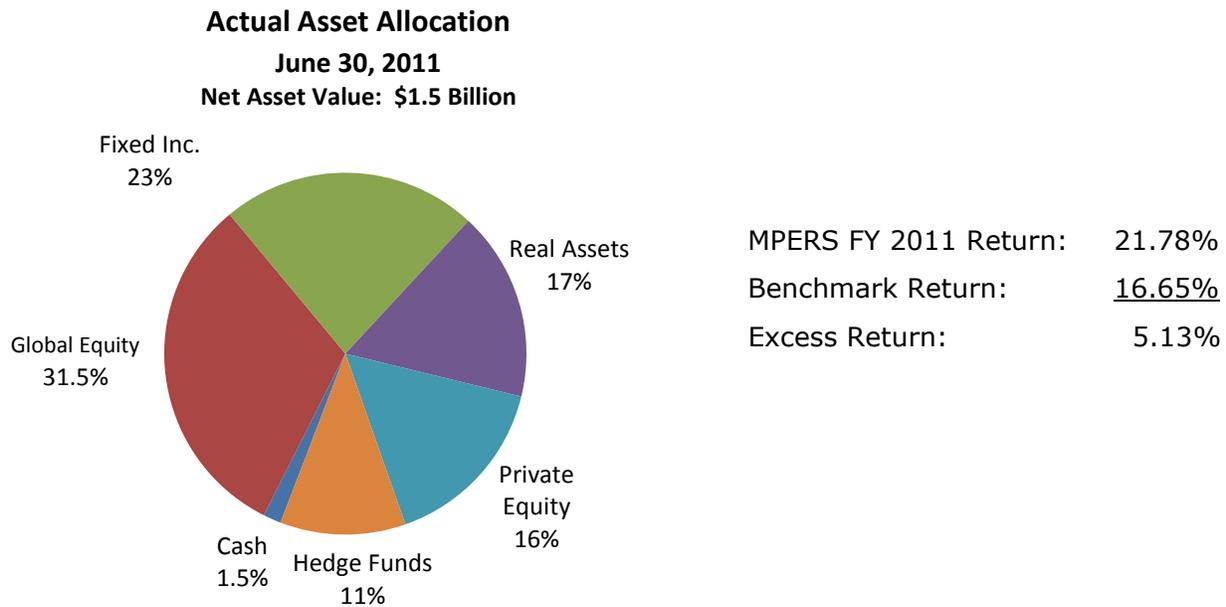


• **Fiscal Year 2011 Investment Performance (2nd quarter 2011 report)**

Larry Kruppen will present the investment performance report for the 2nd quarter of calendar year 2011, which represents the finalized performance for FY2011. The full report is provided under Tab 8.

Big Picture Perspective on Fiscal Year 2011 Performance:



- Fiscal year 2011 was an excellent year for MPERS' investment portfolio, both from an absolute and relative return perspective. The 21.8% return was the highest investment return since fiscal year 1986, and outperformed the Policy Benchmark return by 5.13%.
- Performance was strong across all five major asset classes, with global equities leading the way with a 32% return. Fixed income generated the lowest return, but still produced a healthy 8.5% return for the year. MPERS' private equity portfolio was the only sector that did not outperform its' respective benchmark. The private equity portfolio remains very immature, but did generate a healthy 17% return for the year and we are optimistic about returns in the space going forward.
- The transition to New England Pension Consultants (NEPC) is progressing as planned. The first order of business was a review of MPERS' fixed income portfolio, where NEPC is recommending an allocation to Emerging Markets Debt (EMD) to both increase diversification and expected return in the sector. The Investment Committee reviewed NEPC's proposal on the topic at the September 12th meeting and recommended that staff and NEPC further explore the role of EMD in the portfolio in conjunction with the annual asset allocation review scheduled in 1st quarter of 2012. A draft work plan of projects and discussion topics with NEPC is included at the end of this report.

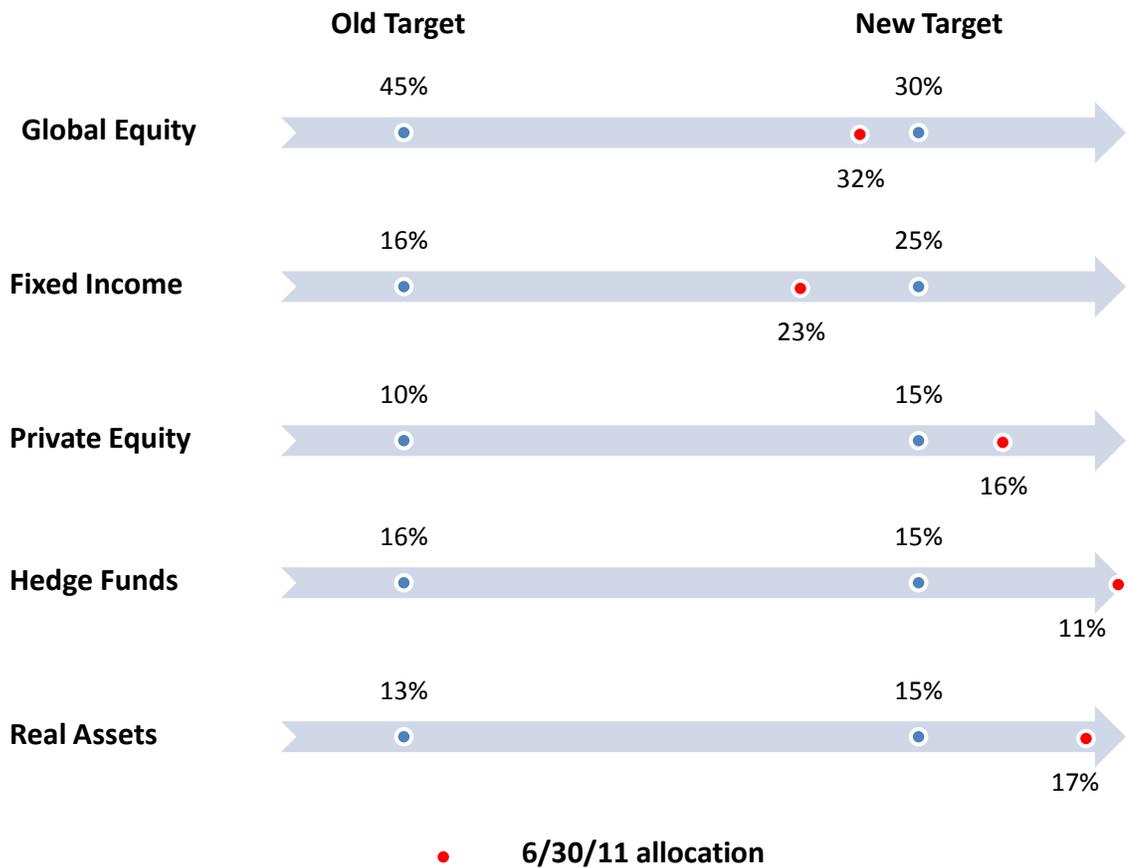
• **Progress Towards New Asset Allocation Targets**

I am pleased to report we have completed the transition to the revised asset allocation targets approved in June of 2010 – much sooner than initially forecast. Allocations to each asset class are within the permissible ranges established in MPERS’ investment policy. Going forward, any overweights or underweights relative to target allocations will be a conscious decision based on our views of the market.

Key activities and takeaways from the quarter include:

- A significant amount of capital was called during the quarter for private equity commitments, taking us above the revised target of 15%. We expect private equity to rise well above the targeted allocation in the coming years, before falling back to target, as the portfolio matures and the underlying investments are sold.
- We continue to build out the internal fixed income portfolios, but expect to remain underweight in the overall fixed income sector until interest rates became more attractive.
- The allocation to hedge funds remains below target, but we are reviewing a number of managers that, if hired, would bring us closer to the targeted allocation.
- We remain overweight to the real estate sector to capitalize on the continued recovery in the commercial real estate market.

The chart below illustrates our progress over the past six months.



- **Update on Investment Performance (July 1st – September 16th)**

Equity markets have sold off considerably since July 1st, as the economy continues to suffer from weak growth, high unemployment, and the European Debt Crisis. MPERS' reduced allocation to the equity markets has limited losses to some extent, but MPERS' portfolio is still down an estimated 3.3% thus far in FY2012 (July 1st - September 16th). Global equity markets are down 11.6% over the same period. Listed below are the estimated investment returns for MPERS' major asset classes for the period, along with their respective benchmark returns.

	FYTD Return	CYTD Return	Estimated 09/16/11 Mkt Value	Allocations	
				Actual	Target
MPERS Total Fund Return	(3.32%)	3.37%	1,486,551,896	100.0%	100%
<i>Total Fund Benchmark</i>	(3.07%)	2.83%			
Global Equity	(10.87%)	(6.15%)	426,889,940	28.70%	30.00%
<i>Benchmark (MSCI ACWI)</i>	(11.60%)	(7.20%)			
Fixed Income	1.97%	7.36%	362,536,149	24.40%	25.00%
<i>Benchmark (Barclays Universal)</i>	2.93%	5.93%			
Real Estate	(2.11%)	9.85%	260,072,759	17.50%	15.00%
<i>Benchmark (NCREIF Property Index)</i>	0.00%	7.43%			
Private Equity	0.11%	12.62%	253,145,316	17.03%	15.00%
<i>Benchmark (S&P 500 + 3%)</i>	0.85%	20.03%			
Hedge Funds	0.19%	0.65%	182,137,966	12.25%	15.00%
<i>Benchmark (HFRI Fund of Funds)</i>	(2.31%)	(2.63%)			
Cash			1,769,765	0.12%	0.00%

- **Draft Work Plan with NEPC**

Listed below is an outline of projects and topics scheduled for discussion over the coming months with NEPC.

September – October 2011

- Review and finalize formatting of NEPC's performance reporting package (conference call with Investment Committee planned for early November)
- Continue review of MPERS' fixed income portfolio

December 2011 Board and Investment Committee Meetings

- Review 3rd quarter investment report (including feedback on format)
- October/November performance update
- Potential discussion of pacing of private equity portfolio
- Investment Committee review of private equity portfolio (with Grove Street Advisors)

February 2012 Meetings

- Review 4th quarter investment performance
- January performance update
- Asset allocation review
- Liquidity analysis
- Investment Committee review of hedge fund portfolio (tentative – specific asset class subject to change)