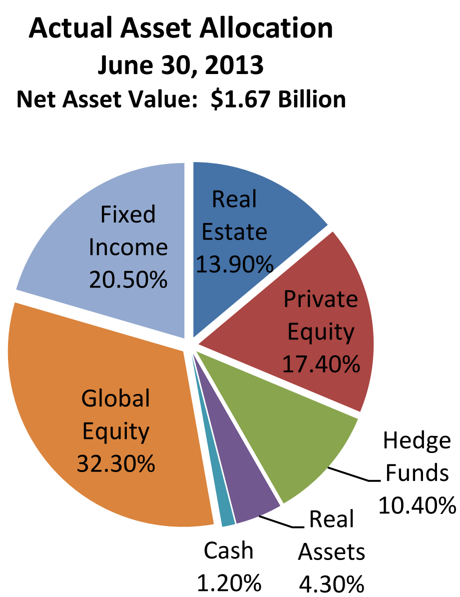
CIO INVESTMENT REPORT
~ by Larry Krummen, CFA ~
Chief Investment Officer
MPERS Board Meeting – September 26, 2013

- **Fiscal Year 2013 Investment Performance Report**

Kevin Leonard from New England Pension Consultants (NEPC) will present the Fiscal Year 2013 investment performance report (provided under Tab 5). My high-level comments and themes from the report are listed below.

Big Picture Perspective on Investment Performance:



1-year Return:	13.42%
Benchmark:	10.05%
Excess Return:	3.37%
3-year Return:	12.37%
Benchmark:	9.79%
Excess Return:	2.58%
5-year Return:	3.82%
Benchmark:	4.53%
Excess Return:	(0.71%)
10-year Return:	7.38%
Benchmark:	7.33%
Excess Return:	0.05%

- NEPC's performance report now includes 10 year (net of fees) return comparisons where applicable.
- The fund continues to perform very well, both from an absolute and relative performance perspective. MPERS' one, three, and ten year returns all rank in the top quartile of NEPC's public fund peer universe.
- The Investment Committee will meet prior to the full Board meeting to see a preview of MPERS' restructured public equity portfolio (both the domestic and international equity portfolios). Staff and NEPC recently completed a top-down review of the portfolio to ensure it is consistent with our goals and views of the equity market. We expect to transition assets among the new managers at the end of the quarter (September 30).
- We are also off to a nice start for FY2014. As of September 15th, the estimated performance stands at 2.53% (July 1 – September 15).

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

  Below is a chart showing MPERS' current asset allocation relative to policy targets. We remain at or near the lowest permissible range in fixed income (in favor of equities) given the rising interest rate environment. The yield on the 10 year Treasury bond has increased to roughly 3% (up from 1.60% on May 1st) as investors factor in the gradual tapering of Federal Reserve stimulus. The primary concern behind tapering is that without the backstop of demand from the Federal Reserve, yields will have to rise sharply to attract new buyers. As we see more clarity surrounding the Fed's tapering program, we expect interest rates will stabilize and the fund will move closer to the targeted fixed income allocation.

  As of September 15, 2013, each of MPERS' sub-asset class allocations are within the acceptable ranges established by the investment policy. Approximately 2.5% of the fund is sitting in cash.