

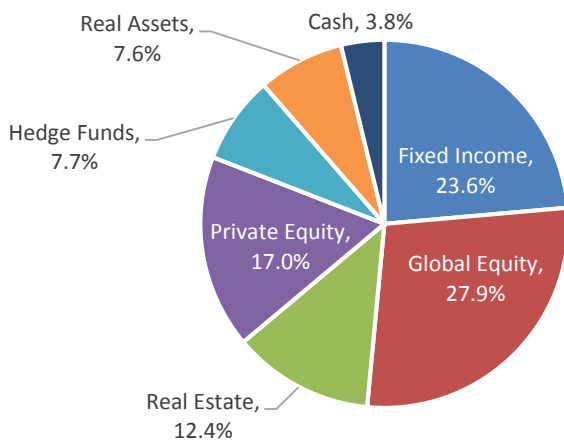


3rd Quarter 2016 Investment Performance Report

NEPC will present MPERS' 3rd quarter 2016 performance report. A high level summary of the report is provided below.

Big Picture Perspective on Investment Performance:

Actual Asset Allocation
September 30, 2016
Net Asset Value \$2,030,160,408



1-year Return:	6.26%
Benchmark:	<u>7.78%</u>
Excess Return:	-1.52%
3-year Return:	7.80%
Benchmark:	<u>6.77%</u>
Excess Return:	1.03%
5-year Return:	9.86%
Benchmark:	<u>8.54%</u>
Excess Return:	1.32%
10-year Return:	5.82%
Benchmark:	<u>5.78%</u>
Excess Return:	0.04%

- The investment portfolio kicked off fiscal year 2017 on a strong note, posting a 2.9% return in the quarter ending September 30, 2016. All major asset classes posted gains during the quarter, led by the global equity markets which continued to rebound from the Brexit-induced selloff in June and ended the quarter near all time highs.
- Longer term performance remains solid relative to policy benchmarks and the public fund peer universe. Despite our difficulty over the past year, MPERS' three year return ranks in the top 1% of the peer universe, and both the five and ten year returns rank at/near the top quartile of performance. MPERS' ten year risk profile continues to rank at the bottom 24% of our peers (with risk defined by standard deviation of returns).
- The surprise election of Donald Trump as the next president of the United States has dominated the financial markets thus far in the fourth quarter. After selling off sharply throughout the election night, global equity markets have rallied strongly after a soothing acceptance speech and bi-partisan support to encourage a peaceful transition of power. Fixed income yields remain elevated however, as investors price in higher inflation risks with Trump's fiscal spending plan.
- Looking forward, the markets will be paying close attention to who president-elect Trump surrounds himself with in terms of advisors and key cabinet positions. There remains a lot of geo-political risk coming from a Trump presidency, especially as it relates to U.S. relations with Mexico and China.
- As of November 10th, MPERS fiscal year to date return (July 1st – November 10th) stands at an estimated 2.0%. With equity markets once again trading near all-time highs and interest rates on the rise after Trump's victory, we continue to maintain a defensive posture with the investment portfolio. The current positioning of the portfolio is detailed on the following page.

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

Donald Trump’s surprise presidential victory has done little to change our view of the current market environment. Most of our research suggested that a Trump victory would lead to widespread uncertainty and a considerable sell-off in global equity prices (in the 5-10% range). But after a knee-jerk, flight to quality selloff during the night of the election (after-hours trading only), equity markets quickly recovered and are now once again approaching all time highs. We were fully prepared to increase MPERS’ equity exposure had the markets sold off as expected, but without the selloff we’ve opted to maintain the current positioning of the portfolio. The market is clearly viewing the prospects of a Republican President, House, and Senate as favorable to corporate America, on the hopes President-elect Trump can deliver on his promises of lower corporate income tax and reduced regulatory burdens for small businesses. While we don’t disagree with this thesis, there remains a lot of uncertainty surrounding whether President-elect Trump can deliver on these promises, and whether his policies will actually spur a new phase of economic growth. Together with interest rates rising (prices falling) on Trump’s inflationary fiscal plan, we continue to maintain a cash balance of roughly \$85 million (or 4.2% of assets) with the goal of deploying that cash as market opportunities present themselves.

Listed below are some key movements and initiatives with the portfolio, along with the current positioning relative to policy targets.

