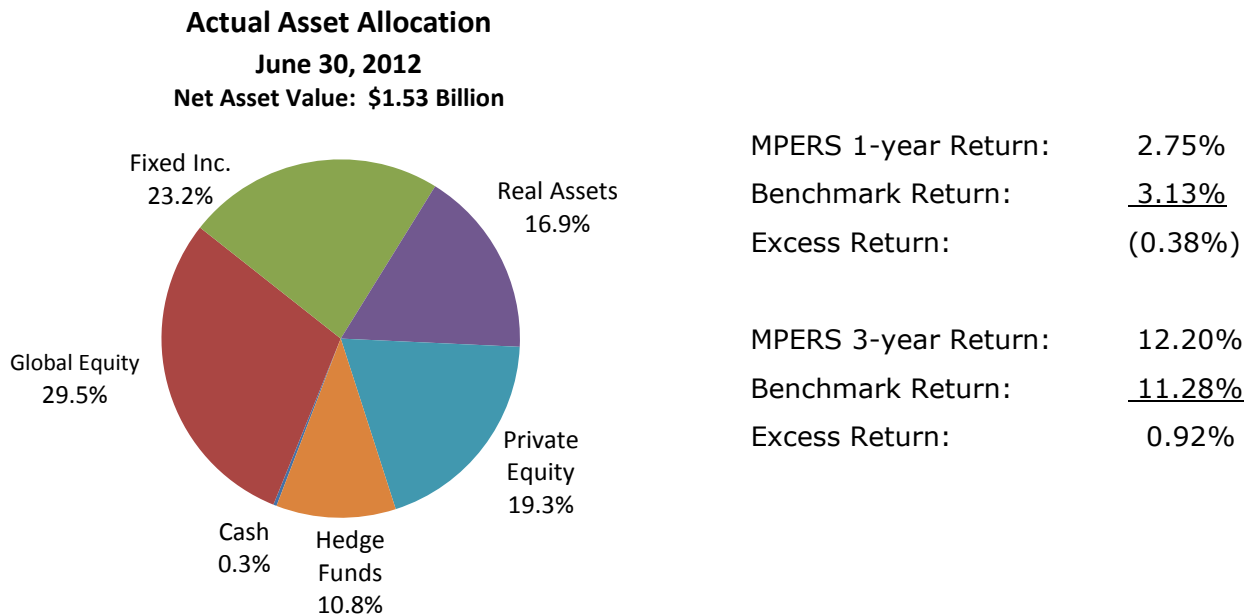


• **2nd Quarter 2012 Investment Performance Report (Fiscal Year 2012)**

Kevin Leonard from New England Pension Consultants (NEPC) will present the finalized fiscal year 2012 investment performance report (provided under Tab 7). My high-level comments and themes from the report are listed below.

Big Picture Perspective on Fiscal Year 2012 Investment Performance:



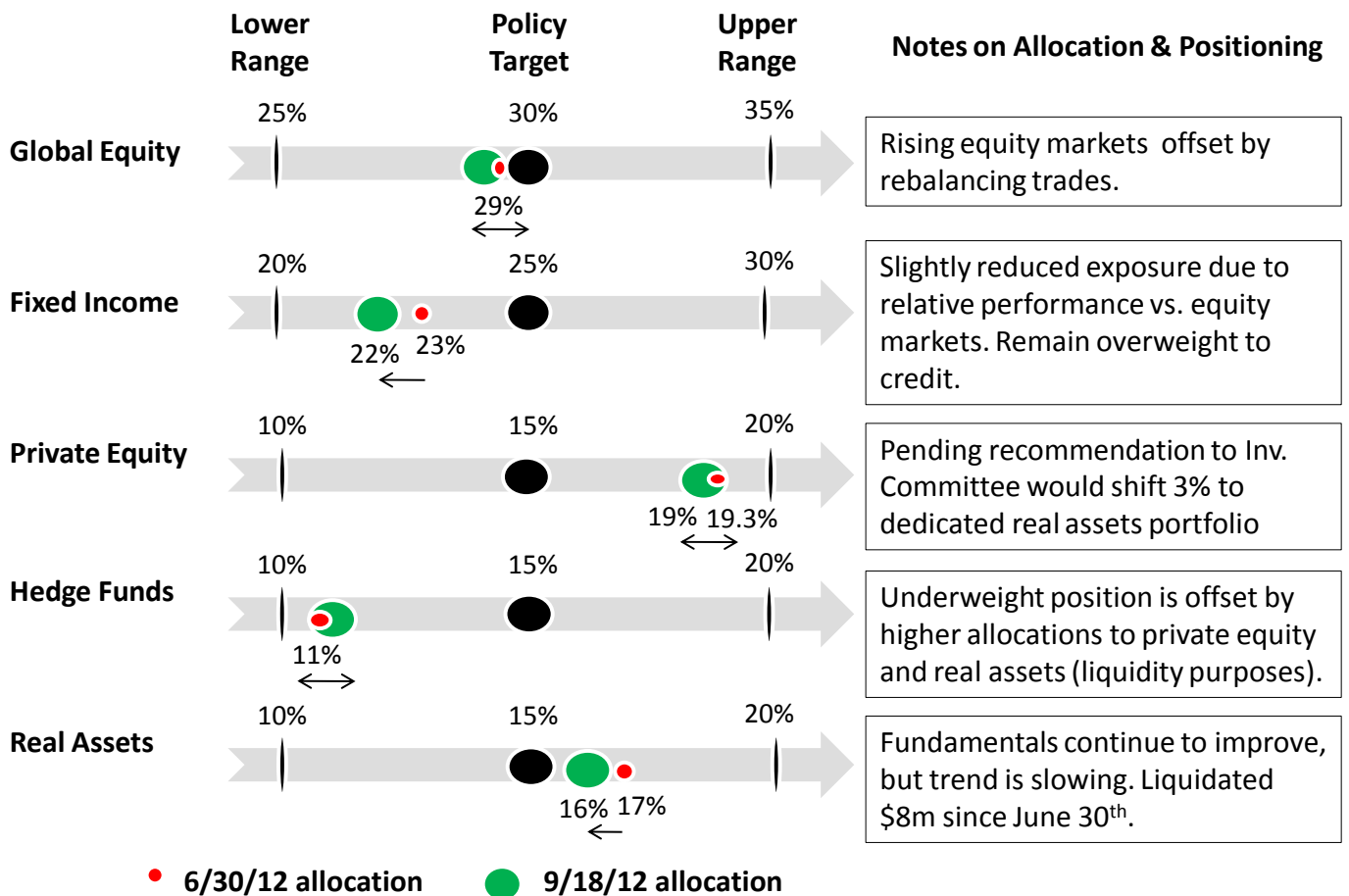
- The portfolio continues to perform very well versus the peer universe for all periods out to three years. The three-year performance of 12.2% ranks in the top 29% of the peer universe, the one-year return of 2.75% ranks in the top 20%, while the 3-month return of 0.5% ranks in the top 1% of the universe.
- Although the fiscal year 2012 return failed to meet the actuarial return hurdle of 8.25%, MPERS' 3-year performance of 12.2% remains safely above the actuarial target.
- The fiscal year return of 2.75% was produced in a year when global equities lost 6.5%, highlighting the recent efforts to diversify the portfolio and reduce the dependence on equity markets to deliver returns.
- The Investment Committee will meet prior to the full Board meeting. The agenda includes a review of the real estate/real assets portfolio and a presentation on MPERS' manager selection process. Both presentations are provided under separate cover, with your other mailout material, and we encourage all Board members to attend.

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

Listed below is a chart showing MPERS’ current asset allocation relative to policy targets, and the change in allocation since June 30, 2012. Gains in the equity markets have been offset by rebalancing activities to maintain an overall neutral position relative to policy targets. We have also redeemed roughly \$8 million from MPERS’ real estate portfolio for rebalancing purposes. As we approach the maximum permissible range for the private equity portfolio, NEPC and staff will present a proposal at the Investment Committee meeting to carve out/shift roughly 3% of the private equity portfolio (invested primarily in infrastructure and energy investments) into a dedicated real assets allocation.

While not listed on the chart below, we have also built up a meaningful cash position of \$45 million, or 3% of assets, since June 30th. Two manager transitions partially explain the positioning, but it’s also a conscious decision to defensively position the portfolio given the political and economic uncertainty that remains in the market.

As of September 18, 2012, each of MPERS’ sub-asset class allocations are within the acceptable ranges established by the investment policy.



- **Update on Investment Performance (July 1st – September 18th)**

With the help of the U.S. Federal Reserve and European Central Bank pledging unlimited support to their respective economies, MPERS' investment portfolio is off to a nice start to fiscal year 2013. Listed below are the estimated investment returns for MPERS' major asset classes for calendar year 2012 and fiscal year 2013. You will note that all five major asset classes have generated positive returns thus far in the respective periods.

	Estimated	Estimated	Estimated	Allocations	
	CYTD 2012	FYTD 2013		09/15/12	Actual
	Return	Return	Mkt Value		
Total Fund Return	9.49%	3.80%	1,577,978,909	100.0%	100.0%
Policy Benchmark (est.)	10.53%	2.84%			
Global Equity	13.70%	8.64%	459,475,590	29.1%	30.0%
Fixed Income	7.49%	1.58%	351,268,030	22.3%	25.0%
Real Estate	9.76%	2.62%	253,799,100	16.1%	15.0%
Private Equity	8.10%	0.87%	299,397,452	19.0%	15.0%
Hedge Funds	5.08%	3.32%	169,220,858	10.7%	15.0%
Cash			44,817,879	2.8%	0.0%

- **One-Year Anniversary with NEPC/Draft Work Plan Going Forward**

June 30th marked the end of our first official year working with NEPC. Despite the typical growing pains consistent with any new relationship, a lot was accomplished during the year and the relationship is going well. Key tasks and initiatives completed during the year include:

- Established formal guidelines for MPERS' internal fixed income portfolios (Sept. 2011)
- Reviewed MPERS' private equity portfolio and completed a pacing model for future commitments (Nov. 2011)
- Completed annual asset allocation review and accompanying liquidity study (Feb. 2012)
- Reviewed MPERS' hedge fund portfolio (April 2012)
- Reviewed MPERS' opportunistic debt portfolio and completion of a pacing model for future commitments (June 2012)
- Reviewed MPERS' real estate/real assets portfolio (Sept. 2012)

Going forward, the following projects and topics are scheduled for discussion with NEPC:

November 2012 Board/Investment Committee Meetings

- Review investment performance report
- Follow up presentation from September 27th meeting on commitments/pacing model for real estate and real assets portfolio
- Semi-annual Investment Committee review of MPERS' internal fixed income portfolio

February 2013 Board/Investment Committee Meetings

- Review preliminary investment performance report
- Annual asset allocation review and accompanying liquidity study