CIO INVESTMENT REPORT
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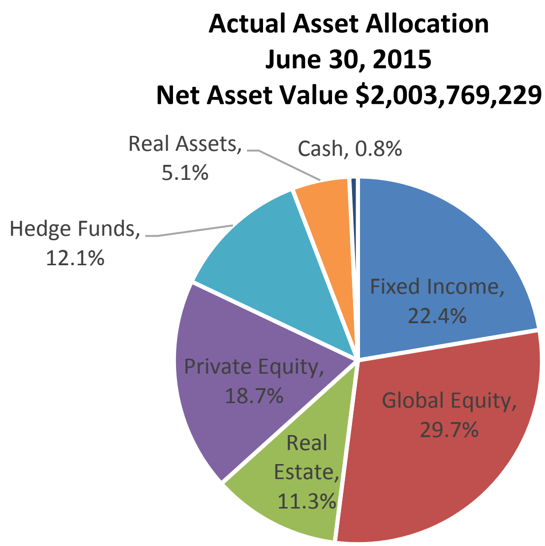
Chief Investment Officer
MPERS Board Meeting – September 24, 2015

Fiscal Year 2015 Investment Performance Report

The complete Fiscal Year 2015 Investment Report is located behind tab 4. NEPC will lead a full review of the report during MPERS' Investment Committee meeting, while a high level summary of the report is provided below.

Big Picture Perspective on Investment Performance:



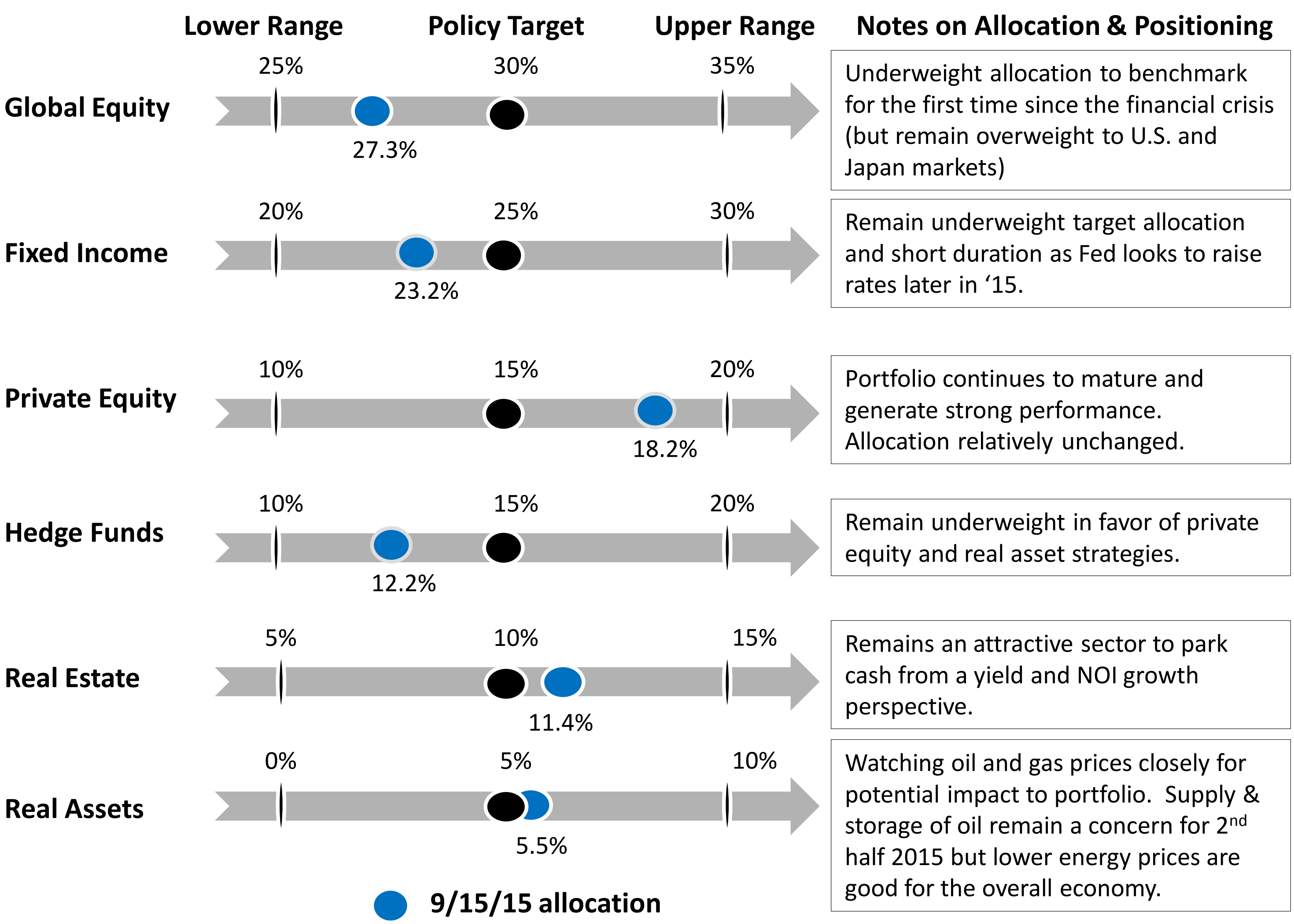
1-year Return:	6.61%
Benchmark:	5.20%
Excess Return:	1.41%
3-year Return:	12.45%
Benchmark:	9.84%
Excess Return:	2.61%
5-year Return:	12.21%
Benchmark:	9.77%
Excess Return:	2.44%
10-year Return:	7.20%
Benchmark:	6.91%
Excess Return:	0.29%

- MPERS' investment portfolio posted a 2.2% return for the 2nd quarter of 2015, which ranked in the top 1% of the public fund peer universe. The strong quarter pushed MPERS' fiscal year 2015 return to 6.61%, which also ranked in the top 1% of the peer universe. Longer-term performance remains equally impressive, with the 5 and 10 year returns ranking in the top 2% and 6%, respectively.
- Fiscal year 2016 has started off a much weaker tone, as global equity markets are down roughly 7% since July 1st on concerns over falling economic growth. The U.S. and China have clearly been the primary drivers of global economic growth over the past decade. With China's economy slowing, and the U.S. on the verge of raising interest rates to curtail inflation, the global economy is struggling to find new sources of growth. To make matters worse, U.S. Government bonds – which have been the best diversifier to falling equity markets in recent years – have offered little protection against the falling equity markets. While the alternative asset classes have provided an element of diversification, MPERS' portfolio is still down roughly 1.6% thus far in fiscal year 2016 (July 1st – September 15th). We remain hopeful that the falling commodity prices (especially oil) will serve as a tax break to consumers and lower production costs for employers – which should improve profit margins and earnings for public companies over the long run.
- With the combination of high valuations, lack of growth, and potentially rising rates, we've shifted MPERS' portfolio to an underweight position in equities for the first time in several years. The current positioning of the portfolio is detailed on the following page.

- **Current Asset Allocation Overview / Positioning Relative to Targets**

  At the June 18th Board meeting, we highlighted our growing concern over valuations in the equity markets and a subsequent movement back to a neutral weighting to equities. Those concerns became a reality much sooner than expected, as equity markets are down roughly 7% since July 1, 2015. With the increased market volatility, we've further reduced MPERS' equity exposure to an underweight position (relative to policy targets) for the first time since the financial crisis. The combination of falling global growth in the face of the Federal Reserve wanting to raise U.S. interest rates remains a big concern, and we expect to maintain the underweight status until we have more clarity on those issues. The proceeds from reducing MPERS' equity exposure went to the cash account, which now stands at $45 million, or 2.3% of assets.

  The chart below details MPERS' current asset allocation relative to policy targets, along with a brief narrative on the rationale behind the positioning. As of September 15, 2015, each of MPERS' sub-asset class allocations are within the acceptable ranges established by the investment policy.



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