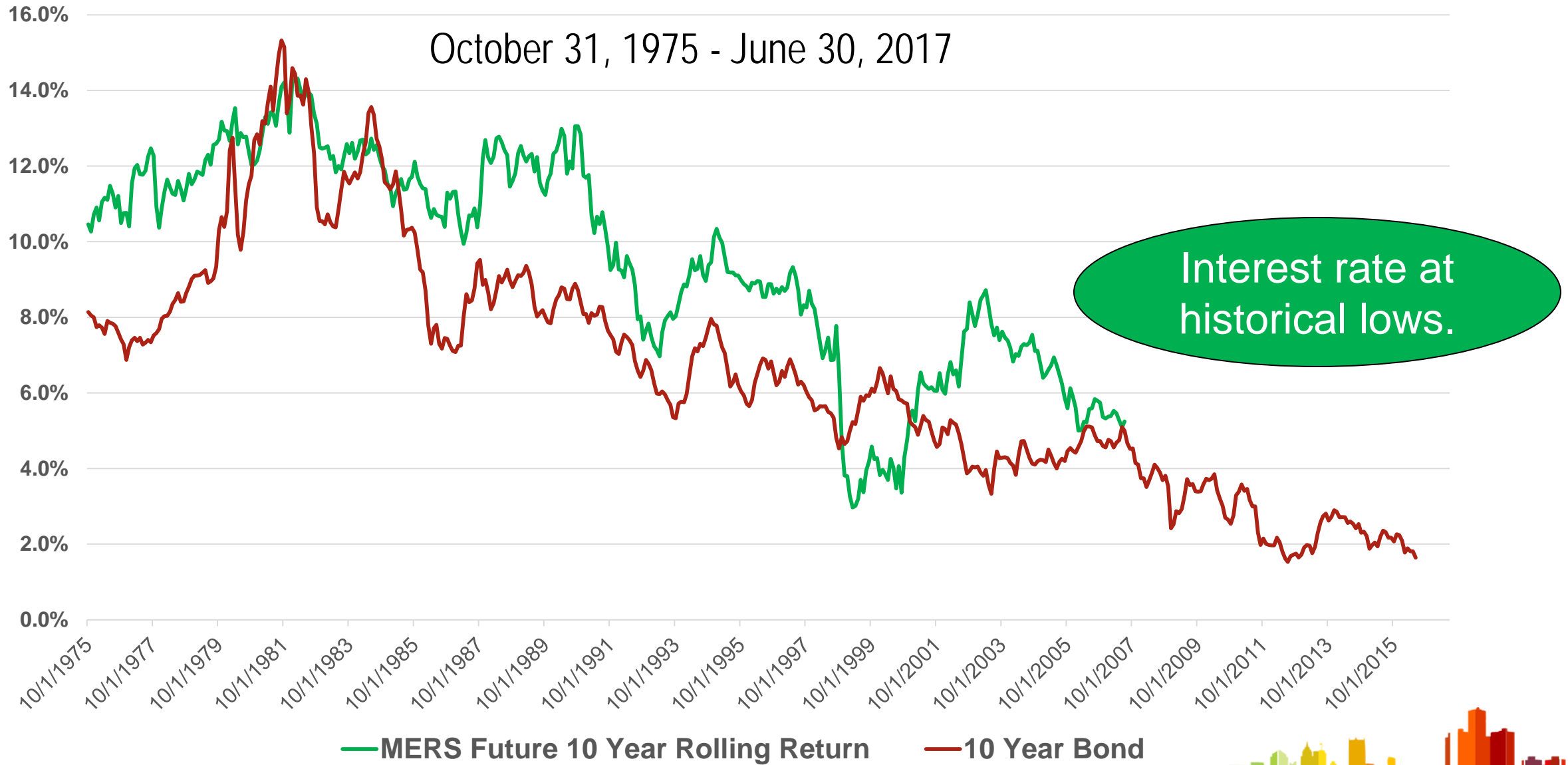
Simona Mocuta, Senior Economist and Vice President with State Street Global Advisors

Overview

- Fund Performance
- Asset Allocation Update
- *Economic Discussion- "A conversation with Simona Mocuta, Economist"*
 - *Market Review*
 - *Future Trends*

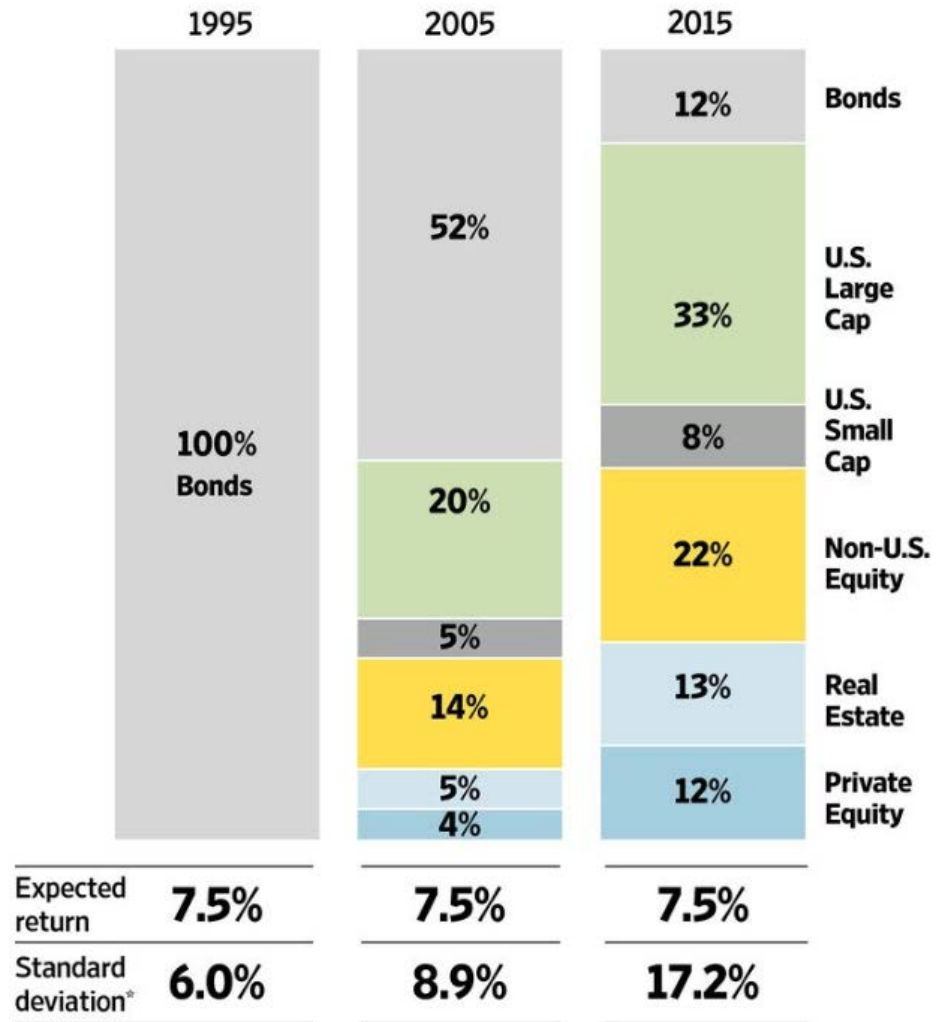


MERS 10 Year Returns vs. 10 Year Treasury



The Need for Risk Has Increased

Estimates of what investors needed to earn 7.5%



*Likely amount by which returns could vary

Source: Callan Associates

THE WALL STREET JOURNAL.

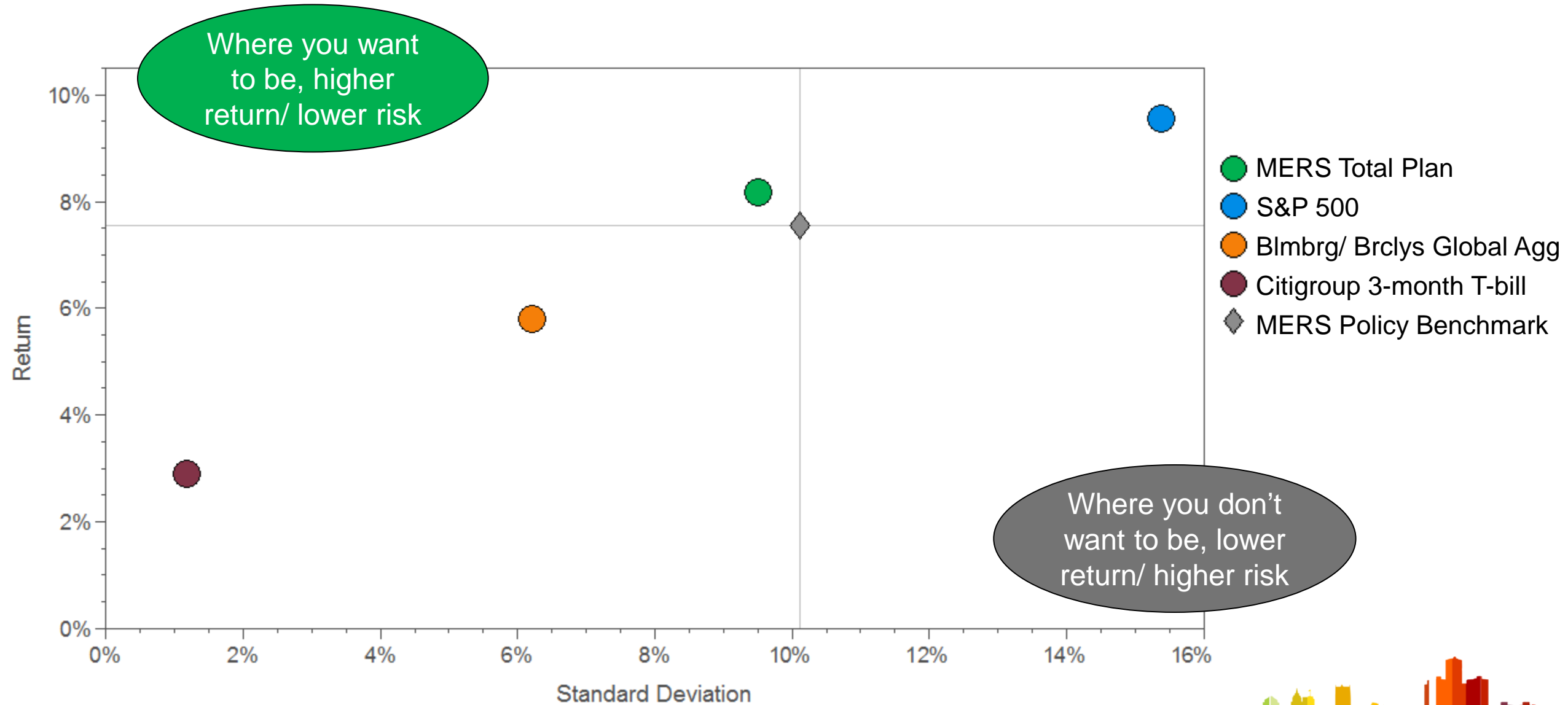
1995

In 1995, it was possible to earn a 7.5% return while investing exclusively in bonds.

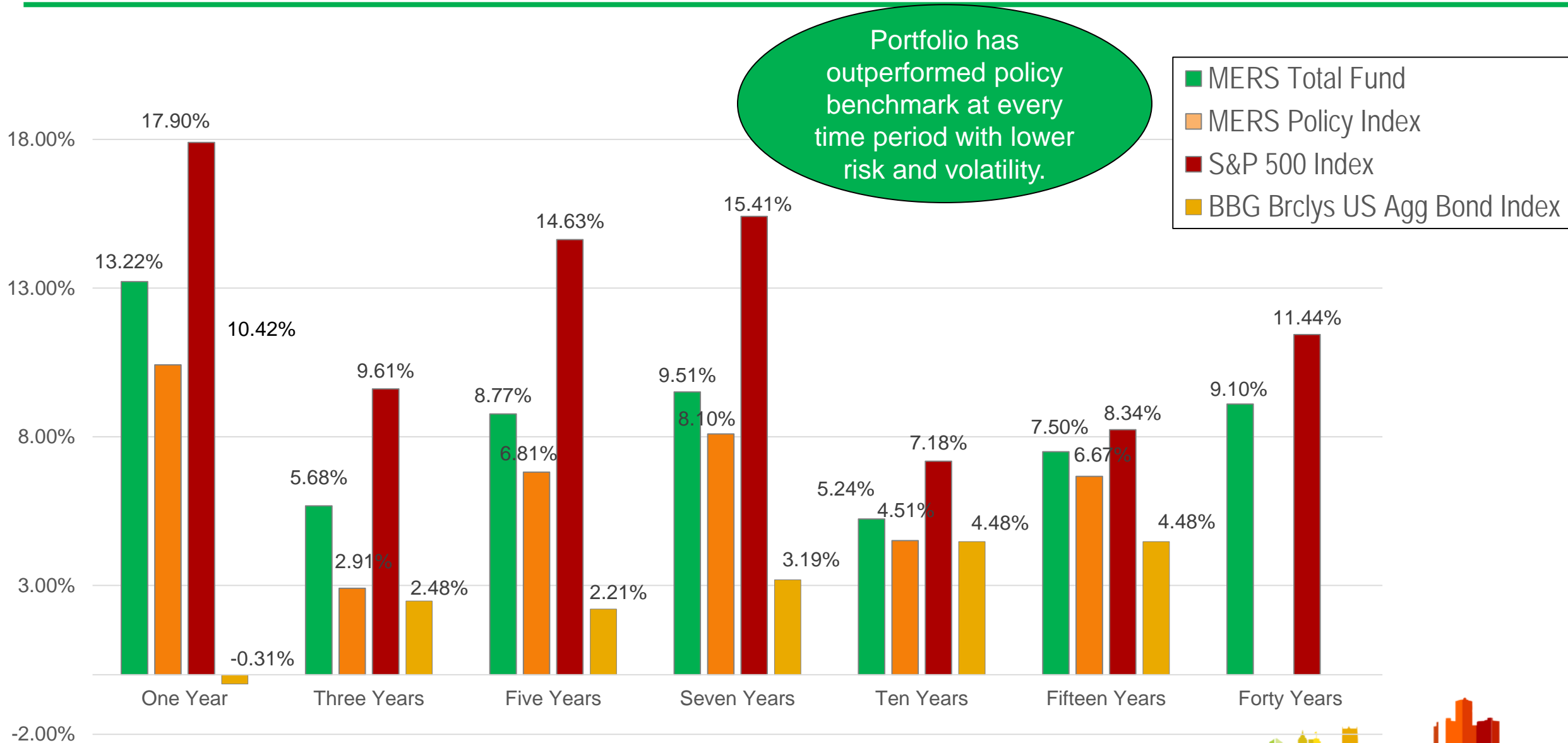
2015

By 2015, earning that same 7.5% return required increased diversification, exposing the assets to three times the risk.

Risk/ Return- April 1988 - June 2017

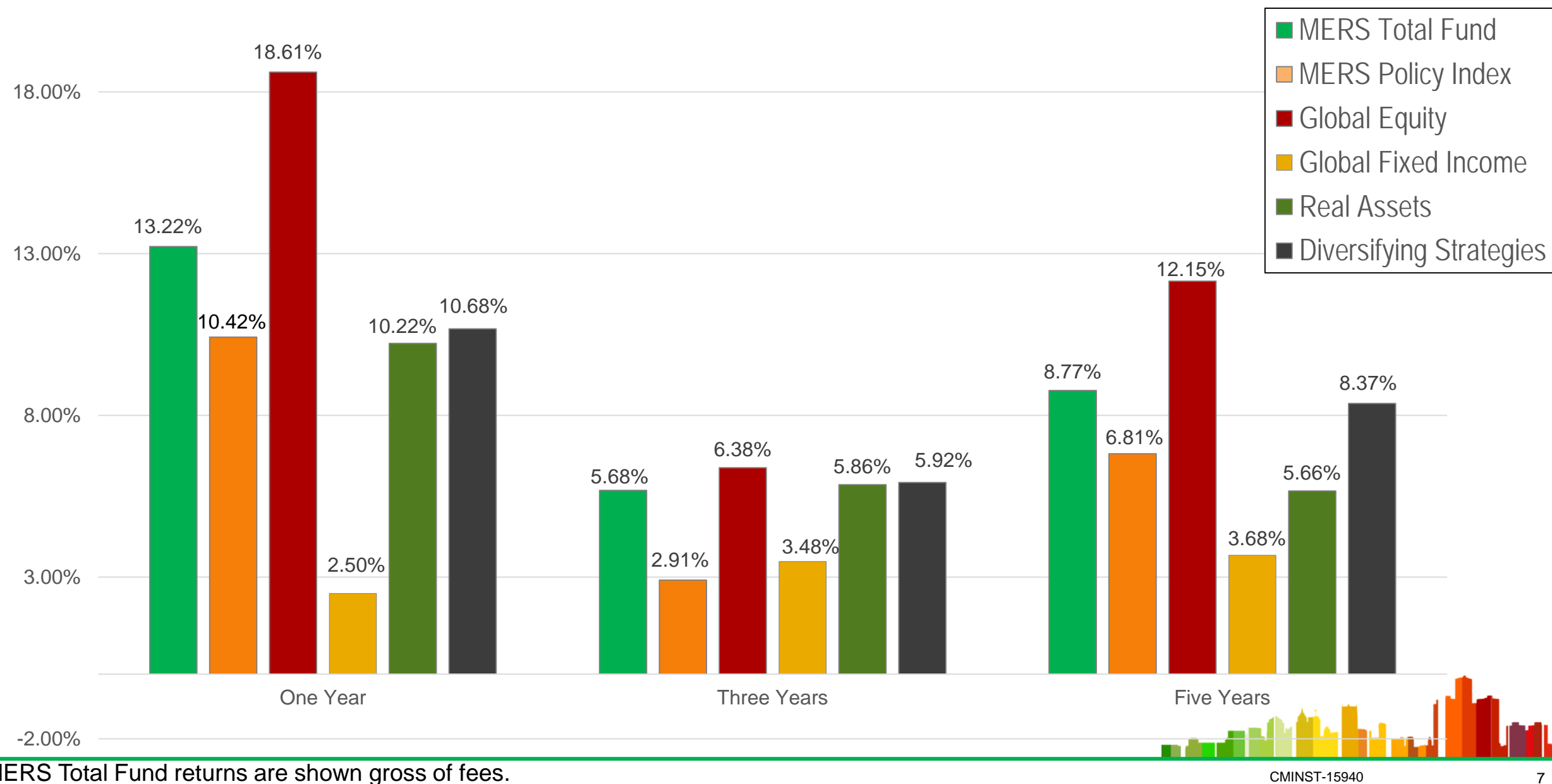


Total Market Fund Performance- as of June 30, 2017



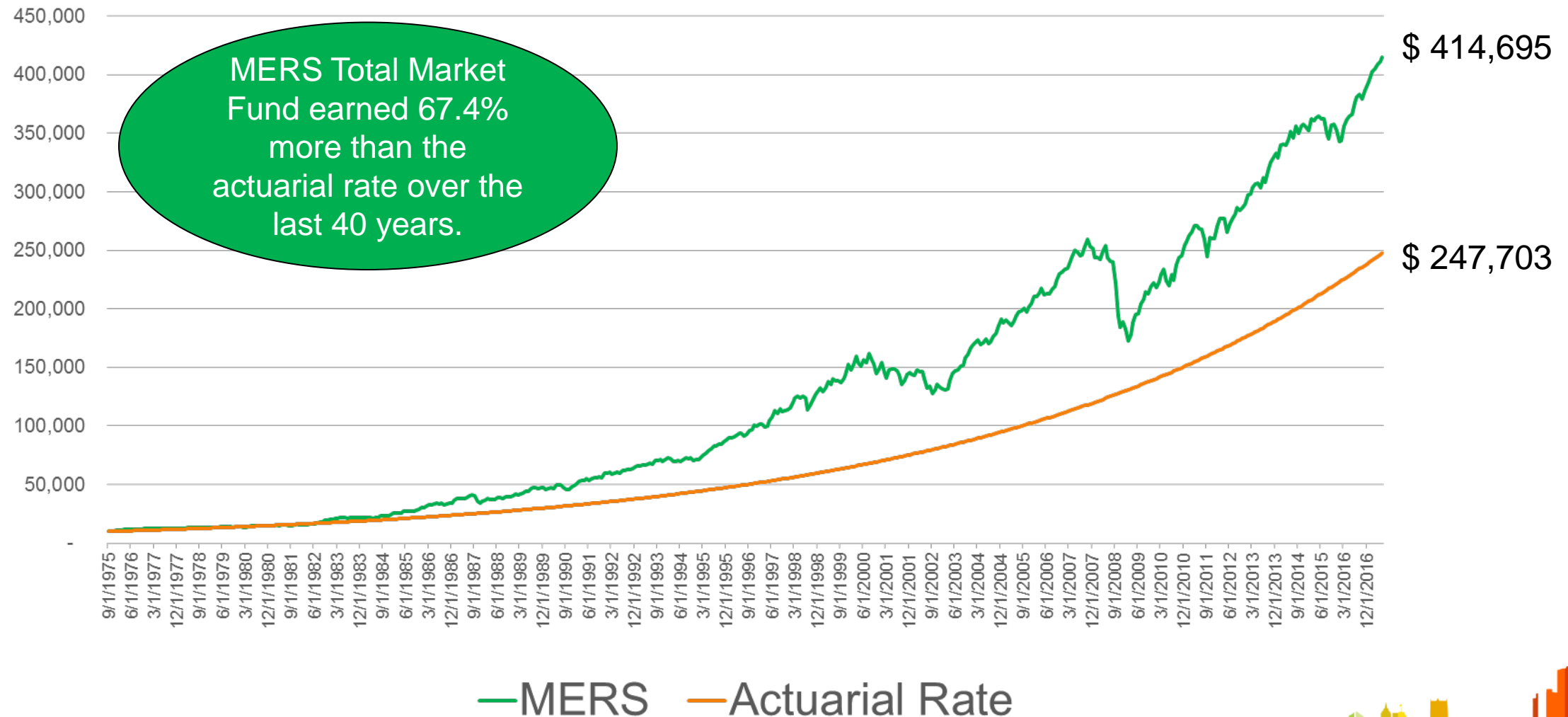
MERS Total Fund returns are shown gross of fees.

Asset Class Performance- as of June 30, 2017



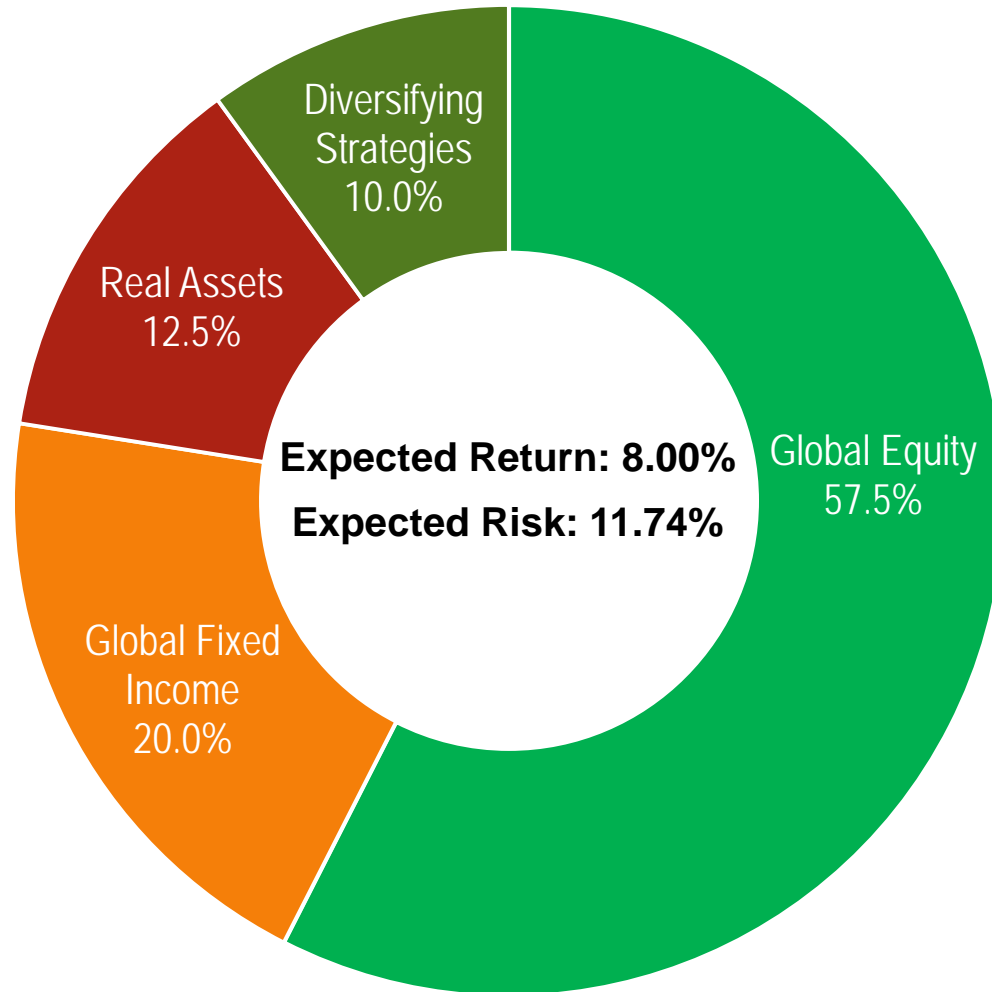
Growth of \$10,000

October 31, 1975-June 30, 2017

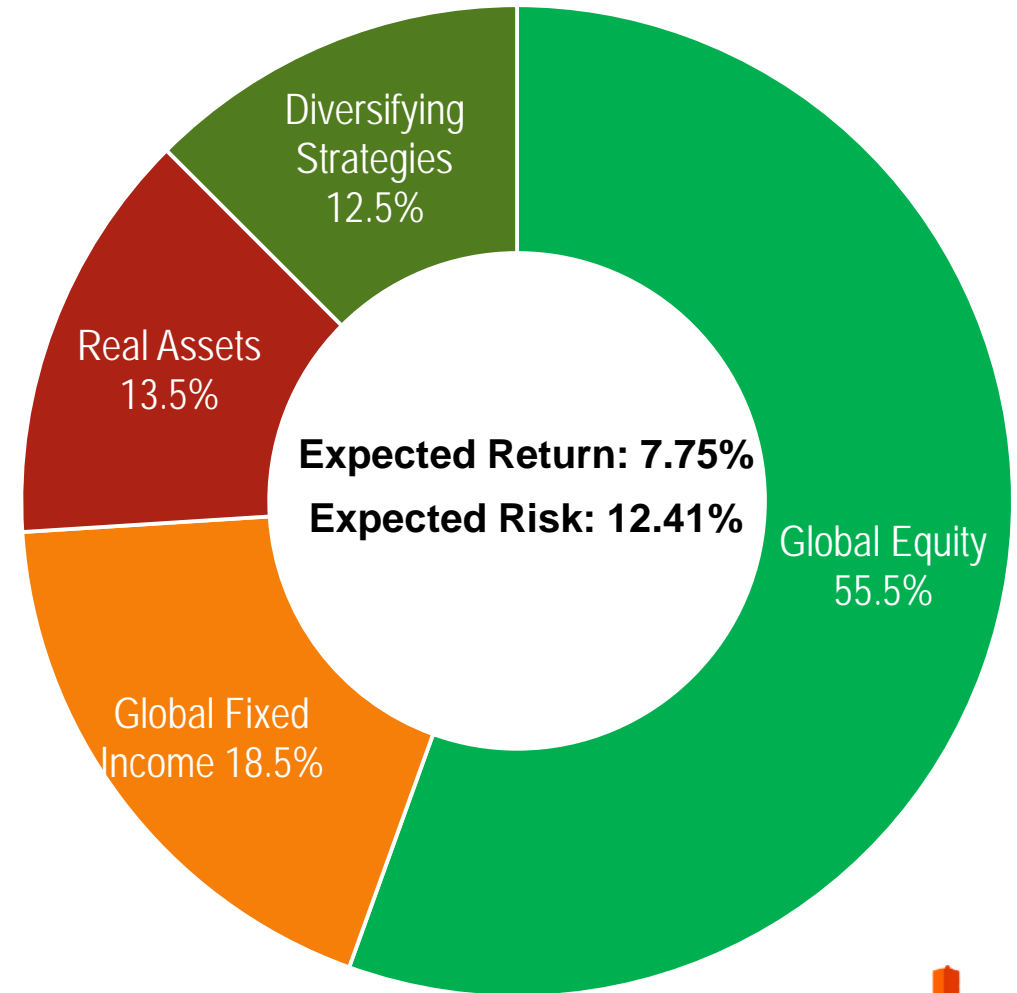


Asset Allocation Transition

2013 Asset Allocation



2016 Asset Allocation



2016 Asset Allocation Study - Key Shifts

	2013 AA Study	2016 AA Study
Domestic Equity	39.50%	22.50%
International	5.00%	12.50%
EM + Frontier	8.00%	15.50%
Core Fixed Income	11.50%	10.00%
Real Assets	13.50%	13.50%
Diversifying	10.00%	12.50%
Illiquid Investments*	21.50%	21.50%

**Private equity, real assets excluding liquid commodities, and illiquid diversifying*

Discussion Topics

- Challenging investment environment
 - Elevated geopolitical and market risk
 - Lower interest rates
- Portfolio Trends
 - Internal management
 - Lower costs





Economic Discussion

Simona Mocuta

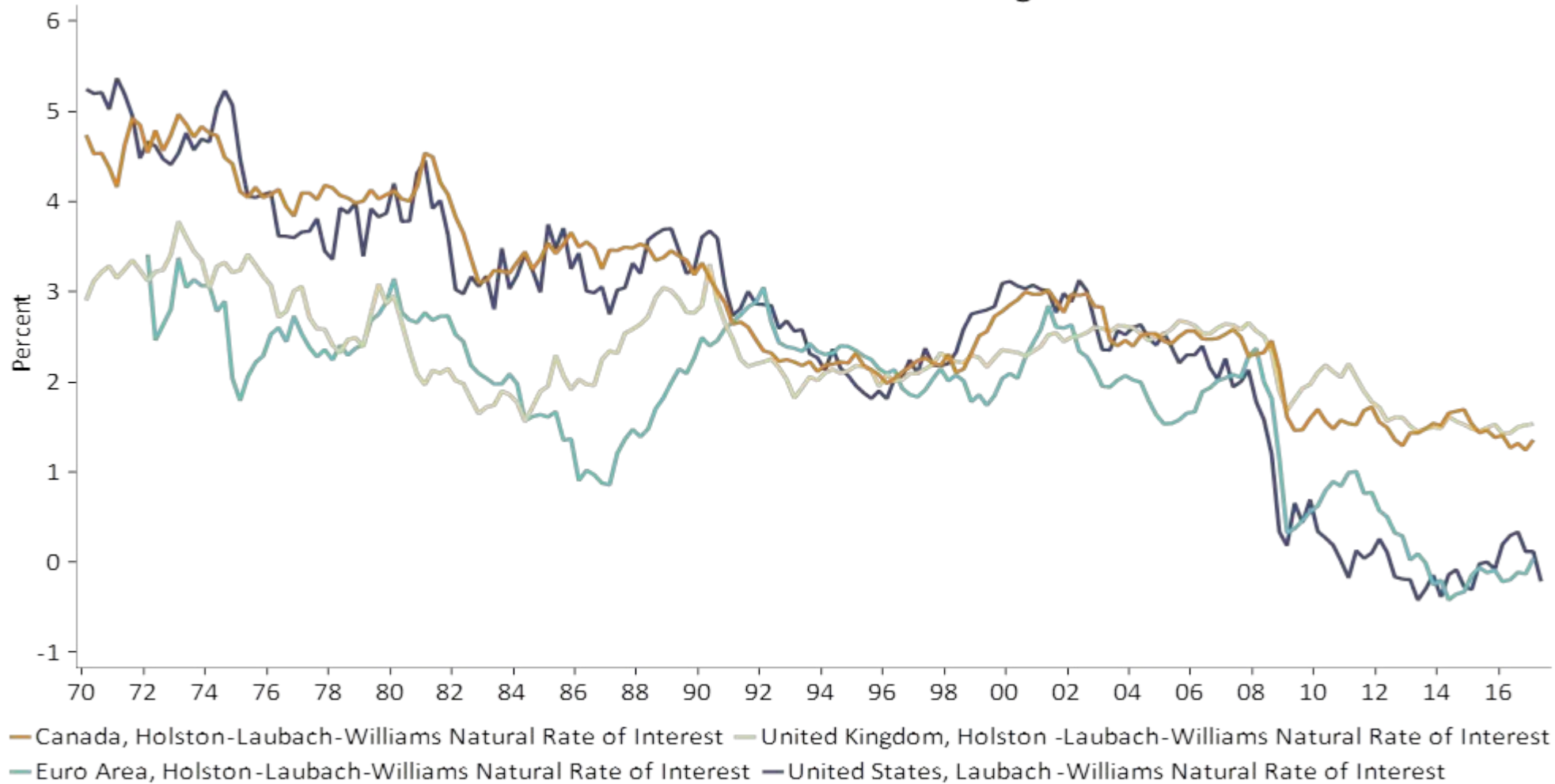
*Senior Economist and Vice President
Investment Solutions Group (State Street Global Advisors)*



Structural Headwinds versus Cyclical Upturn

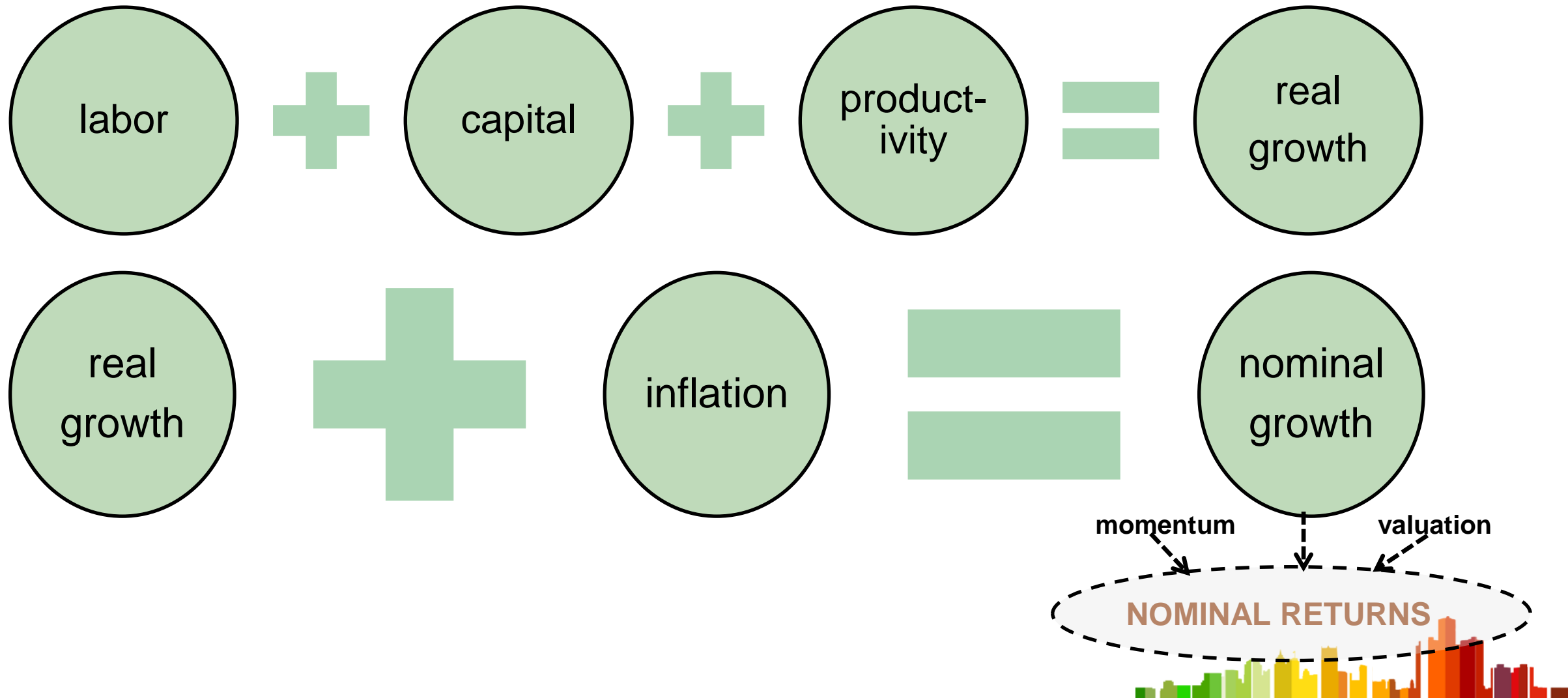
Possibly The Most Important Macro Chart for Investors!

Estimates of the Natural Rate of Interest in Long-Run Downtrend

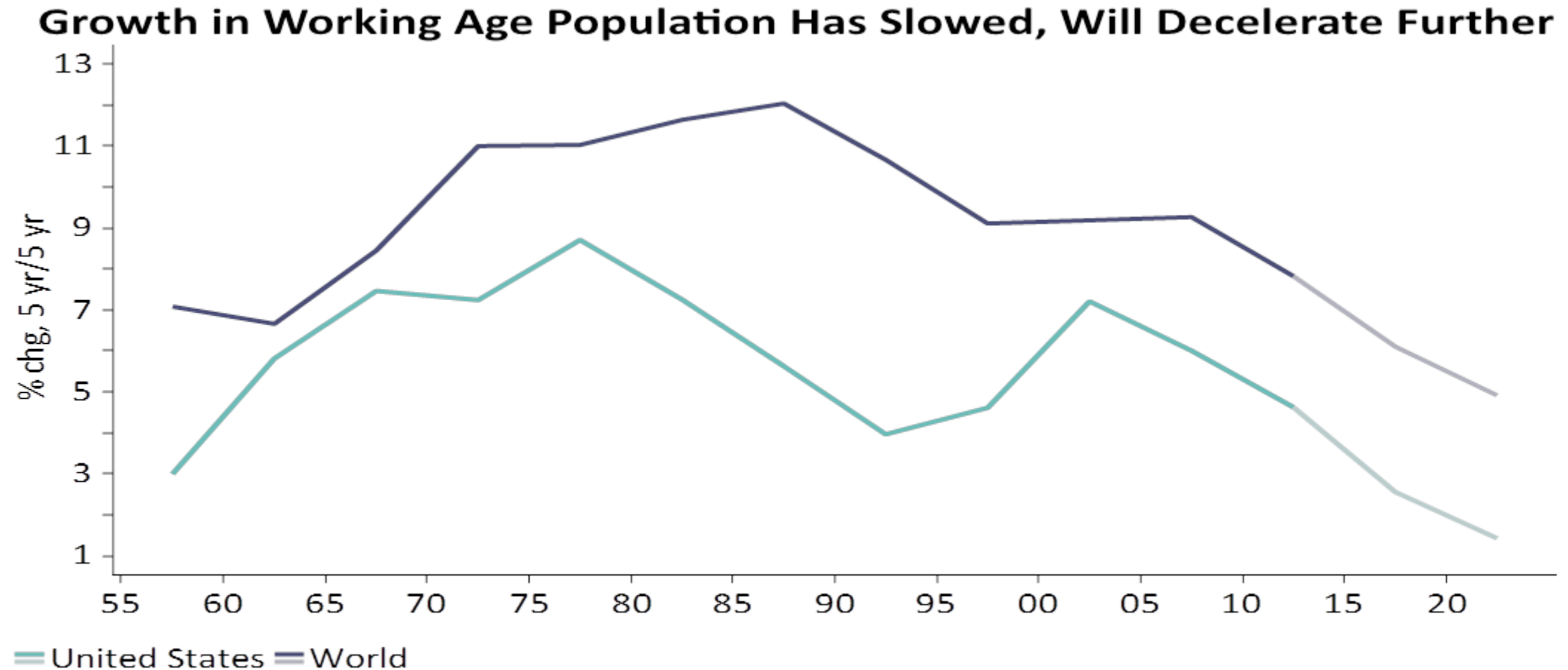


Sources: Macrobond, S&P Global Economics, Federal Reserve Bank of San Francisco
Updated as of 8/21/2017

Investment Returns Closely Tied to Economic Growth



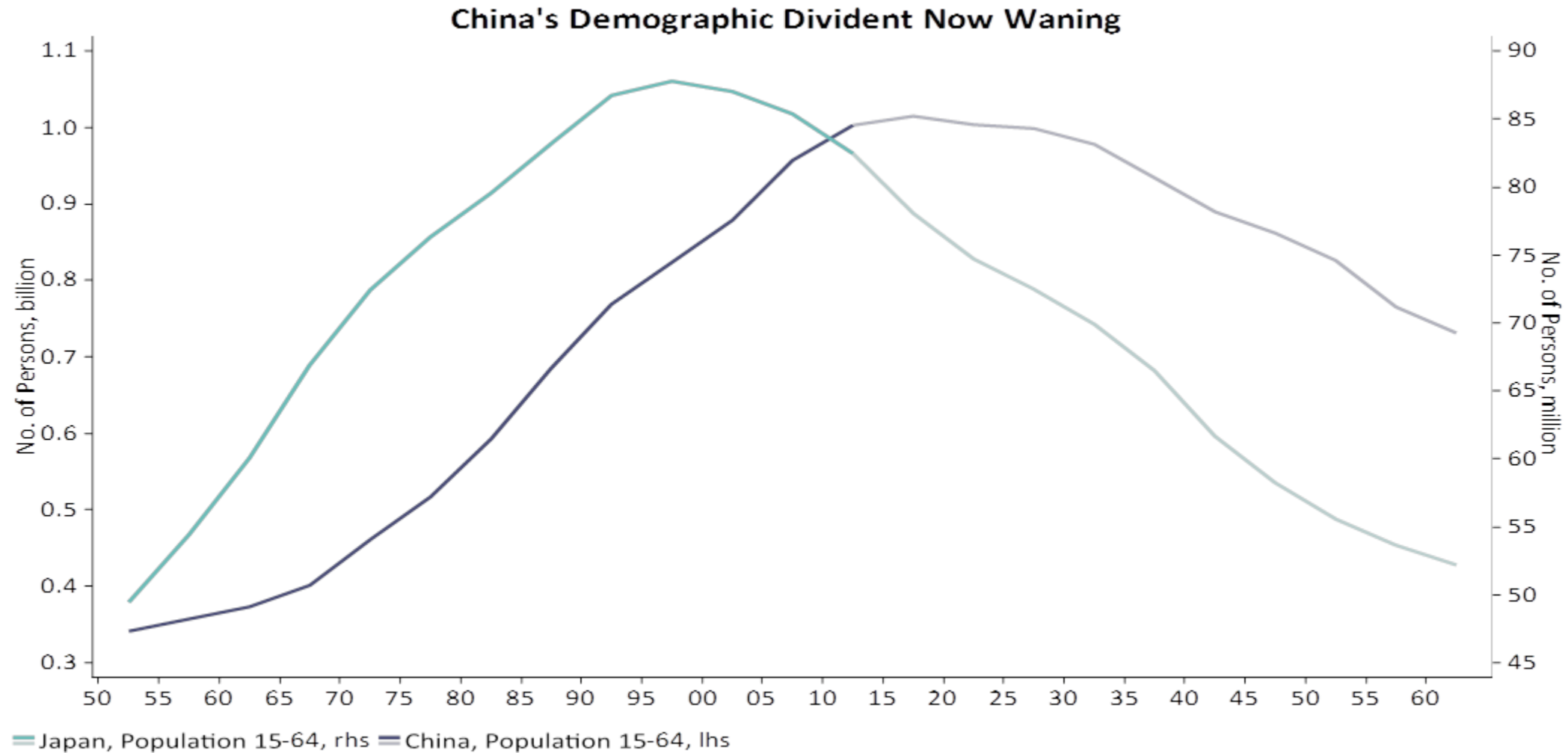
The Problem With Labor



Sources: Macrobond, SSGA Economics, United Nations Department of Economic & Social Affairs (UNDESA)
Updated as of 8/21/2017

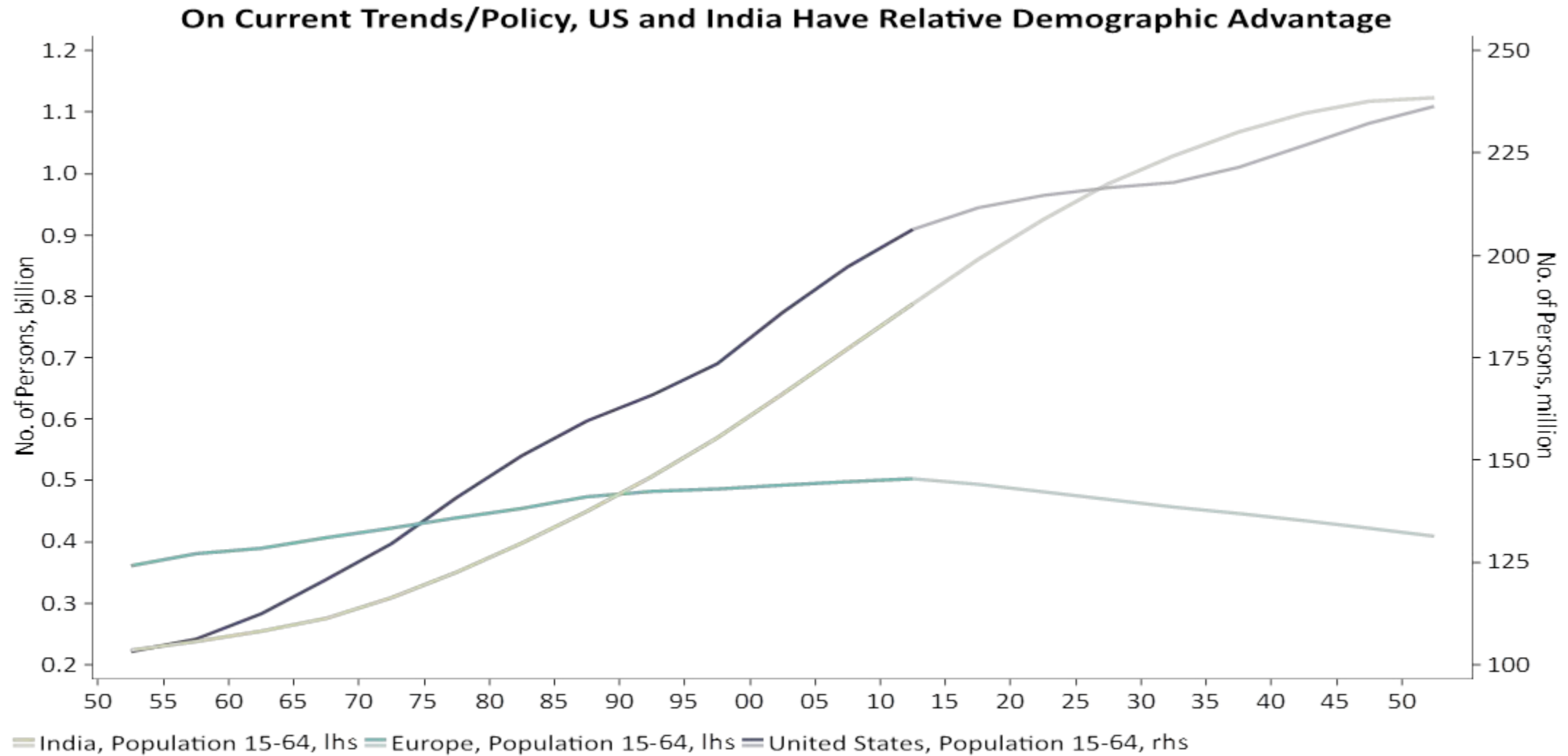
The lighter shaded lines above are estimated forecasts based on certain assumptions and analysis. There is no guarantee that the estimates will be achieved.

Demographic Challenges Broadening Geographically



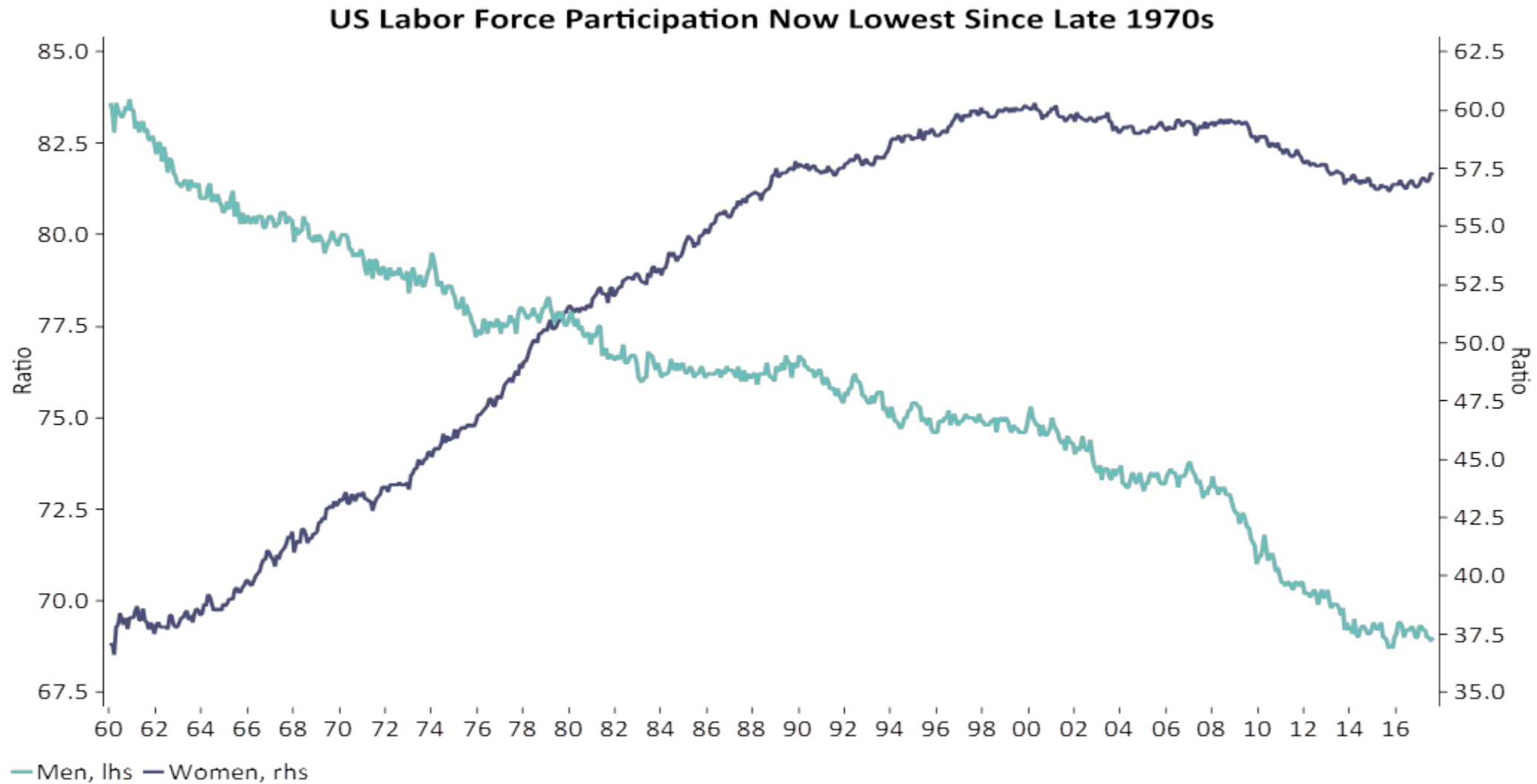
Sources: Macrobond, SSGA Economics, United Nations Department of Economic & Social Affairs (UNDESA)
Updated as of 8/6/2017

But Some Countries Still Doing Relatively Better



Sources: Macrobond, SSGA Economics, United Nations Department of Economic & Social Affairs (UNDESA)
Updated as of 9/6/2017

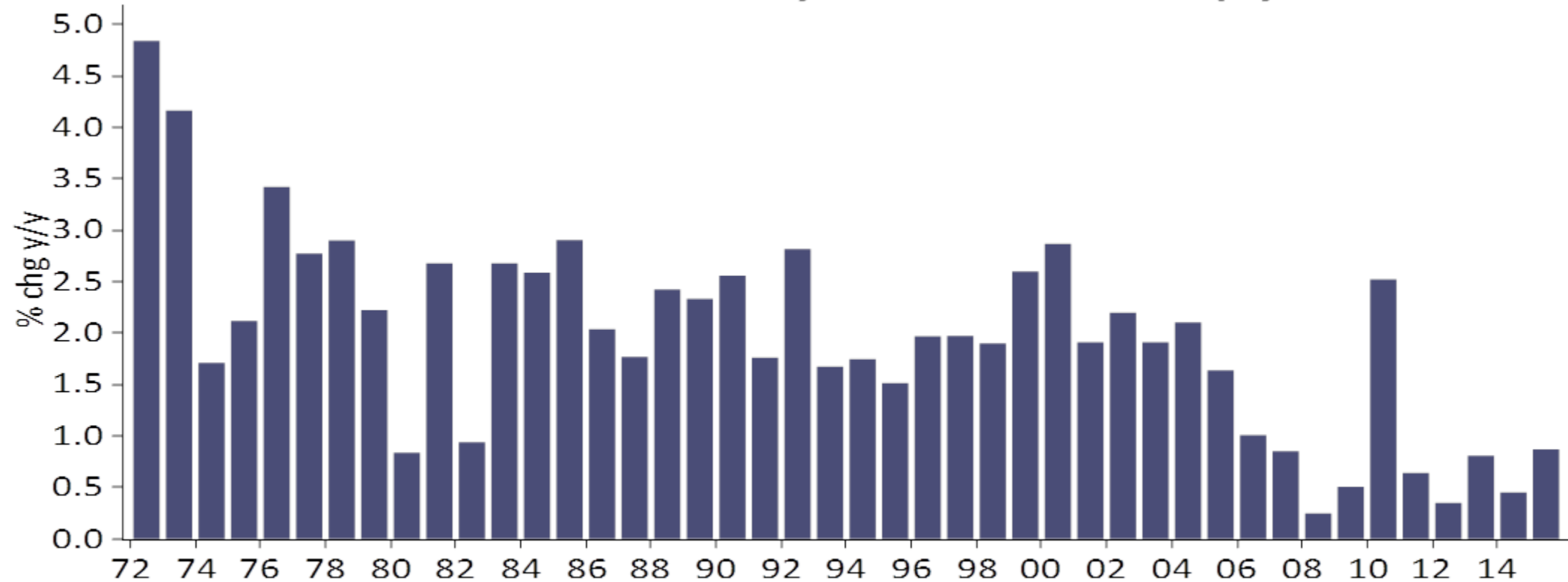
But It's Not Just About The Absolute Numbers



Sources: Macrobond, Conference Board, U.S. Bureau of Labor Statistics (BLS)

The Problem With Productivity

G7 Labour Productivity Has Declined Sharply

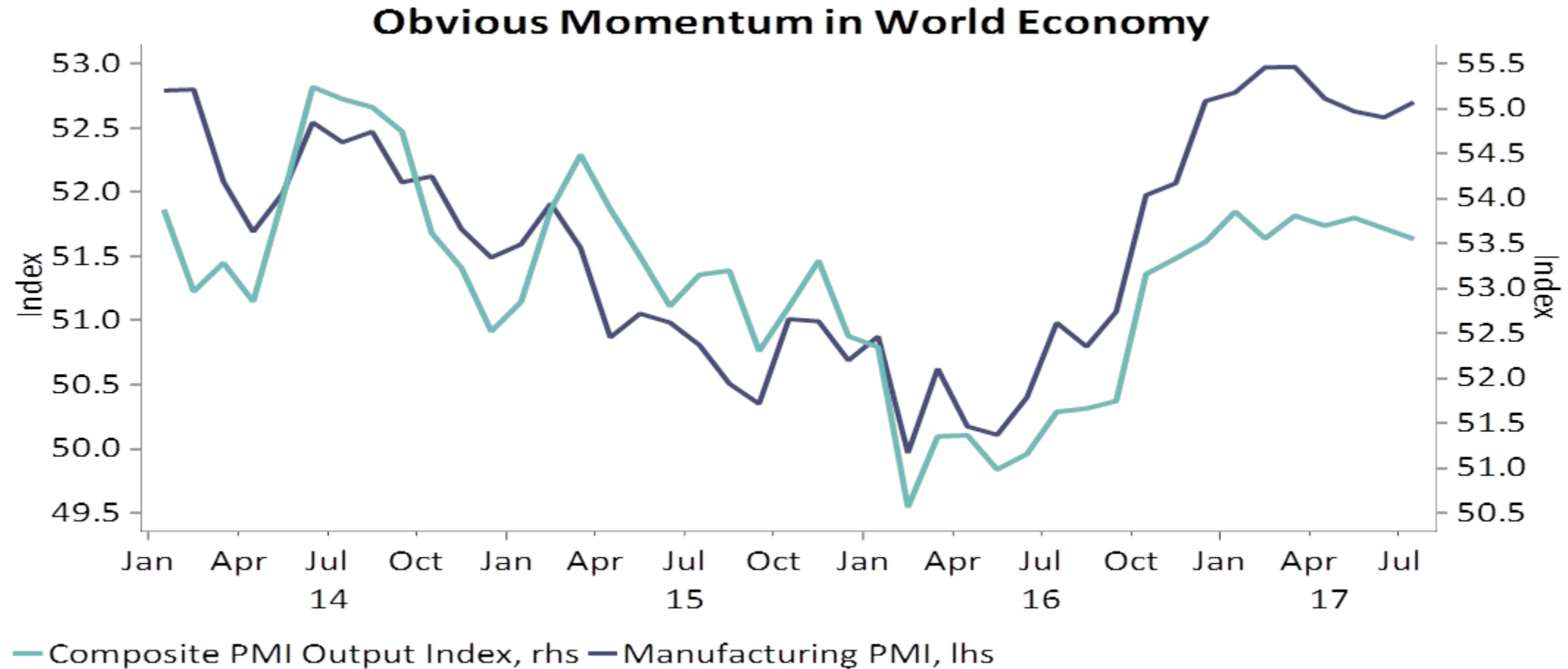


■ G7 Labour Productivity, GDP per Hour Worked, 2010 PPPs, Constant Prices, USD

Sources: Macrobond, SSGA Economics, OECD (Organisation for Economic Co-operation & Development)
Updated as of 8/21/2017



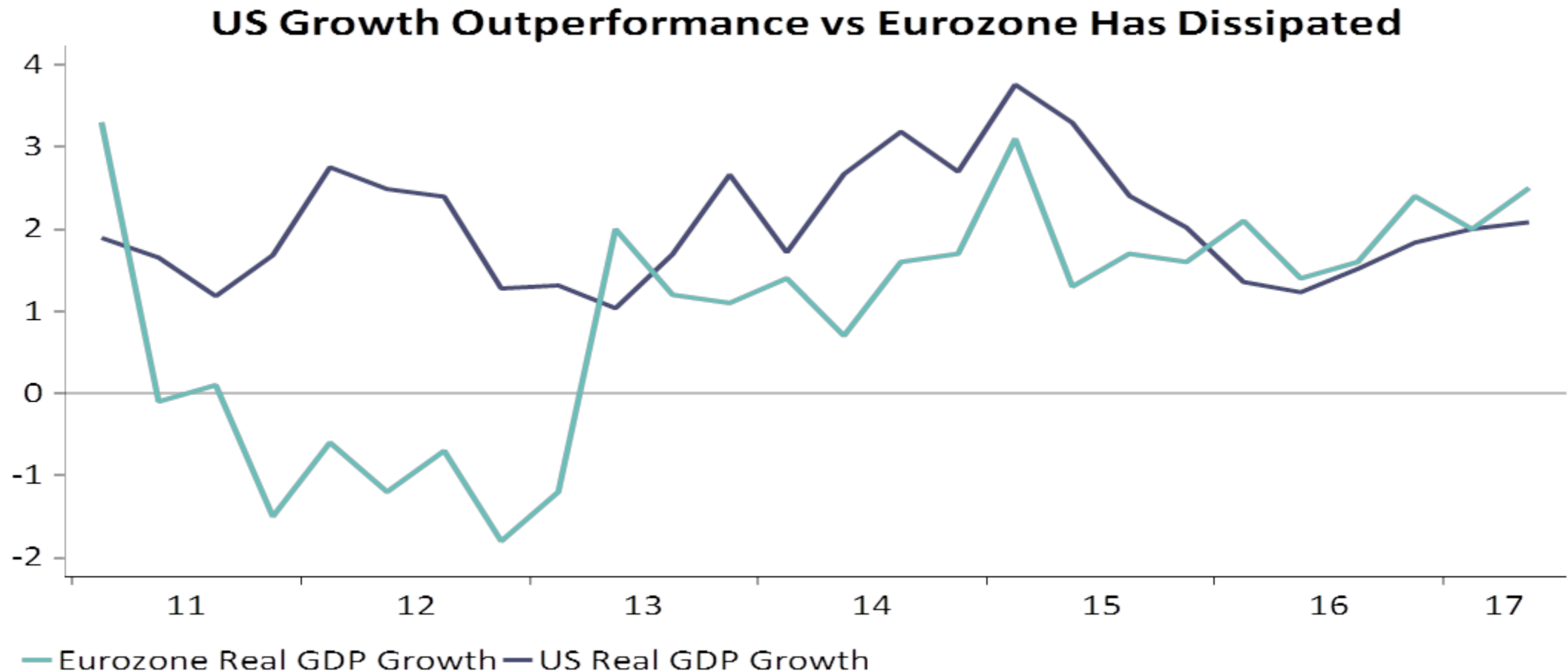
Structural Headwinds Don't Preclude Cyclical Improvement



Sources: Macrobond, SSGA Economics, IHS Markit
Updated as of 8/21/2017

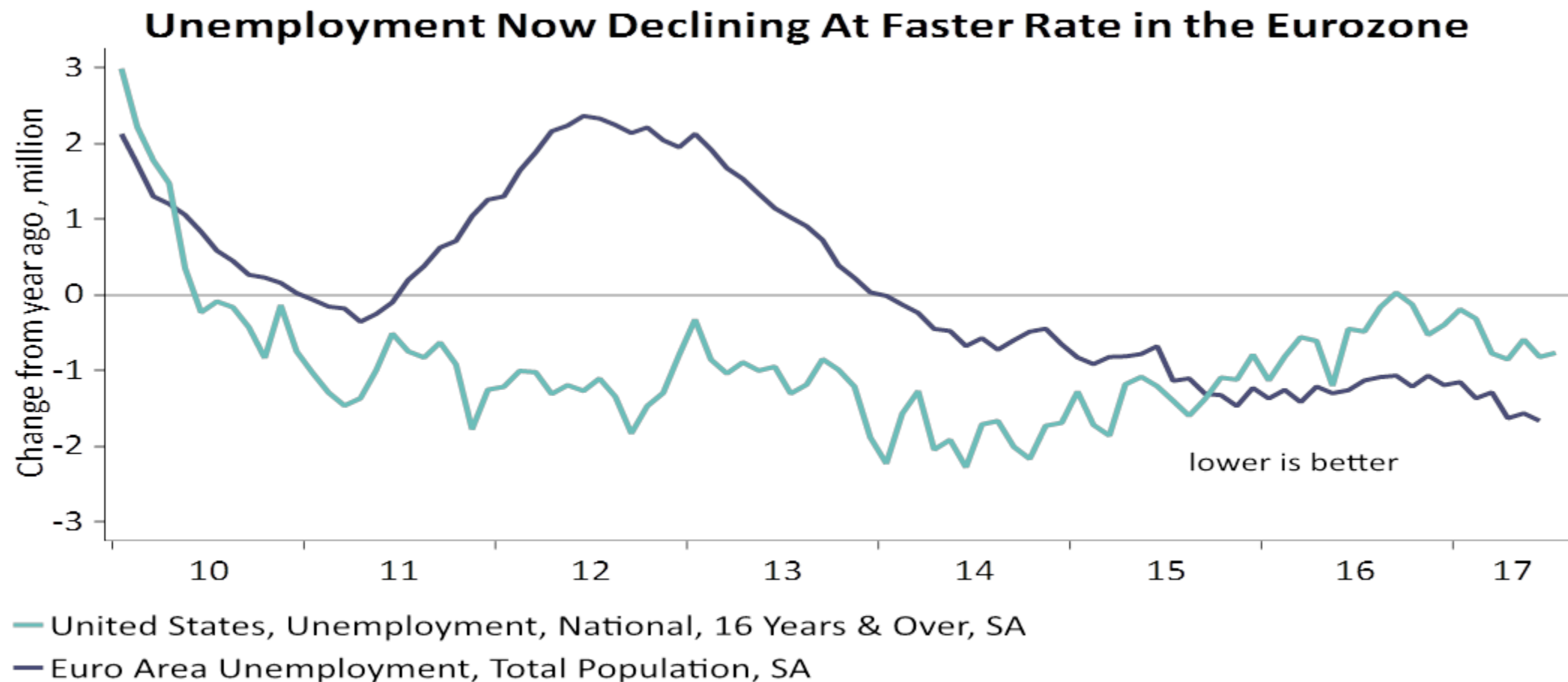


But Growth Improvement Most Obvious Outside of US



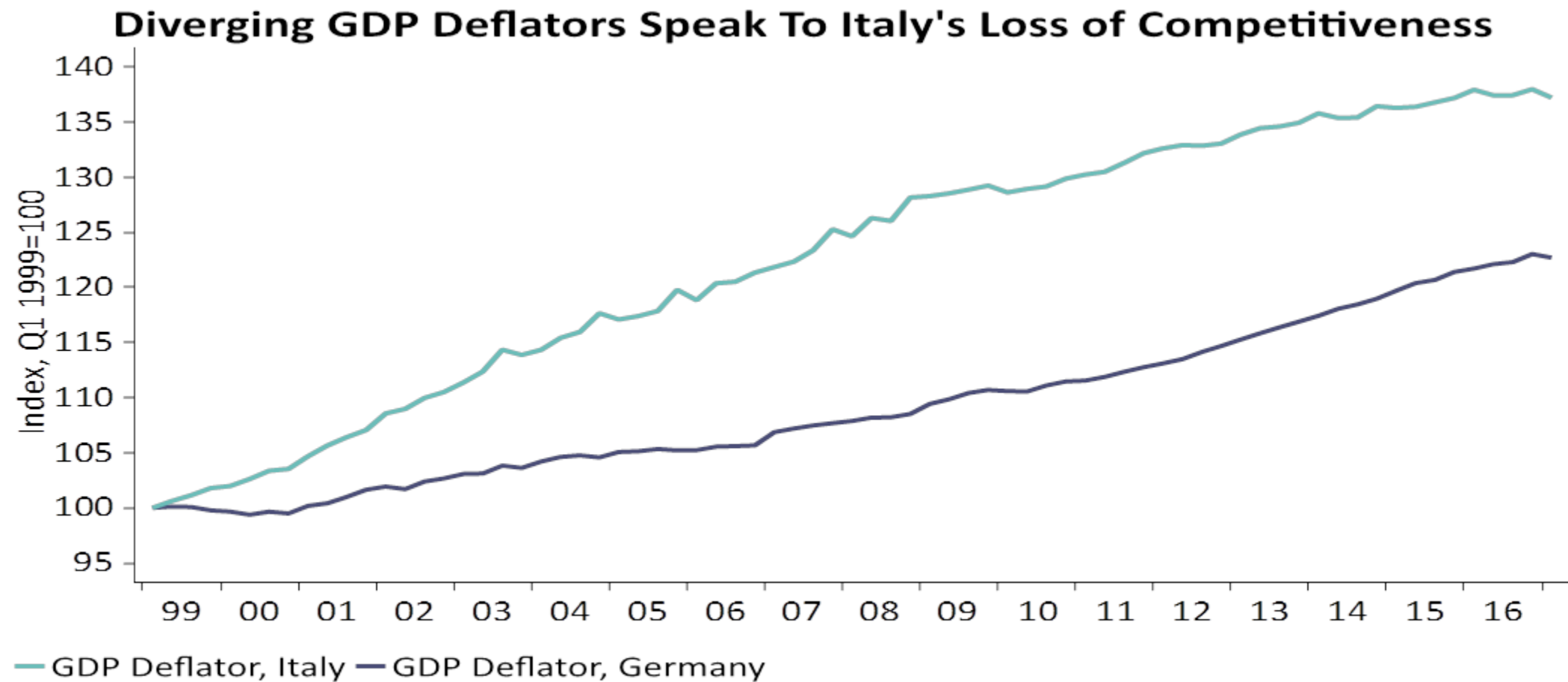
Sources: Macrobond, SSGA Economics, U.S. Bureau of Economic Analysis (BEA), Eurostat Database, Japanese Cabinet Office (CaO)
Updated as of 8/21/2017

Eurozone Recovery Seems Sustainable



Sources: Macrobond, SSGA Economics, Eurostat, U.S. Bureau of Labor Statistics (BLS)
Updated as of 8/21/2017

But There Is a Structural Flaw Within The Monetary Union

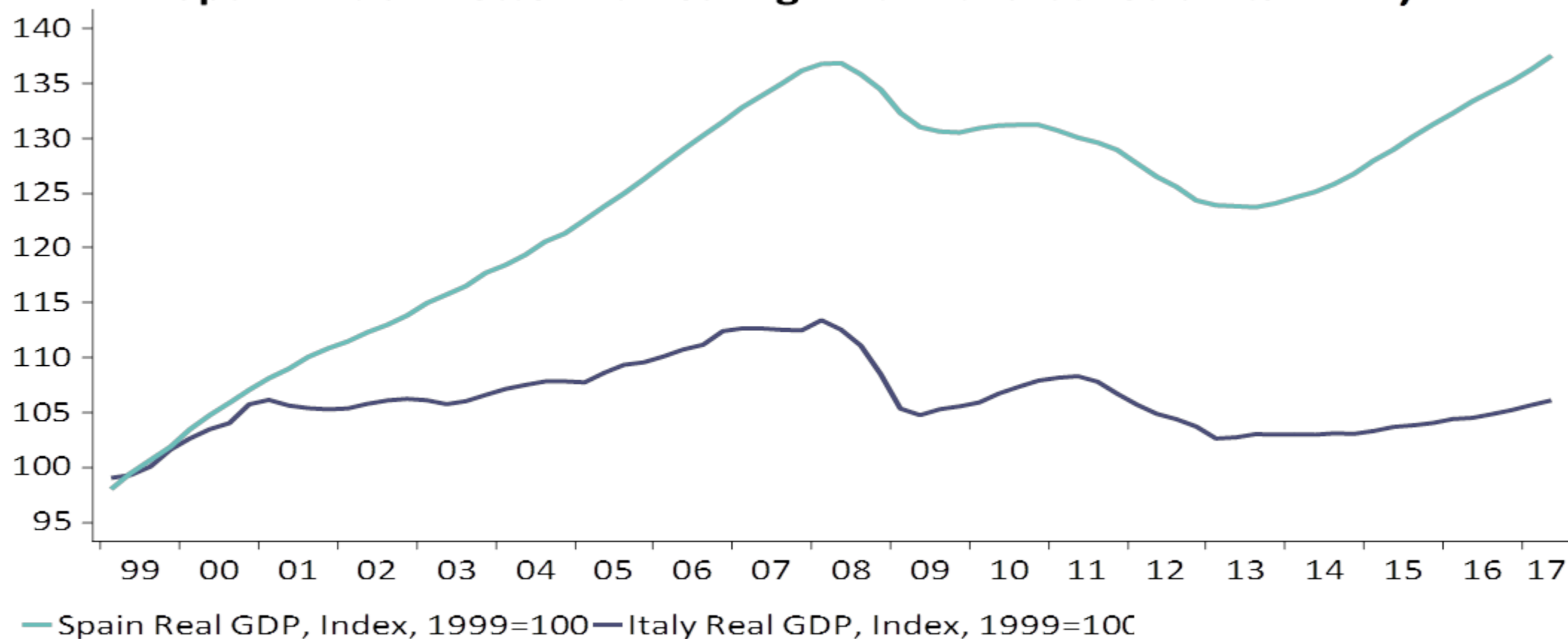


Sources: Macrobond, SSGA Economics, Eurostat Database
Updated as of 8/21/2017



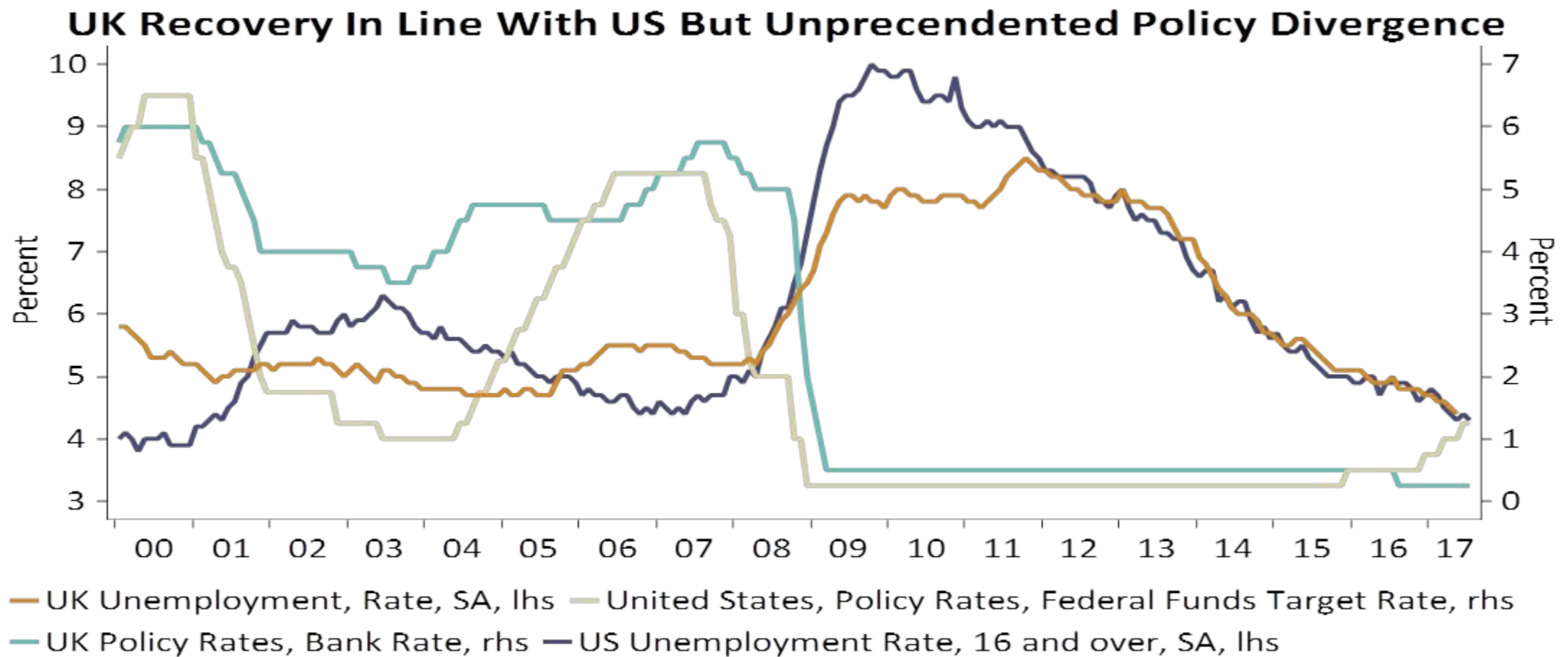
But Euro Shouldn't Be Blamed For Everything

Spain Much Better At Dealing With Euro Constraints - Why?



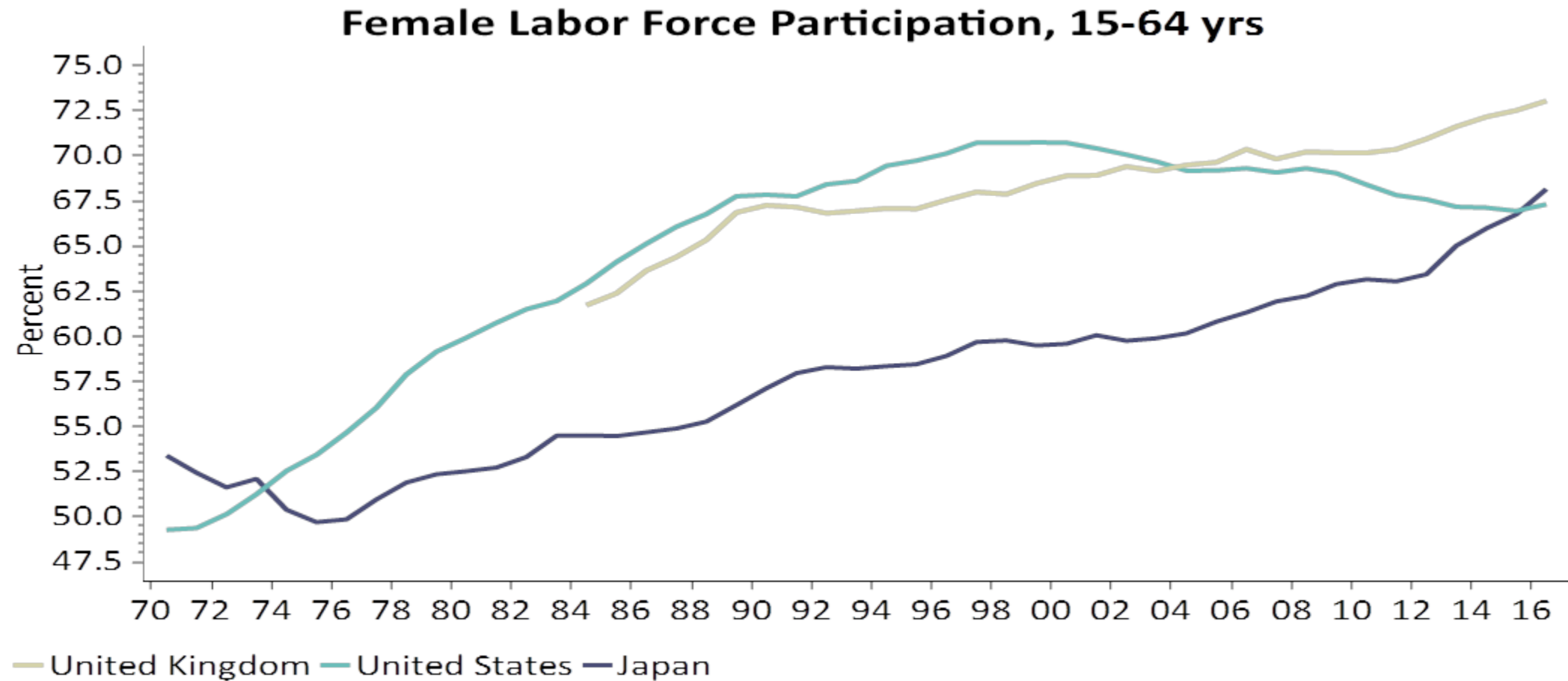
Sources: Macrobond, SSGA Economics, Italian National Institute of Statistics (Istat), Spanish National Statistics Institute (INE)
Updated as of 8/21/2017

BoE Conundrum: What Kind of Brexit?



Sources: Macrobond, SSGA Economics, U.K. Office for National Statistics (ONS), U.S. Bureau of Labor Statistics (BLS), Bank of England, Federal Reserve
Updated as of 8/16/2017

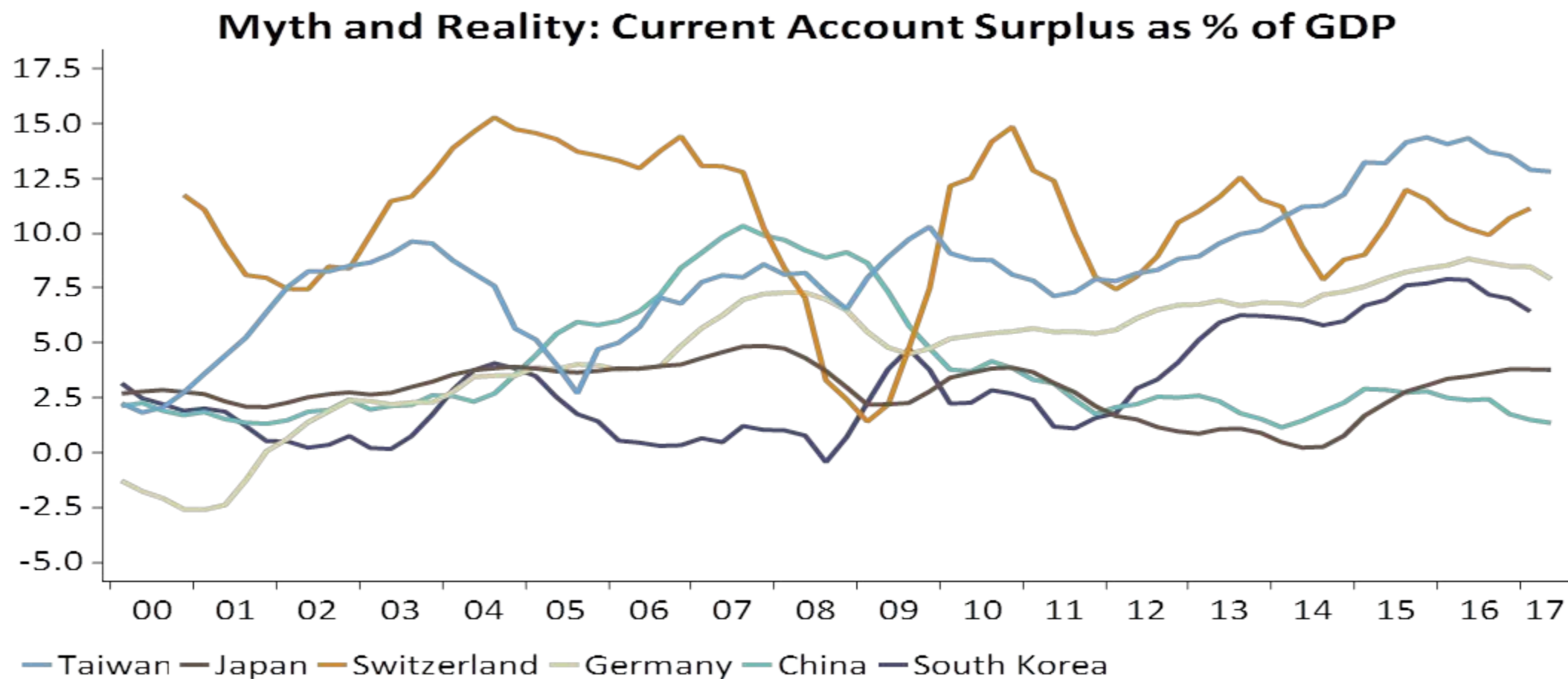
Abenomics' Effects Visible in "Below the Line" Metrics



Sources: Macrobond, SSGA Economics, OECD (Organisation for Economic Co-operation & Development)
Updated as of 8/21/2017



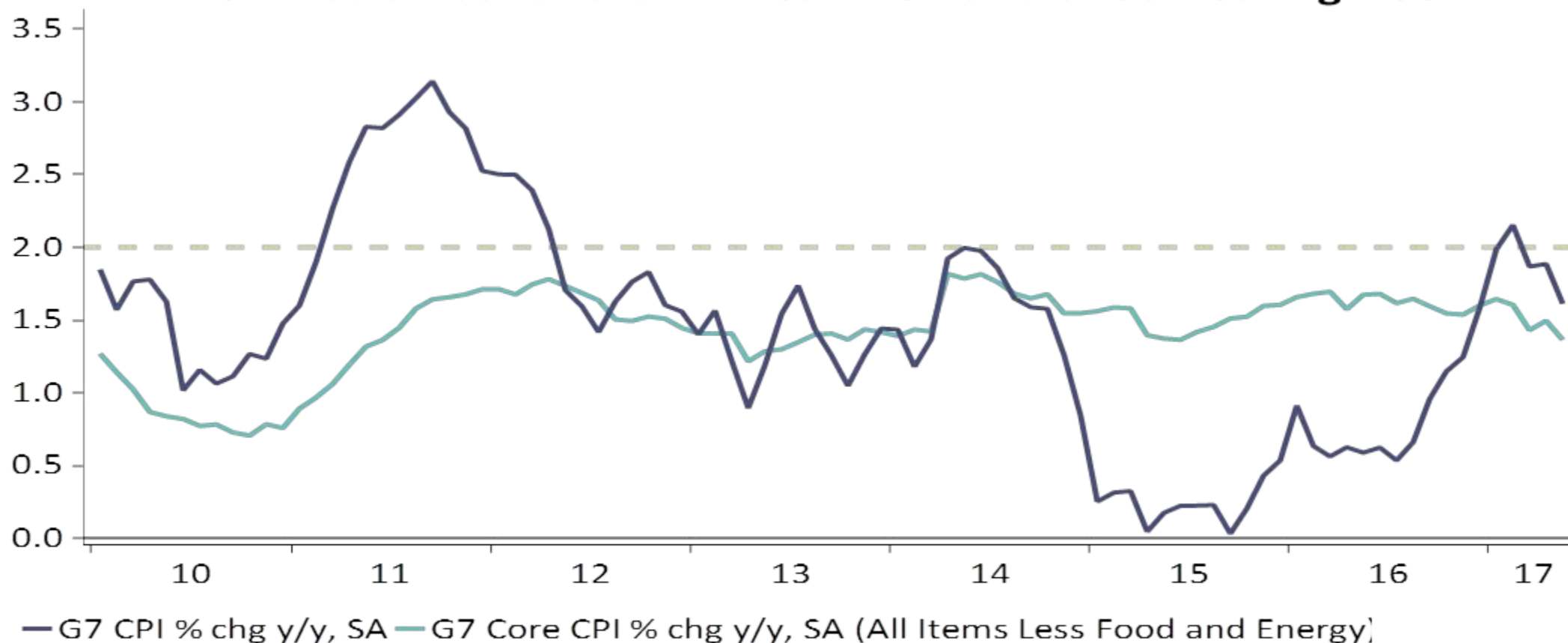
China No Longer Same As a Decade Ago



Sources: Macrobond, SSGA Economics,
Updated as of 8/21/2017

Second Biggest “Puzzle” In Economics Today

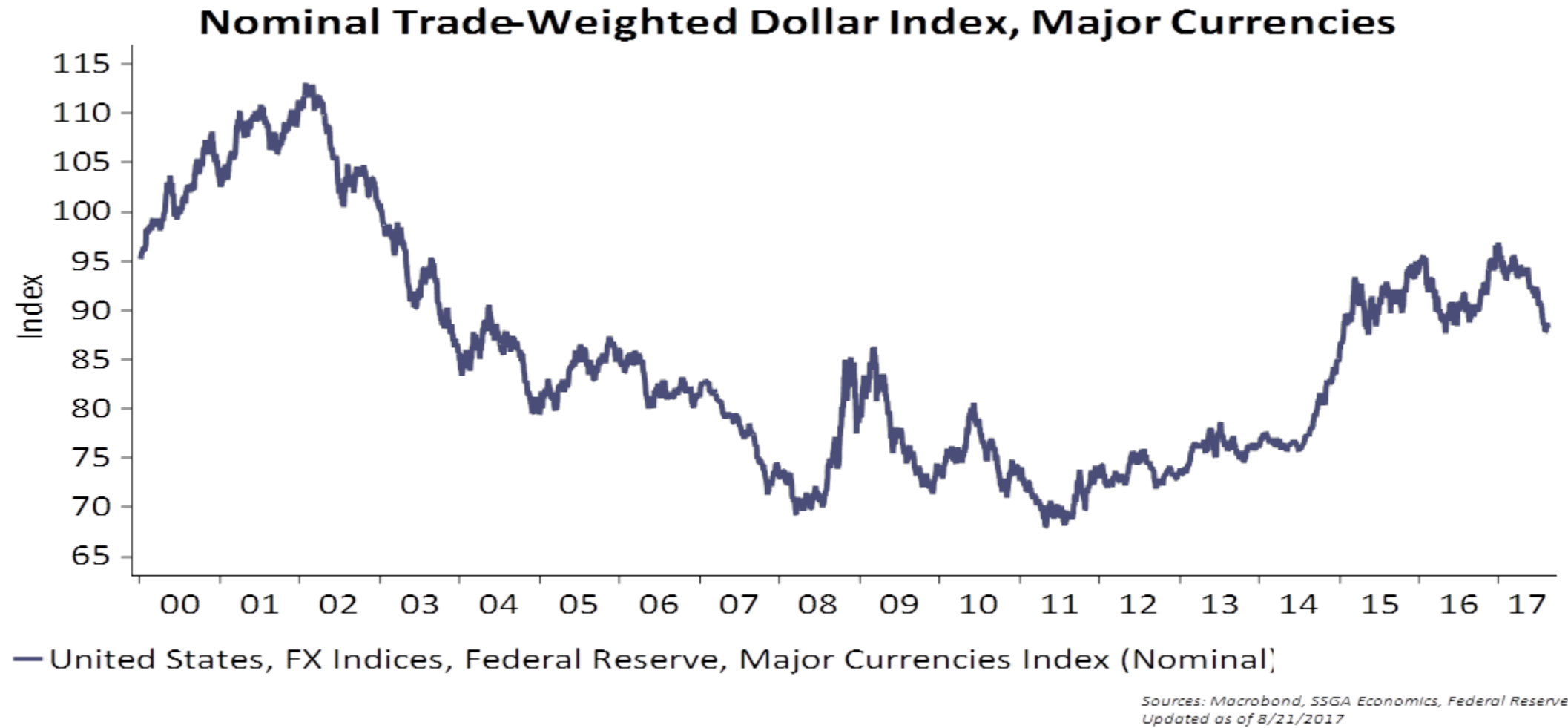
The Inflation Conundrum: Weak Demand or Something Else?



Sources: Macrobond, SSGA Economics, OECD (Organisation for Economic Co-operation & Development)
Updated as of 8/21/2017



What Will Revive the “Strong Dollar” Narrative?



Important Information

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