



# QUARTERLY INVESTMENT REPORT

June 2020



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**MERS' Portfolio Characteristics**

- Disciplined asset allocation
- Globally diversified
- Valuation focused investors
- May lag in periods of extended bull markets
- Focus on risk-adjusted returns

**MERS' Office of Investments Goals**

- Maintain adequate liquidity
- Minimize costs
- Exceed the actuarial rate assumption on a long-term basis
- Exceed the Policy Benchmark<sup>1</sup> on a long-term basis

**Economic and Market Summary**

Financial markets came roaring back 39% since hitting the lows on March 23rd and returned 20.5% for the 2nd quarter. Pre-Covid trends returned as the tech sector lead the rebound, the Nasdaq 100 returned 30% for Q2. As a result of the sharp rebound in tech, growth outperformed value by 13.5% for the quarter. The Federal Reserve took the unprecedented step of backstopping the credit markets buying corporate bonds and corporate bond ETFs causing the Fed's balance sheet to expand by 23% from the previous quarter. The Fed's quantitative easing operations have led to a large uptick in M2 money supply with it increasing 23% year over year compared to the historical average of 6.3%. Inflation remains in check, as it has for nearly a decade, coming in at 1.20. There are rumblings it could blow out past the 2% Fed mandate and we are monitoring it closely. Paired with the aggressive monetary policy initiated by the Fed, fiscal policy, which includes the stimulus checks and increased unemployment benefits, may also contribute to inflation in the future. Quarter over quarter GDP for the U.S. came in at -5% with many experts projecting Q2 to come in anywhere between -30% to -50%. In the midst of all the business shutdowns, unemployment reached 14.7% in April, which is the highest since the Great Depression. Unemployment has since fallen to 11.1% in June as strict quarantine measures are being lifted by state governments. Globally, markets have also seen a resurgence with MSCI EAFE returning 15.15% and MSCI Emerging Markets 18.14% for Q2. Eurozone GDP came in at -3.6%. While many developed countries have been able to slow down the spread of Covid-19, the U.S. have done the opposite with many of the southern states now being hit hard. A weakening dollar and stronger response from these ex U.S. countries to Covid-19 should bode well for international equities to outperform.

**Portfolio Performance Review**

MERS' Total Portfolio returned 10.97% for the second quarter. The portfolio underperformed the Policy Benchmark for the quarter by 323 bps. The Fund was able to deliver strong absolute returns by efficiently rebalancing into risk assets, including fixed income where spreads were attractive and compensated investors for increasing risk. Performance in equities were driven by the Emerging Markets Small Cap, International Small Cap, and U.S. equities portfolio. The Global Equity portfolio returned 19.10% on the quarter, underperforming the global equity policy blend by 142 bps. Global Fixed Income returned 8.78% on the quarter, outperforming the global fixed income policy blend by 574 bps. Emerging Market Debt and High Yield were the strongest fixed income sub-asset class returning 11.84% and 11.35% respectively for the quarter. The Private Investments portfolio returned -0.80%, with Private Diversifying Strategies portfolio driving most of that negative performance returning -12.47%. MERS' Defined Benefit (DB) portfolio assets are \$9.48 billion and MERS' total assets are \$11.90 billion.

**Risks and Trends****Economic Risks**

- Escalating trade war tensions
- Monetary policy mistakes
- Corporate/government debt levels
- Eurozone instability
- Oil supply-demand shock

**Medium-Term Trends**

- Rise of populism
- Investment industry consolidation
- Rise of passive investing
- In-sourcing
- Covid-19 testing

**Long-Term Trends**

- Aging population/workforce
- Rising taxes/entitlement costs
- Aging infrastructure
- Competition for resources
- Rise of ESG

**Projects and Initiatives**

- Incorporating ETFs into the asset allocation program and internal strategies
- Researching the role of active management in sub-asset classes
- Enhancing internal equity portfolio models
- Active emerging market equity search
- Internal fixed income portfolio development

<sup>1</sup> The Policy Benchmark consists of: 45% Russell 3000, 20% MSCI ACWI ex USA IMI (net), 25% Bloomberg Barclays US Aggregate, and 10% Bloomberg Barclays Global Aggregate ex US

## Asset Class Valuation Summary

Value/Price Discrepancy<sup>2</sup>

Asset Class	Overvalued	Undervalued
US Equity	-35.90%	
Europe Equity		22.20%
Japan Equity		30.60%
EM Equity		36.70%
US Treasury	-7.30%	
EMD		4.10%
US IG	-11.70%	
US HY		1.30%

<sup>2</sup> The value/price discrepancy is a ratio that compares the estimated fair value of an asset relative to its current market price. Overvalued assets have prices above estimated fair value and are expressed as a negative percentage and undervalued assets have prices below estimated fair value and are expressed as a positive percentage.

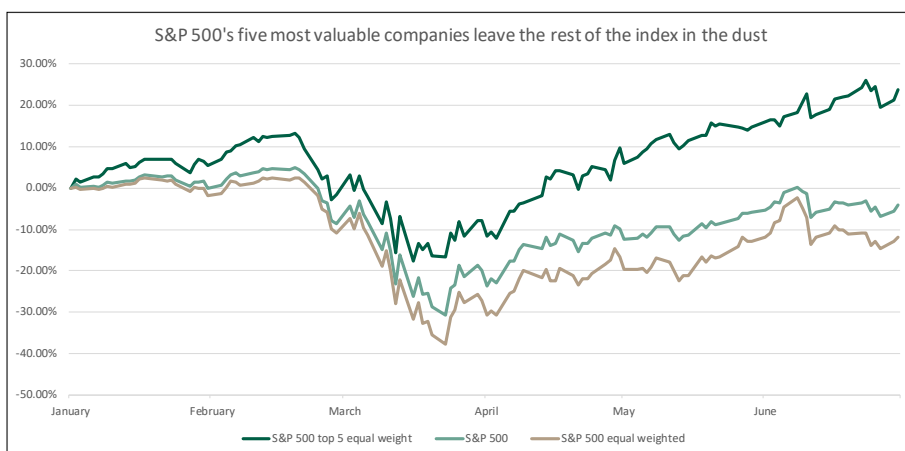
## Equity Market Outlook

- Given this large rally in the market, valuation multiples have been elevated at an even higher level in the US and current earnings remain above estimated trend earnings as a result of cyclically high profit margins, low interest rates, and tax reform.
- Valuation multiples and earnings are expected to revert to long-term averages resulting in lower expected returns for US equities.
- Valuations are more favorable in Europe, Japan, and Emerging Markets
- European earnings are currently below trend which is expected to contribute to returns going forward as earnings recover to long-term cyclically-adjusted levels.
- In Emerging Markets, recovery from current below-trend earnings and strong trend earnings growth is expected to drive long-term returns

## Fixed Income Market Outlook

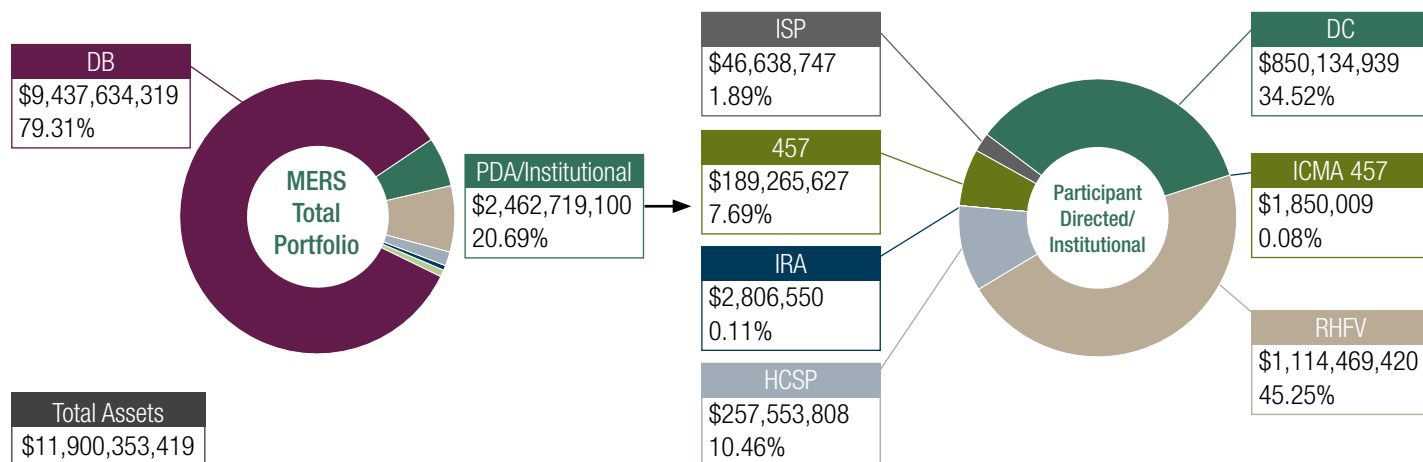
- U.S. Treasury is overvalued due to the run up from investors buying treasuries as a safe haven asset.
- Emerging Markets Debt is the only attractive fixed income asset class with spreads widening significantly which now compensates MERS for taking risk in that asset class.
- U.S. Investment Grade and High Yield have become overvalued due to the Federal Reserve's addition of these asset classes in their quantitative easing operations.

## Chart of the Quarter



While this current rally in stock prices have shown that investors are confident in the overall market outlook, we find that the market actually has been driven by five names. These five include Microsoft, Apple, Amazon, Facebook, and Alphabet. As of June 30th, these stocks make up more than a fifth of the entire index at 21.7%. Investors have flocked to these five names after the March 23rd lows, finding comfort in these companies' ability to continue to generate revenue in the midst of the lockdowns. Year-to-date, the S&P 500 top 5 equal weight index has returned nearly 24% compared to the S&P 500 index's -4.04% and equal weighted S&P 500 index's -11.77%. This pace could continue in a Covid-19 world, that relies on increased usage of technology, but we believe it is unsustainable for the long-term.

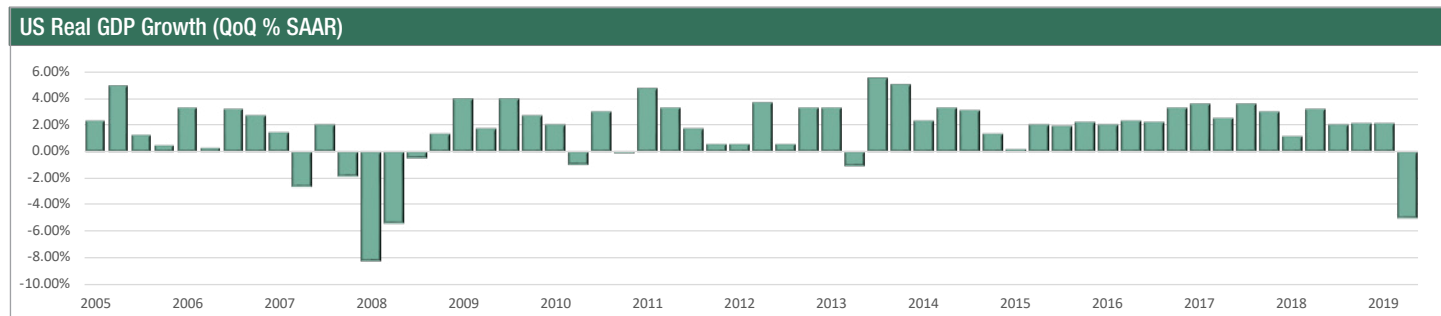
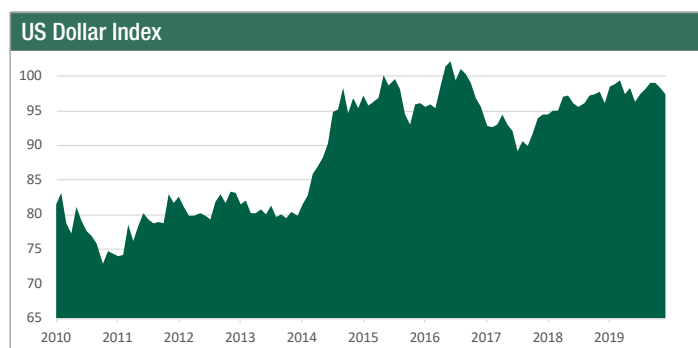
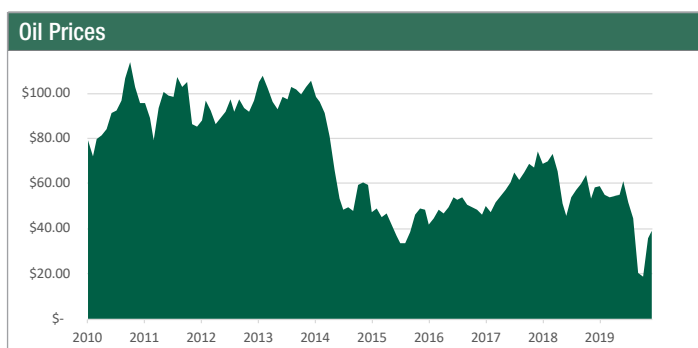
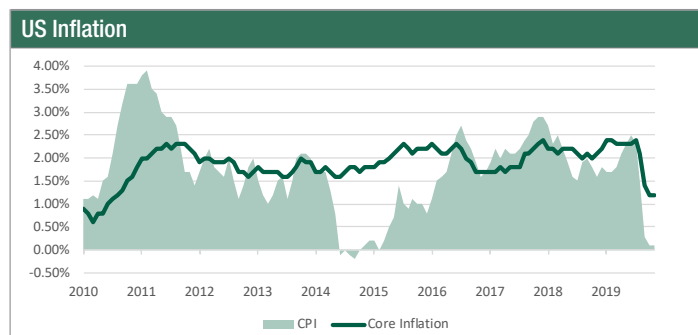
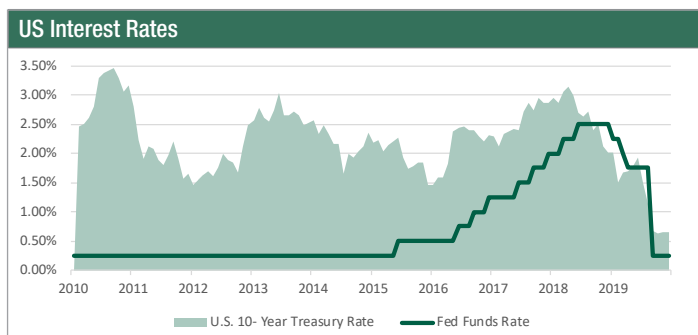
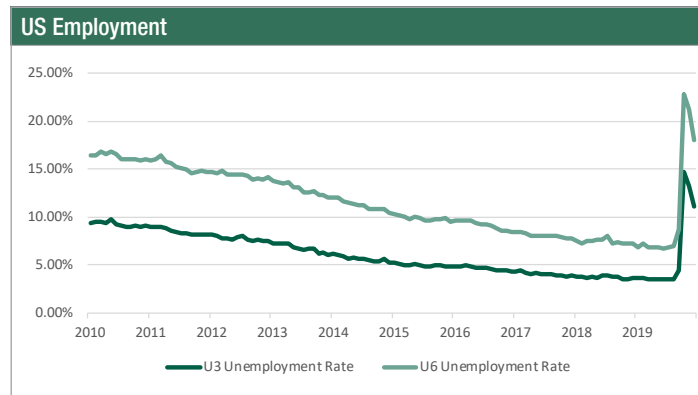
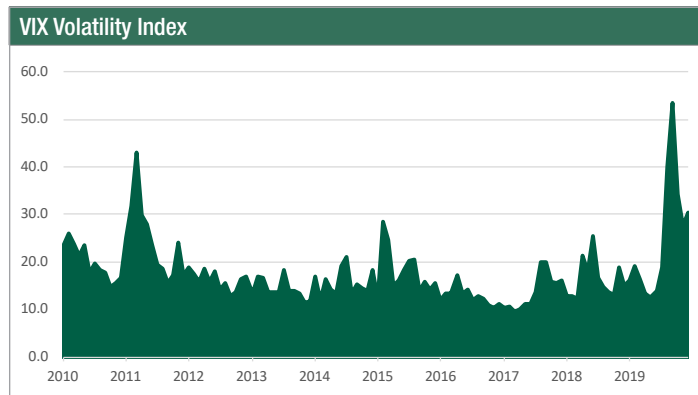
## Assets by Program



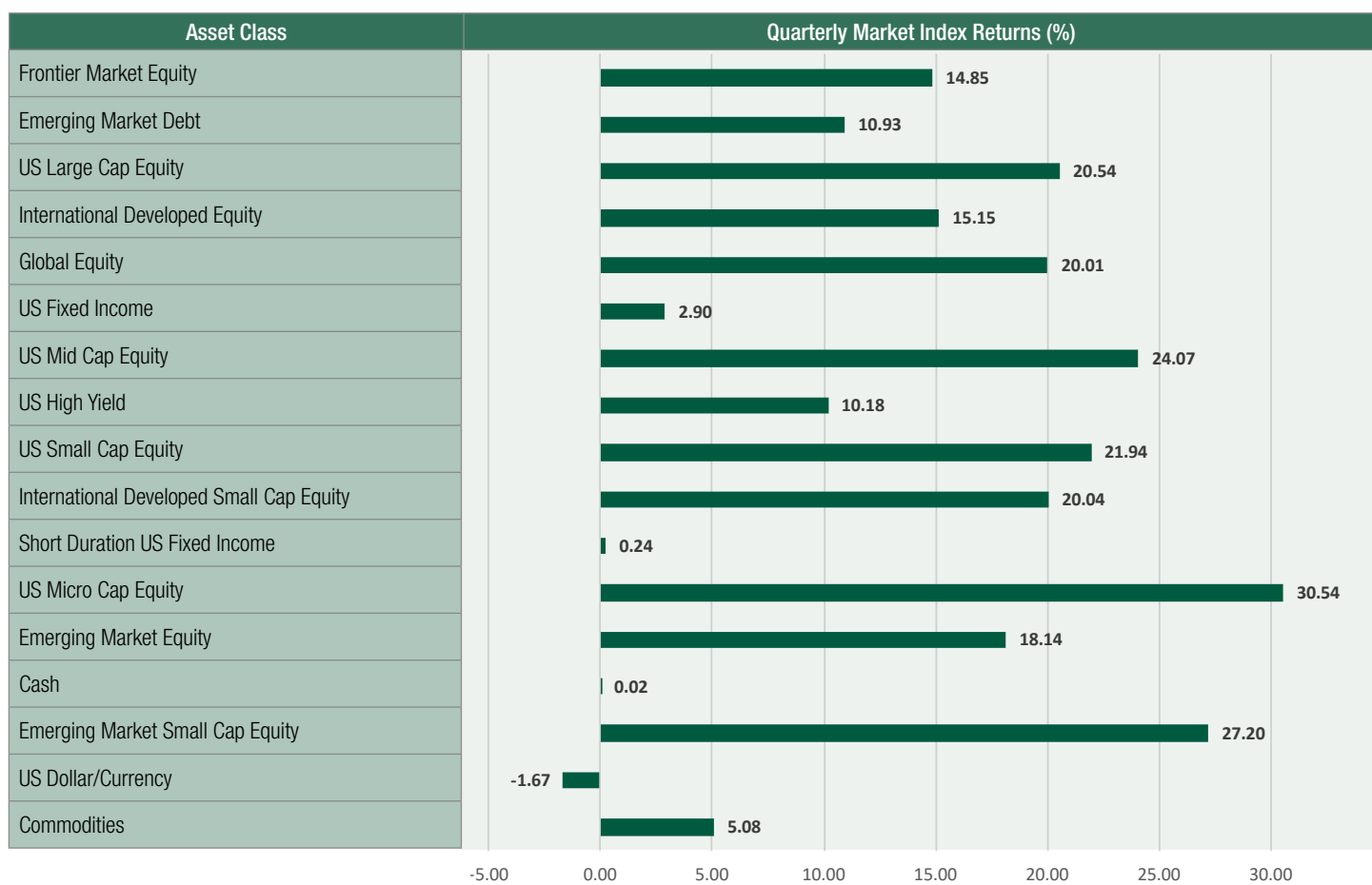
Market Indicators	Current	Prior Quarter
10 Year Treasury Yield	0.66%	0.67%
Fed Funds Rate	0.25%	0.25%
Crude Oil	\$39.3 /barrel	\$20.5 /barrel
Gold	\$1,781.0 /oz.	\$1,577.2 /oz.
30 Year Fixed Mortgage Rates	3.27%	3.86%
US Investment Grade Credit Spread	1.50%	2.72%
US High Yield Credit Spread	6.26%	8.80%
US Leading Economic Indicators	-10.60%	-7.30%

Economic Releases	Current	Prior Quarter
ISM Manufacturing	52.60	49.10
ISM Non-Manufacturing	57.10	52.50
U of M Consumer Sentiment	78.10	89.10
US Real GDP*	0.30%	2.30%
Eurozone Real GDP*	-3.10%	1.00%
UK GDP*	-1.70%	1.10%
Japan GDP*	-1.70%	-0.70%
China GDP*	-6.80%	6.00%

\* All GDP data is lagged 1 quarter



## Quarterly Market Performance Review



## Market Index Returns

Market Index	Asset Class	QTD	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
S&P 500	US Large Cap Equity	20.54	-3.09	7.49	10.72	10.72	12.12	13.98
S&P 400	US Mid Cap Equity	24.07	-12.78	-6.71	2.37	5.21	8.03	11.32
S&P 600	US Small Cap Equity	21.94	-17.86	-11.31	0.51	4.42	7.54	11.21
Russell Microcap	US Micro Cap Equity	30.54	-11.24	-4.81	0.87	2.86	6.54	9.94
MSCI EAFE	Interntl Developed Equity	15.15	-11.03	-4.63	1.38	2.63	4.53	6.32
MSCI EAFE Small Cap	Interntl Developed Small Cap Equity	20.04	-12.91	-3.16	0.91	4.18	6.77	8.38
MSCI ACWI IMI	Global Equity	20.01	-6.80	1.70	6.14	6.71	8.24	9.71
MSCI Emerging Markets	Emerging Market Equity	18.14	-9.70	-3.11	2.24	3.25	3.59	3.63
MSCI Emerging Markets Small Cap	Emerging Market Small Cap Equity	27.20	-12.68	-8.56	-2.70	-1.14	1.20	2.04
MSCI Frontier Markets Index	Frontier Market Equity	14.85	-15.73	-11.07	-1.74	-0.09	2.16	3.49
BBG Barclays U.S. Aggregate	US Fixed Income	2.90	6.14	8.74	5.32	4.30	3.96	3.82
JPMorgan EMBI Global Diversified Index	Emerging Market Debt	10.93	-1.95	0.29	3.19	4.96	5.06	5.93
ICE BofA Merrill Lynch Global High Yield	US High Yield	10.18	-3.80	0.03	3.33	4.79	4.99	6.68
91 Day Treasury Bill	Cash	0.02	0.48	1.47	1.68	1.12	0.81	0.59
BBG Barclays 1-3 Year Treasury	Short Duration US Fixed Income	0.24	3.01	4.14	2.71	1.86	1.56	1.34
Bloomberg Commodity Index Total Return	Commodities	5.08	-19.40	-17.38	-6.14	-7.69	-8.11	-5.82
Bloomberg Dollar Spot Index	US Dollar/Currency	-1.67	1.04	1.31	1.84	0.40	2.29	1.25

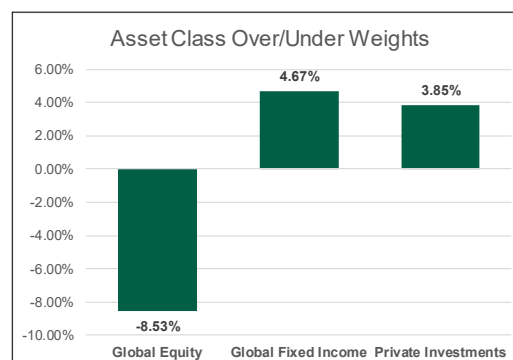
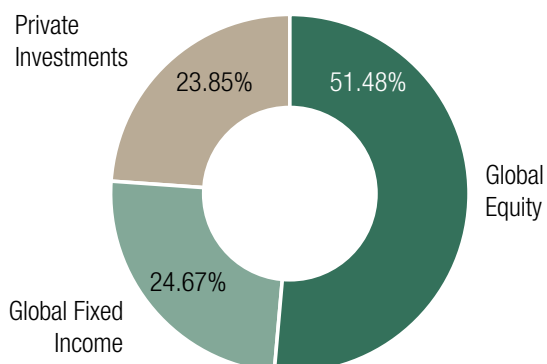
# TOTAL PORTFOLIO QUARTERLY PERFORMANCE AND ALLOCATION

**2020**  
JUNE

Portfolio		% of Total Portfolio	Quarterly Portfolio Returns (%)	
	<b>MERS' Total Portfolio</b>	100.00%		
	<b>Policy Benchmark</b>	-		
Global Equity	<b>Global Equity</b>	<b>51.47%</b>		
	US Equity	22.01%		
	US Large Cap Equity	14.87%		
	US Mid Cap Equity	3.48%		
	US Small Cap Equity	0.46%		
	US Micro Cap Equity	3.20%		
	International Equity	19.57%		
	International Large Cap Equity	14.27%		
	International Small Cap Equity	5.30%		
	Emerging Market Equity	9.89%		
	Emerging Market Large Cap Equity	3.92%		
	Emerging Market Small Cap Equity	3.32%		
	Frontier Market Equity	2.65%		
Global Fixed Income	<b>Global Fixed Income</b>	<b>24.67%</b>		
	US Core Fixed Income	12.69%		
	Emerging Markets Debt	5.66%		
	High Yield	0.00%		
	Cash/Short Duration	6.32%		
Private Investments	<b>Private Investments</b>	<b>23.85%</b>		
	Private Equity	4.77%		
	Real Assets	11.44%		
	Diversified Real Assets	8.12%		
	Real Estate	3.29%		
	Timber	0.30%		
	Infrastructure	1.77%		
	Commodities	1.91%		
	Agriculture & Farmland	2.85%		
	Diversifying Strategies	7.64%		

-20.00 -10.00 0.00 10.00 20.00 30.00 40.00

Asset Class	Market Value	% of Fund	Base Allocation	Over/Under Weight	Minimum Allocation	Maximum Allocation
Global Equity	\$5,380,790,075	51.47%	60.00%	-8.53%	30.00%	70.00%
Global Fixed Income	\$2,579,598,160	24.67%	20.00%	4.67%	10.00%	60.00%
Private Investments	\$2,493,614,972	23.85%	20.00%	3.85%	No Minimum	30.00%
<b>Total</b>	<b>\$10,454,003,207</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>		

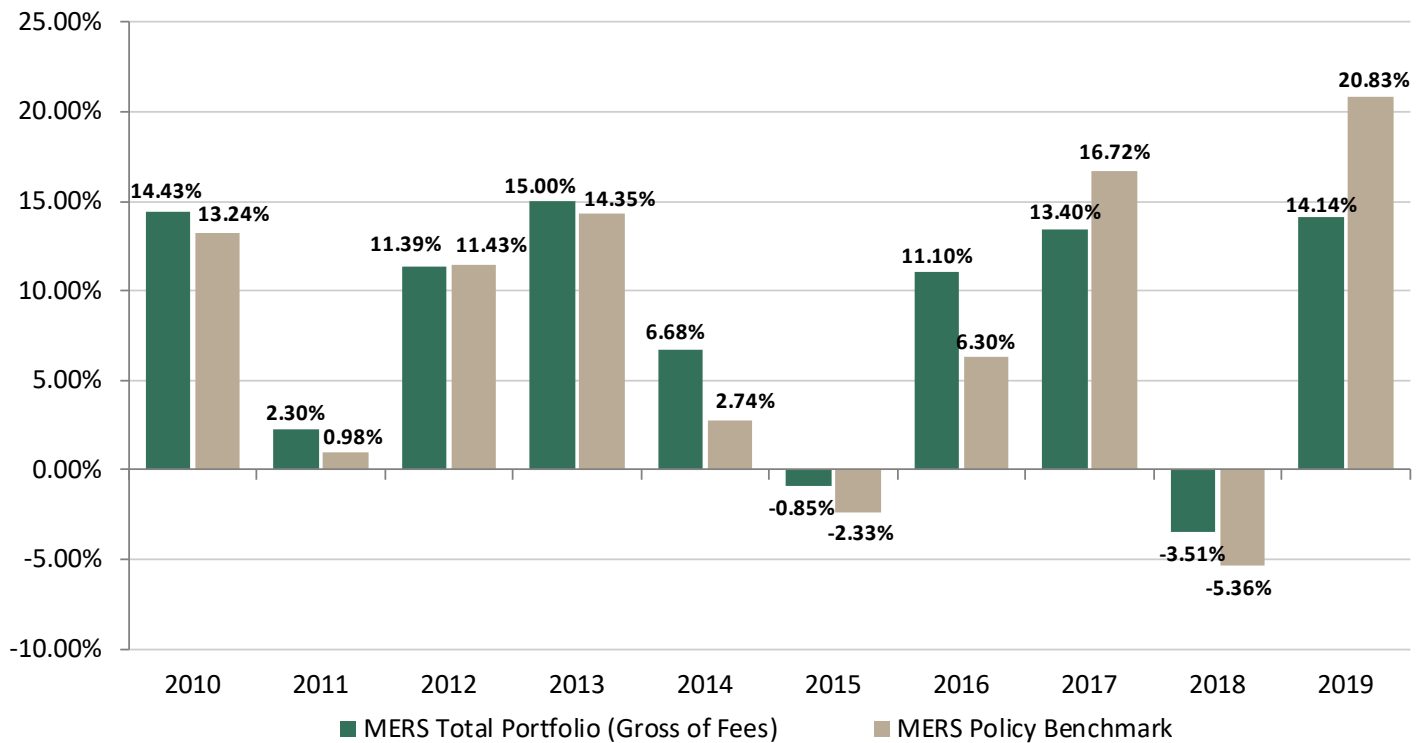


# TOTAL PORTFOLIO PERFORMANCE

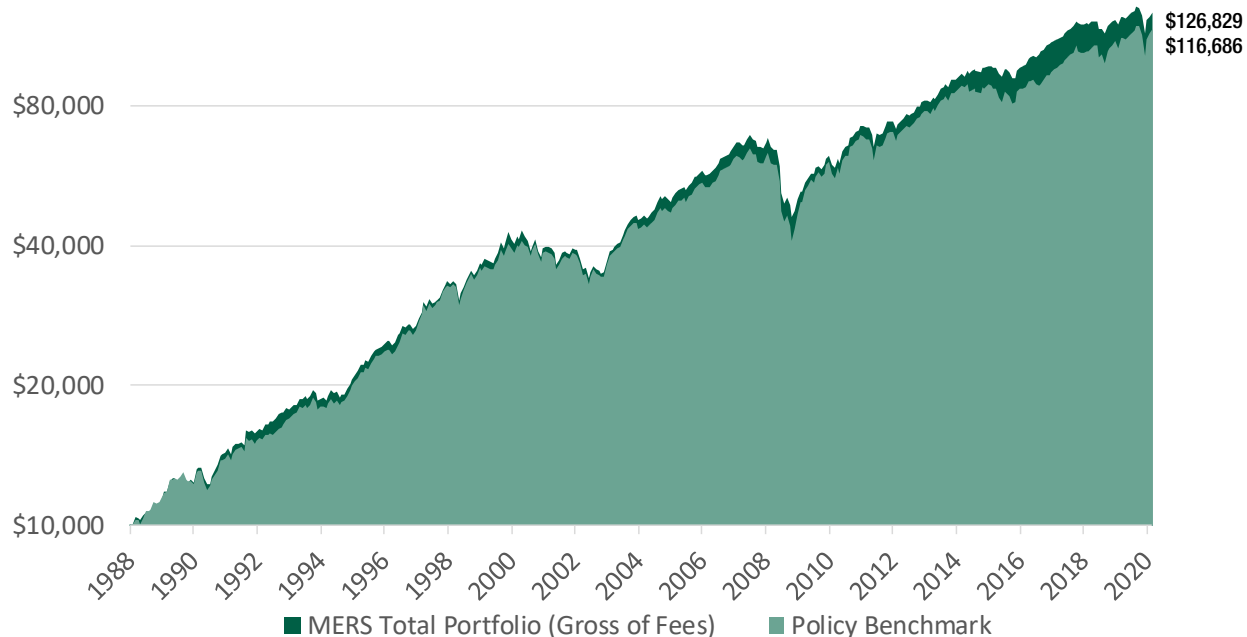
**2020**  
JUNE

	QTD	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
MERS Total Portfolio - Gross of Fees (%)	10.97	-2.84	2.45	4.62	5.58	6.61	8.02
MERS Total Portfolio - Net of Fees (%)	10.90	-2.93	2.31	4.48	5.39	6.40	7.78
Policy Benchmark (%)	14.20	-1.92	4.72	6.62	6.12	6.21	7.64
Excess (Net) (%)	-3.30	-1.01	-2.41	-2.14	-0.73	0.19	0.14

## Calendar Year Performance – Last 10 Years



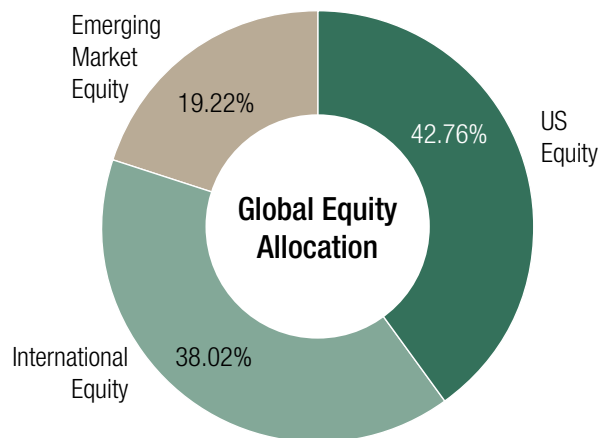
## Growth of \$10,000 Comparison





Market Value	\$5,380,790,075
Assets – % of Portfolio	51.47%

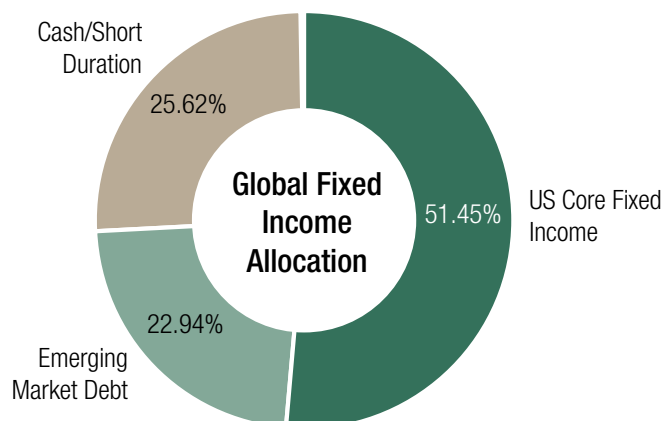
Sub Asset Class	Market Value
US Equity	\$2,300,913,908
International Equity	\$2,045,802,603
Emerging Market Equity	\$1,034,073,563
<b>Total</b>	<b>\$5,380,790,075</b>



	Market Value	% OF PLAN	QTD	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
<b>Global Equity</b>	<b>\$5,380,790,075</b>	<b>51.47</b>	<b>19.10</b>	<b>-10.09</b>	<b>-3.28</b>	<b>2.94</b>	<b>4.77</b>	<b>7.13</b>	<b>9.55</b>
<i>MSCI ACWI</i>			19.22	-6.25	2.11	6.14	6.46	7.81	9.16
<b>US Equity</b>	<b>\$2,300,913,908</b>	<b>22.01</b>	<b>20.63</b>	<b>-10.64</b>	<b>-3.21</b>				
<i>Russell 3000</i>			22.03	-3.48	6.53				
<b>US Large Cap Equity</b>	<b>\$1,554,557,413</b>	<b>14.87</b>	<b>19.59</b>	<b>-5.22</b>	<b>4.18</b>	<b>9.36</b>	<b>10.38</b>	<b>12.29</b>	<b>14.70</b>
<i>S&amp;P 500</i>			20.54	-3.08	7.50	10.73	10.73	12.13	13.99
<b>US Mid Cap Equity</b>	<b>\$364,074,045</b>	<b>3.48</b>	<b>23.77</b>	<b>-12.75</b>	<b>-6.44</b>	<b>2.48</b>	<b>4.10</b>	<b>7.70</b>	<b>10.55</b>
<i>S&amp;P 400</i>			24.07	-12.78	-6.70	2.39	5.22	8.04	11.34
<b>US Small Cap Equity</b>	<b>\$47,673,344</b>	<b>0.46</b>	<b>20.12</b>	<b>-18.88</b>	<b>-12.50</b>	<b>0.16</b>	<b>2.87</b>	<b>5.53</b>	<b>9.03</b>
<i>S&amp;P 600</i>			21.94	-17.85	-11.29	0.56	4.48	7.58	11.24
<b>US Micro Cap Equity</b>	<b>\$334,609,107</b>	<b>3.20</b>	<b>23.77</b>	<b>-19.06</b>	<b>-14.74</b>	<b>-3.27</b>	<b>0.92</b>	<b>4.63</b>	
<i>Russell Microcap</i>			30.54	-11.21	-4.77	0.85	2.86	6.53	
<b>International Equity</b>	<b>\$2,045,802,603</b>	<b>19.57</b>	<b>15.86</b>	<b>-10.84</b>	<b>-3.18</b>				
<i>MSCI EAFE</i>			14.88	-11.34	-5.13				
<b>International Large Cap Equity</b>	<b>\$1,491,449,975</b>	<b>14.27</b>	<b>14.47</b>	<b>-10.51</b>	<b>-3.11</b>	<b>1.17</b>	<b>-0.77</b>		
<i>MSCI EAFE</i>			14.88	-11.34	-5.13	0.81	2.05		
<b>International Small Cap Equity</b>	<b>\$554,352,628</b>	<b>5.30</b>	<b>20.19</b>	<b>-11.53</b>	<b>-3.40</b>	<b>1.66</b>	<b>5.97</b>	<b>8.25</b>	<b>10.16</b>
<i>MSCI EAFE SMALL CAP</i>			19.88	-13.11	-3.52	0.53	3.81	6.41	8.02
<b>Emerging Market Equity</b>	<b>\$1,034,073,563</b>	<b>9.89</b>	<b>22.38</b>	<b>-8.40</b>	<b>-4.35</b>	<b>-0.74</b>	<b>2.35</b>	<b>3.26</b>	<b>2.00</b>
<i>MSCI EMERGING MARKETS</i>			18.08	-9.78	-3.39	1.90	2.86	3.22	3.27
<b>Emerging Market Large Cap Equity</b>	<b>\$410,053,254</b>	<b>3.92</b>	<b>18.30</b>	<b>-8.97</b>	<b>-2.55</b>	<b>1.53</b>	<b>2.76</b>	<b>3.03</b>	<b>0.29</b>
<i>MSCI EMERGING MARKETS</i>			18.08	-9.78	-3.39	1.90	2.86	3.22	3.27
<b>Emerging Market Small Cap Equity</b>	<b>\$346,683,283</b>	<b>3.32</b>	<b>35.53</b>	<b>-5.26</b>	<b>0.84</b>	<b>-0.08</b>	<b>4.04</b>		
<i>MSCI EMERGING MARKETS SMALL CAP</i>			27.14	-12.74	-8.82	-2.95	-1.38		
<b>Frontier Market Equity</b>	<b>\$277,337,027</b>	<b>2.65</b>	<b>14.60</b>	<b>-13.71</b>	<b>-16.07</b>	<b>-6.94</b>	<b>-1.75</b>	<b>0.43</b>	<b>2.06</b>
<i>MSCI FRONTIER MARKETS</i>			14.75	-15.77	-11.17	-1.77	-0.13	2.20	3.51

Market Value	\$2,579,598,160
Assets – % of Portfolio	24.68%

Sub Asset Class	Market Value
US Core Fixed Income	\$1,327,133,665
Emerging Market Debt	\$591,657,537
High Yield	\$24
Cash/Short Duration	\$660,806,934
<b>Total</b>	<b>\$2,579,598,160</b>

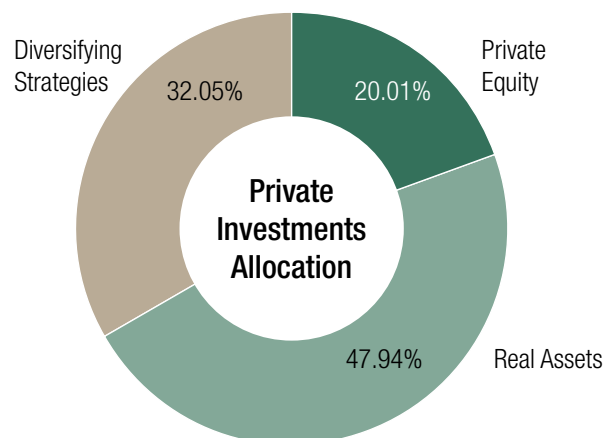


	Market Value	% OF PLAN	QTD	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
<b>Global Fixed Income ex Cash</b>	<b>\$1,918,791,226</b>	<b>18.35</b>	<b>8.78</b>	<b>10.53</b>	<b>13.89</b>	<b>7.38</b>	<b>6.63</b>	<b>5.52</b>	<b>4.81</b>
<i>Bloomberg Barclays U.S. Aggregate</i>			2.90	6.14	8.74	5.32	4.30	3.96	3.82
<b>US Core Fixed Income</b>	<b>\$1,327,133,665</b>	<b>12.69</b>	<b>2.28</b>	<b>6.14</b>	<b>9.01</b>	<b>5.46</b>	<b>4.26</b>	<b>4.11</b>	<b>4.45</b>
<i>Bloomberg Barclays U.S. Aggregate</i>			2.90	6.14	8.74	5.32	4.30	3.96	3.82
<b>Emerging Market Debt</b>	<b>\$591,657,537</b>	<b>5.66</b>	<b>11.84</b>	<b>-0.87</b>	<b>3.45</b>	<b>3.81</b>	<b>6.38</b>	<b>4.70</b>	
<i>JPMorgan EMBI Global Diversified</i>			12.26	-2.76	0.49	3.60	5.30	5.48	
<b>High Yield</b>	<b>\$24</b>	<b>0.00</b>	<b>11.35</b>						
<i>Bloomberg Barclays U.S. Corporate High Yield</i>			10.18						
<b>Cash/Short Duration<sup>1</sup></b>	<b>\$660,806,934</b>	<b>6.32</b>	<b>0.42</b>	<b>1.70</b>	<b>2.99</b>	<b>2.02</b>	<b>1.69</b>	<b>1.44</b>	<b>1.66</b>
<i>91 Day Treasury Bill</i>			0.02	0.60	1.63	1.77	1.19	0.86	0.64

<sup>1</sup>Cash/Short Duration market value reflects collateral for futures positions.

Market Value	\$2,493,614,972
Assets – % of Portfolio	23.85%

Sub Asset Class	Market Value
Private Equity	\$498,867,708
Real Assets	\$1,195,589,328
Diversifying Strategies	\$799,157,935
<b>Total</b>	<b>\$2,493,614,972</b>



	Market Value	% OF PLAN	QTD	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
<b>Private Investments</b>	<b>\$2,493,614,972</b>	<b>23.85</b>	<b>-0.80</b>	<b>-1.33</b>	<b>2.72</b>				
VBA Reference Portfolio			13.65	-1.31	5.30				
<b>Private Equity</b>	<b>\$498,867,708</b>	<b>4.77</b>	<b>6.08</b>	<b>6.03</b>	<b>15.11</b>	<b>14.97</b>	<b>11.77</b>	<b>12.00</b>	<b>11.81</b>
<i>Private Equity Blend</i>			22.64	-12.99	-5.01	1.38	4.21	6.96	9.42
<b>Real Assets</b>	<b>\$1,195,589,328</b>	<b>11.44</b>	<b>5.51</b>	<b>3.87</b>	<b>7.17</b>	<b>8.26</b>	<b>8.35</b>	<b>7.22</b>	<b>6.88</b>
<i>Real Assets Blend</i>									
<b>Diversified Real Assets</b>	<b>\$849,361,372</b>	<b>8.12</b>	<b>8.01</b>	<b>5.58</b>	<b>9.11</b>	<b>5.79</b>			
<i>Real Assets Blend</i>									
<b>Real Estate</b>	<b>\$343,941,637</b>	<b>3.29</b>	<b>-0.46</b>	<b>-0.46</b>	<b>2.40</b>	<b>9.16</b>	<b>10.28</b>	<b>12.06</b>	<b>12.62</b>
<i>Real Estate Blend</i>									
<b>Timber</b>	<b>\$31,717,276</b>	<b>0.30</b>	<b>-5.77</b>	<b>-5.73</b>	<b>-2.13</b>	<b>6.91</b>	<b>4.76</b>	<b>5.65</b>	<b>5.42</b>
<i>S&amp;P Global Timber &amp; Forestry Index Net</i>			15.84	-16.97	-6.96	-1.65	2.76	4.62	5.68
<b>Infrastructure</b>	<b>\$185,227,773</b>	<b>1.77</b>	<b>6.26</b>	<b>0.81</b>	<b>6.31</b>	<b>5.25</b>	<b>3.71</b>	<b>4.48</b>	<b>3.76</b>
<i>Private Infrastructure Blend</i>			9.26	-3.85	0.37	3.80	3.99	4.17	4.68
<b>Commodities</b>	<b>\$200,008,911</b>	<b>1.91</b>	<b>-4.80</b>	<b>-4.88</b>	<b>-0.18</b>	<b>-0.85</b>	<b>7.50</b>	<b>2.11</b>	<b>3.05</b>
<i>Bloomberg Commodity Index Total Return</i>			5.08	-19.40	-17.38	-6.14	-7.69	-8.11	-5.82
<b>Agriculture &amp; Farmland</b>	<b>\$297,484,608</b>	<b>2.85</b>	<b>18.71</b>	<b>15.44</b>	<b>18.04</b>	<b>18.07</b>	<b>12.68</b>	<b>11.65</b>	
<i>S&amp;P Global Agribusiness Equity Index TR</i>			10.25	-19.07	-14.88	-1.35	-0.20		
<b>Diversifying Strategies</b>	<b>\$799,157,935</b>	<b>7.64</b>	<b>-12.47</b>	<b>-11.90</b>	<b>-9.29</b>	<b>0.00</b>	<b>1.88</b>	<b>4.47</b>	
<i>Diversifying Strategies Blend</i>			9.01	1.21	5.71	5.84	4.06	4.85	

## PDA Funds

Program	Assets	Participants	Average Account Size	Weighted Average Fee	Default Option
DC Plan	\$841,459,051	26,531	\$31,716	0.39%	Retirement Strategies
HCSP	\$257,553,808	25,801	\$9,982	0.39%	Retirement Strategies
457 Program	\$183,682,060	7,598	\$24,175	0.40%	Retirement Strategies
MERS IRA	\$2,806,550	169	\$16,607	0.40%	Retirement Strategies
<b>TOTAL</b>	<b>\$1,285,501,469</b>	<b>60,099</b>	<b>\$21,390</b>		

## Institutional Funds

Program	Assets	Municipalities	Average Account Size	Weighted Average Fee
RHFV	\$1,114,469,420	300	\$3,714,898	0.45%
ISP	\$46,638,747	5	\$9,327,749	0.46%
<b>TOTAL</b>	<b>\$1,161,108,167</b>	<b>305</b>	<b>\$3,806,912</b>	

## Investment Allocations

	PDA	Institutional Funds	Total
Retirement Strategies	\$912,654,825		\$912,654,825
Total Market Fund	\$34,954,243	\$12,578,162	\$47,532,406
Asset Allocation Portfolios	\$76,572,766	\$155,353,927	\$231,926,693
Asset Specific funds	\$289,823,566	\$27,028,028	\$316,851,594
Self-directed Brokerage	\$6,002,398		\$6,002,398
<b>TOTAL</b>	<b>\$1,320,007,798</b>	<b>\$194,960,118</b>	<b>\$1,514,967,916</b>

### Program Highlights

- Changed HCSP default option
- Completed HCSP re-enrollment
- Decreased custody and recordkeeping expenses by 2 bps
- Completed glide-path review in AB
- Allowed for options in Brokerage Window

### Future Research

- Investment Menu Review
- Additional use of indexes within menu
- Use of annuities within glide-path
- Site visits to AB and Alerus

## Retirement Strategies for PDA Accounts

MERS Retirement Strategies	Assets	Expense Ratio	1 Year	3 Year	5 Year	10 Year
Retirement Income Fund	\$12,185,014	0.38%	4.22	4.30	3.75	
MERS 2010 Retirement Strategy	\$22,879,410	0.38%	3.73	4.44	4.08	
MERS 2015 Retirement Strategy	\$76,828,594	0.39%	3.23	4.68	4.50	
MERS 2020 Retirement Strategy	\$88,224,522	0.39%	2.36	4.69	4.71	
MERS 2025 Retirement Strategy	\$171,193,245	0.39%	1.85	4.72	4.93	
MERS 2030 Retirement Strategy	\$119,964,269	0.39%	1.27	4.83	5.20	
MERS 2035 Retirement Strategy	\$114,406,149	0.39%	0.95	4.99	5.43	
MERS 2040 Retirement Strategy	\$98,889,227	0.39%	0.16	4.93	5.54	
MERS 2045 Retirement Strategy	\$79,673,638	0.39%	-0.11	4.91	5.60	
MERS 2050 Retirement Strategy	\$62,854,787	0.39%	-0.16	4.90	5.59	
MERS 2055 Retirement Strategy	\$43,587,486	0.39%	-0.11	4.93	5.63	
MERS 2060 Retirement Strategy	\$21,767,824	0.39%	0.08	5.01	5.67	
MERS 2065 Retirement Strategy	\$200,662	0.36%				
<b>TOTAL</b>	<b>\$912,654,825</b>					

## Premium Select Options – Portfolios Built for You

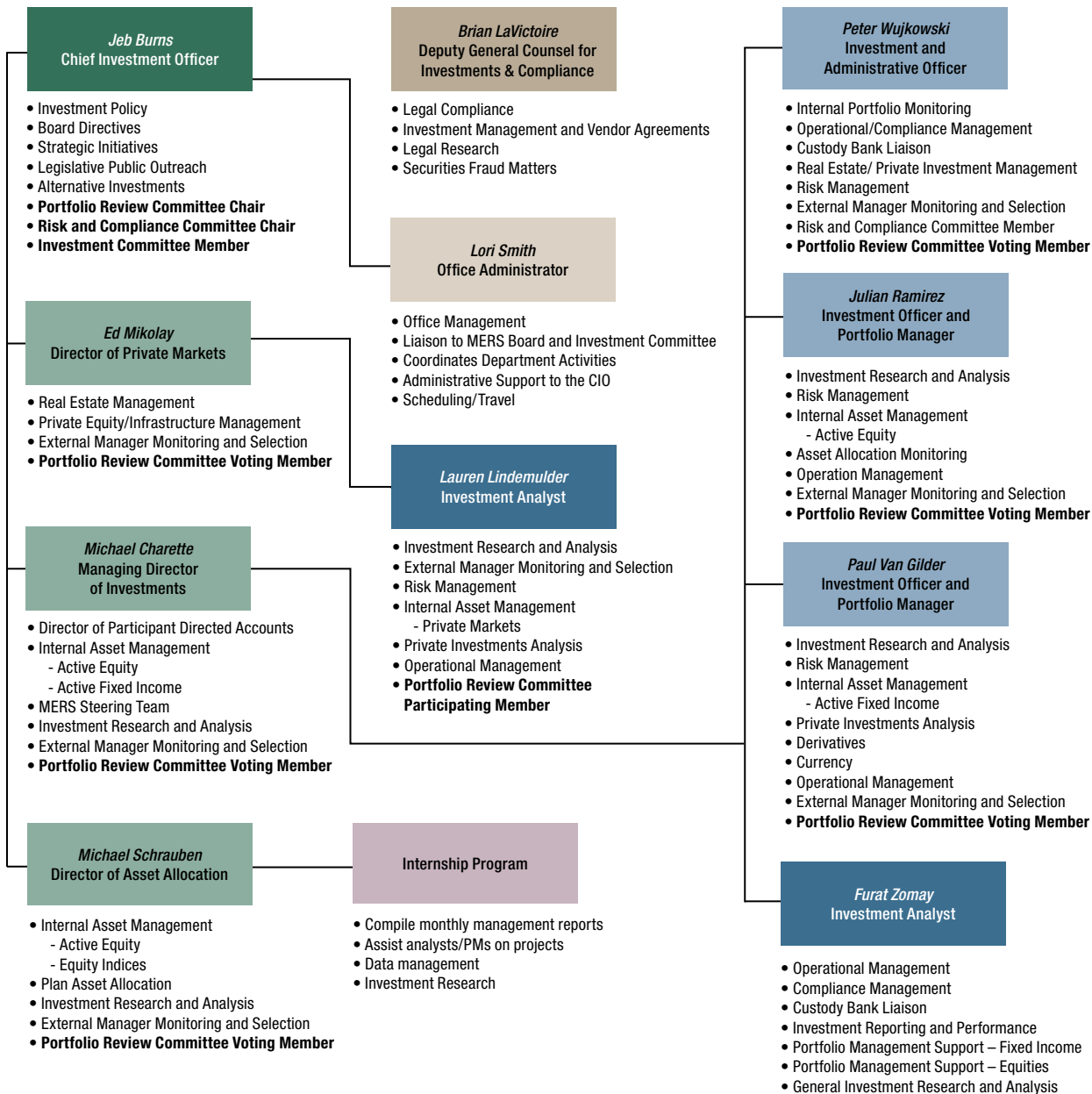
MERS Portfolio Options	Assets	Expense Ratio	1 Year	3 Year	5 Year	10 Year
<b>MERS Total Market Portfolio</b>	\$1,013,680,455	0.56%	2.26	4.10	5.02	7.42
<i>MERS Policy Benchmark</i>			4.72	6.62	6.12	7.64
<b>MERS Global Stock Portfolio (100/0)</b>	\$3,404,940	0.55%	-1.80	4.50	5.93	
<i>Blended Benchmark</i>			2.11	6.14	6.46	
<b>MERS Capital Appreciation Portfolio (80/20)</b>	\$24,315,694	0.49%	-0.05	4.43	5.73	
<i>Blended Benchmark</i>			4.77	7.29	7.31	
<b>MERS Established Market Portfolio (60/40)</b>	\$121,949,601	0.50%	1.98	4.63	5.58	7.48
<i>Blended Benchmark</i>			6.05	6.99	6.70	8.35
<b>MERS Balanced Income Portfolio (40/60)</b>	\$7,262,077	0.51%	3.55	4.65	5.05	
<i>Blended Benchmark</i>			7.14	6.56	5.99	
<b>MERS Capital Preservation Portfolio (20/80)</b>	\$9,169,697	0.49%	4.88	4.75	4.83	
<i>Blended Benchmark</i>			8.09	6.05	5.24	
<b>MERS Diversified Bond Portfolio (0/100)</b>	\$30,870,441	0.52%	4.93	3.81	3.69	3.83
<i>BBG BARG Aggregate</i>			8.74	5.32	4.30	3.82
<b>Total</b>	<b>\$1,210,652,905</b>					

# APPENDIX

## Investment Decision Making Roles and Responsibilities

MERS BOARD	<ul style="list-style-type: none"> <li>Is the System's fiduciary</li> <li>Appoints public members with investment expertise to serve on the Investment Committee</li> <li>Appoints one Board member for two years to observe Investment Committee meetings (observer does not have voting privileges)</li> <li>Monitors activity of the Investment Committee</li> <li>Approves governance documents (Investment Guidelines, Defined Benefit Investment Policy Statement, and Participant Directed Accounts &amp; Institutional Funds Investment Policy Statement)</li> <li>Sets the Fund's asset class allocation ranges</li> <li>Establishes the long-term actuarial investment return assumption</li> <li>Approves the System's Policy Benchmark</li> </ul>
INVESTMENT COMMITTEE	<ul style="list-style-type: none"> <li>Contains three voting Board members, including two public members with investment expertise</li> <li>Includes CEO and CIO (both non-voting members)</li> <li>Serves as the Board's investment policy development arm</li> <li>Monitors investment management activity and policy recommendations developed by the Office of Investments</li> <li>Approves PRC investment recommendations to hire/terminate investment managers above PRC discretionary size limits</li> <li>Provides advice on investment activities including: industry best practices, fiduciary duties, and risk expectations of the Board</li> <li>Monitors portfolio risk and asset allocation</li> </ul>
PORTFOLIO REVIEW COMMITTEE	<ul style="list-style-type: none"> <li>Office of Investments decision making body chaired by the CIO and key Office of Investments staff</li> <li>Voting members are appointed by the CIO</li> <li>Reports decisions to the Investment Committee</li> <li>Determines and implements the Fund's asset allocation within Board approved allocation ranges</li> <li>Approves investments and co-investments up to discretionary size limits</li> <li>Develops and maintains PRC operating guidelines</li> </ul>
OFFICE OF INVESTMENTS	<ul style="list-style-type: none"> <li>Carries out all investment activity on behalf of the System; including policy documentation for Board approval</li> <li>Hires/terminates all consultants, vendors, and custodial bank</li> <li>Provides a quarterly report on the Fund's activities and performance</li> <li>Reports any material changes within the Fund to the Investment Committee and Board</li> <li>Internally manages a portion of the Fund</li> <li>Monitors external investment managers</li> <li>Conducts its affairs in a manner that reflects the highest standards of ethical conduct, and complies with CFA Institute Code of Ethics and Standards of Professional Conduct</li> </ul>
MERS INVESTMENT MANAGEMENT RISK AND COMPLIANCE COMMITTEE	<ul style="list-style-type: none"> <li>Provides investment oversight outside of the Office of Investments, monitors operational market, and regulatory issues that may materially impact portfolio performance or put MERS at risk of regulatory sanctions</li> <li>Promotes cross office discussion regarding varying potential risks including prevention and solutions</li> <li>Consists of CEO, CIO, Chief Financial Officer, Deputy General Counsel for Investments and Compliance, Internal Auditor, Investment and Administrative Officer, and Analysts from the Office of Investments</li> <li>Meets on a quarterly basis</li> </ul>

## Organizational Chart



## Guiding Principles

- Collaborative team environment
- Robust collegial debate and cognitive diversity is critical
- Progressive and willing to deviate from conventional wisdom
- Commitment to continuous improvement and efficiency gains
- Relentless pursuit of fiduciary excellence



*This publication is designed to provide descriptive information only. Investors should research all possible investment choices. Please make independent investment decisions carefully and seek the assistance of independent experts where appropriate. We recommend investors define their goals, risk tolerance, time horizon, and investment objectives to determine whether this fund is appropriate for you.*

*Investors should read the fund summary sheets and carefully consider the investment objective, risks, and fees of the fund before investing. The fund summary sheets may be found on the MERS website at [www.mersofmich.com](http://www.mersofmich.com). To request the fund summary sheets, please contact the MERS Service Center at 800.767.6377.*

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