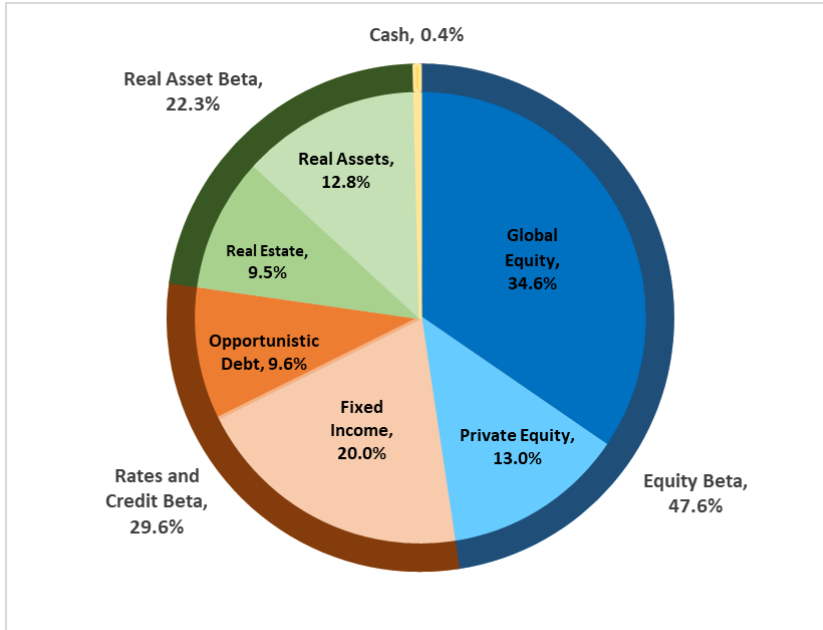


Investment Performance Report

NEPC will present MPERS’ Fiscal Year 2023 investment performance report. A high-level summary of the report is provided below.

MPERS’ Asset Allocation September 30, 2023 Market Value \$3,258,749,274

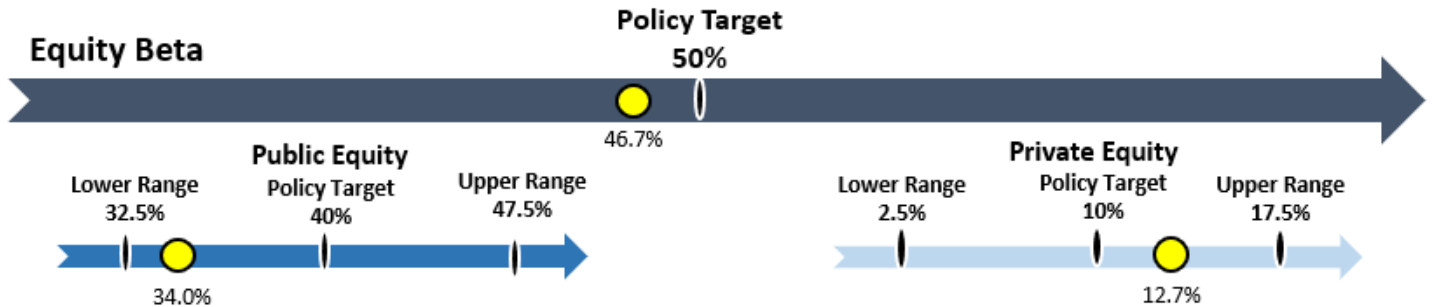


| | |
|-------------------|---------------|
| 1-Year Return: | 10.23% |
| Benchmark Return: | <u>10.92%</u> |
| Excess: | -0.69% |
| 5-Year Return: | 8.88% |
| Benchmark Return: | <u>6.56%</u> |
| Excess: | 2.32% |
| 10-Year Return: | 8.81% |
| Benchmark Return: | <u>7.11%</u> |
| Excess: | 1.70% |
| 20-Year Return: | 8.16% |
| Benchmark Return: | <u>7.27%</u> |
| Excess: | 0.89% |

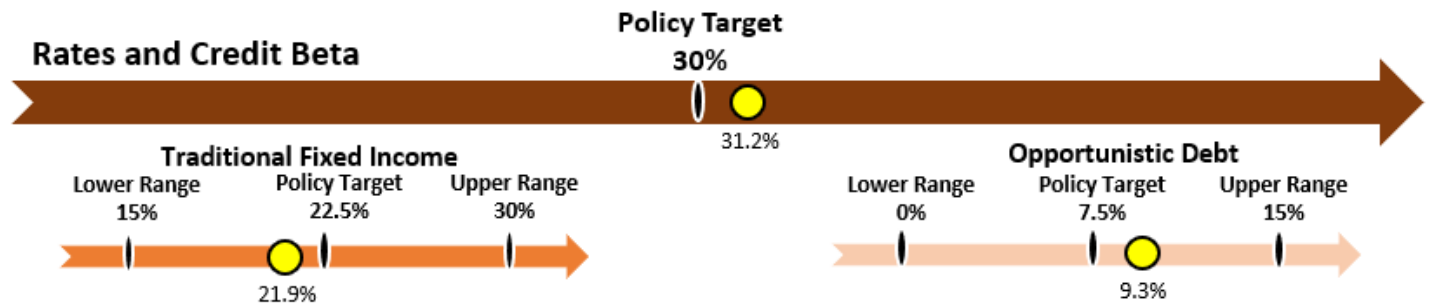
- Financial markets weakened during the 3rd quarter of 2023 over concerns that inflationary pressures and higher interest rates will push the economy into recession. Global equity markets lost 3.40% during the quarter, and traditional fixed income markets were down 3.00% as well. MPERS’ diversified portfolio fared reasonably well relative to public markets, posting a loss of 0.26% during the quarter.
- MPERS’ one-year return of 10.23% looks promising on an absolute basis but trails the policy benchmark of 10.92% and the median fund return of 10.90%. Despite the recent market weakness, global equities are still up 20.8% for the past year, benefiting systems with higher equity exposure relative to MPERS. This also creates a very high bar for the private equity portfolio, which was up 5.25% over the past year versus the benchmark of 23.23%.
- MPERS’ long-term returns continue to look strong relative to any metric. The 5-, 10-, and 20-year returns all exceed the actuarial hurdle and policy benchmarks, and all rank in the top 1% of the public fund peer universe. The risk-adjusted returns (measured by a system’s Sharpe ratio) also rank in the top 1% of the peer rankings.
- Financial markets remain volatile but have rebounded in recent weeks on optimism the Federal Reserve is nearing the end of interest rate hikes and will successfully navigate a soft landing for the economy. MPERS’ overall return remains relatively flat to start Fiscal Year 2024 and currently stands at 0.34% (July 1st – November 7th).

Current Asset Allocation and Positioning Relative to Targets

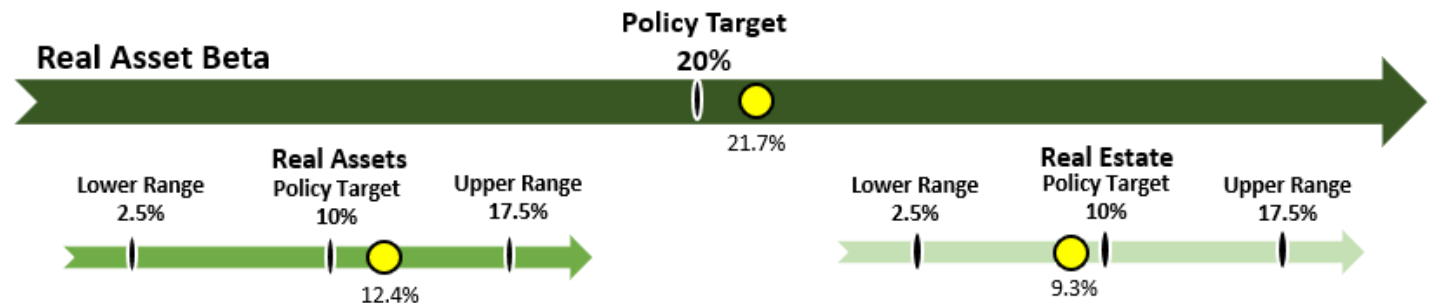
The current allocation relative to policy targets, along with additional comments on the positioning of the portfolio, are provided below. As of November 6, 2023, each of the respective allocations are within the permissible ranges established in MPERS' Investment Policy. Total fund leverage currently stands at 11.0% of assets.



Staff continues to take a cautious approach to the public equity markets, as the strong performance in calendar year 2023 has pushed valuations to less attractive levels. Given the uncertainty of the impact that higher interest rates will have on the economy, staff would prefer to stay defensive and wait for more attractive entry points in the future.



Bond yields continue to trend higher as the Federal Reserve further increased the Fed Funds rate to curb the stubborn inflationary environment. Both the 10-year and 30-year Treasury notes reached yields of 5% before falling back to 4.6% in recent weeks. Staff took advantage of the increase in yields to purchase government-guaranteed mortgages yielding over 6.5%, which brought MPERS' traditional fixed income allocation closer to policy targets. We expect to continue allocating capital to fixed income if yields stay at or above the current levels.



The real assets portfolio continues to be the staff's preferred asset class for new investments, as it continues to benefit from the current inflationary environment. The timber portfolio's five-year return of 17.4% is MPERS' highest returning asset class over that period.