

**Municipal Police Employees' Retirement System
Minutes of the Meeting of the Investment Committee
August 20, 2024**

The Investment Committee of the Municipal Police Employees' Retirement System held a Regular Meeting on Tuesday, August 20, 2024.

A. Call to Order

The meeting was called to order by Major Raymond Burkart Jr. at 2:02 pm.

B. Roll Call

Members Present

Major Raymond Burkart, Jr.
Mr. Julius Roberson

Members Absent

Major (Retired) Kelly Gibson, Chair
Mayor Greg Cromer
Chief Christopher Wilrye

Others Present

Chief Beth Westlake (virtual)
Mr. Benjamin Huxen II, MPERS Executive Director and General Counsel
Ms. Taylor Camp, MPERS, Chief Financial Officer
Ms. Emily Thurston, Accountant
Ms. Melissa Frazier, MPERS, Benefits Administrator
Mr. David Barnes, NEPC, Investment Consultant
Mr. Tyler Brannan, Curran Actuarial Consulting
Ms. Melissa Cahill, HarbourVest
Mr. Ed Powers, HarbourVest
Mr. Michael Dean, HarbourVest
Mr. Joe Ebisa, With Intelligence (virtual)
Ms. Lindsay Saienni, FIN News (virtual)

Major Burkart recognized that the committee did not have a quorum of members present. Therefore, although they would proceed with the meeting, they would not be legally able to take any action.

C. Public Comment

Major Burkart called for public comments. There were no public comments.

D. Approval of the March 20, 2024 Committee Meeting Minutes

Without a quorum, the committee could not take action to approve the minutes.

E. New Business

1. NEPC Report on Investments (Qualifies as Investment Training)

Mr. Barnes gave the performance update. He stated that the system ended July with just over \$2.8 billion in assets, which represented an increase in market value of \$63.9 million, or an investment return for the month of July at positive 2.3%. He stated this put the one-year return at positive 10.2%, and he noted this was the first month in the new fiscal year. Mr. Barnes stated they saw soft inflation readings and the June inflation number was negative. He noted this was the first negative month-over-month reading since May of 2020. He stated this sparked a rotation in the market. Mr. Barnes stated that small cap stocks out-performed large cap and that value stocks returned back to favor and significantly out-performed growth stocks. He stated that the S&P 500 reached 30 all-time highs and that was driven by the big tech companies, particularly anything related to artificial intelligence. Mr. Barnes said that AI companies like NVIDIA were up 154% in the first half of 2024 and grew to over \$3 trillion in market cap. Mr. Barnes stated that they saw a reversal of that in July with the big tech companies falling, and those companies that have been out of favor, particularly the value companies, rotating to out-perform. Mr. Barnes stated that this benefited the MPERS portfolio during the month of July because the system has a large cap value component to diversify away from all the big tech companies. Mr. Barnes noted the small cap portfolio slightly underperformed the broader small cap market. He reviewed that LSV, the system's value manager, had strong returns at positive 10.8% in the month of July alone. He did note that it lagged in the large cap, as well as slightly lagged in the international portfolio. Mr. Barnes said we had a good performance from William Blair and KBI. Mr. Barnes stated that they slightly underperformed the international value market, but still posted a decent return of almost positive 3%. Mr. Barnes stated the emerging market portfolio kept pace with the broader emerging markets. Mr. Barnes then reviewed the fixed income portfolio and stated it generally kept pace with the broader bond market and global bond market. Mr. Barnes noted that if looking at all the managers, they generally performed in line with their perspective benchmarks. This ended Mr. Barnes' comments on the monthly performance update.

Mr. Barnes went on to discuss the private equity report. He reminded the Board that the private equity is on delayed reporting, meaning he would be reporting for March 31st and not June 30th. He noted that the three-month return was positive 1.9% and the one-year return was positive 8%. Mr. Barnes stated that since the inception of this program the system had earned about 14.8% annually on the average dollar invested in the program.

Mr. Burkart asked about the impact of people returning to offices. Mr. Barnes stated that this affected the real estate portion of the portfolio.

Mr. Barnes asked the Board to look at the HarbourVest Frenchman Street Fund Tranche I. Mr. Barnes stated this was the manager that was hired to take over both the investment and the operational management of the private equity portfolio. Mr. Barnes stated that they have done a really good job as they've averaged about 14.5% a year on every dollar that's been invested in the program. Mr. Barnes noted they are the manager that was coming in to present to the committee later in the meeting about managing a new component of the private market's portfolio. Mr. Barnes asked if there were any questions before moving on, and there were none.

2. NEPC Real Assets Infrastructure Overview (Qualifies as Investment Training)

Mr. Barnes began by reviewing the presentation given at the October meeting of last year on the real assets portfolio. The real assets portfolio was made up entirely of real estate, primarily core real estate, which means high quality properties with low vacancy rates, high quality tenants that generate not a lot of capital appreciation, but a good income return. He stated this was an area of the portfolio that had been plagued by the office portion of the portfolio. Mr. Barnes stated they couldn't make any moves in the portfolio because they weren't giving anything back due to them having no liquidity available. Mr. Barnes stated they began preparing for transitioning out of this and into something with a higher return expectation. He stated that the first step of this transition was to move away from that real estate, particularly the core real estate component, and into what they call private real assets infrastructure.

Mr. Barnes then addressed Mr. Burkart's earlier question by stating that they were beginning to see people returning to work in offices. Mr. Barnes spoke on infrastructure allocation and the transition out of core real estate and into private real assets infrastructure. Mr. Barnes recommended trimming the core real estate portfolio allocation from 7% to 4%, which the Board had approved in the past. Mr. Barnes stated that there were a couple of reasons for this recommendation. One, he explained, is keeping the inflation protection that real estate was expected to provide. Mr. Barnes said the second reason was that the infrastructure allocation would improve the expected return of the portfolio. Mr. Barnes went on to explain that the forecast over the next 10 years for infrastructure was a 6.5% annual return with real estate at less than 5.5%. Mr. Barnes noted that the change would allow MPERS to pick up some additional return and keep a stable component with good cash flows that are tied to inflation. From here, Mr. Barnes explained that they began looking at how to

implement this and how to find managers to invest these assets in this type of investment.

Mr. Barnes posed a question to the Board: What are real asset infrastructures? He outlined them as hard assets that are recognized in several forms: real estate, infrastructure, timber, etc. These are all tied to inflation and have meaningful cashflow streams and tend to be long duration assets. Mr. Barnes explained that there are four infrastructure sub-sectors: transportation, energy & utilities, communications, and social services. Transportation includes toll roads, bridges, tunnels, airports, seaports, and railroads. Communications were noted by Mr. Barnes as the largest growing and includes wireless towers, satellites, fiberoptics, and cable networks. Mr. Barnes stated that social services included education facilities, healthcare facilities, and courthouses. Mr. Barnes noted that real asset infrastructures tend to be monopolistic.

Mr. Barnes said that NEPC could make recommendations each year for new investments in this area, but this would be a drain on the Board's time. He also mentioned it would be a drain on the staff. Mr. Barnes said it would be a similar problem to what was faced in the private equity portfolio.

Mr. Barnes stated that NEPC rated HarbourVest as a really attractive private infrastructure manager. He said they can take the existing fund-of-one and have HarbourVest add an additional tranche to it. He stated that NEPC modeled the commitment for reaching a 3% target. NEPC suggested taking the next 4 years to build out a commitment of \$70 million. He explained that they would provide this in the same fund of one structure at the 10 basis points per year fee. Mr. Barnes noted they wanted to begin by putting 30% of the portfolio into their infrastructure secondary fund where they're buying infrastructure investments at a discount from already existing funds. He explained that this would lead to early diversification. It's buying funds from different years. Mr. Barnes said it would generate early cash flows because these funds are not just beginning.

3. HarbourVest Partners' Frenchman Street Infrastructure Proposal (Action Item and Qualifies as Investment Training)

Ms. Melissa Cahill introduced herself as the lead contact for MPERS at HarbourVest and stated that she has been with the firm for about 5 years. She introduced to the Board, Ed Powers who leads the HarbourVest Custom Solutions Team and Mike Dean, the head of the Real Assets Team. Ms. Cahill

gave an update on the firm and noted it focused on Private Markets for about 40 years. Ms. Cahill noted that the operation team being in-house is unique to HarbourVest and adds value. They have maintained a high AUM over time because investors continue to re-up and HarbourVest continues to return capital that customers have invested with them. Ms. Cahill explained that in 2021, MPERS invested in the fund-of-One with HarbourVest to focus on private equity and private credit. She said that she would be discussing adding infrastructure to this mandate. She defined primaries as being investments into funds managed by other managers. She stated that HarbourVest acted as a manager of managers and in the private equity world. She noted the underlying manager goes out to find the next company that they want to invest in. She stated that they call the capital on behalf of the MPERS' portfolio to invest with that manager. She then stated that a secondary fund buys stakes in already existing investments. She stated that because these are liquid investments, they usually last anywhere between 12 and 14 years. If MPERS, or any other investor, wants to exit out of that investment, they'll have to sell it on the secondary market. She went on to further explain that this means you have to find a buyer to take your position, and the secondary market is a place where they are buyers in that market and can then pass that exposure down to MPERS. The benefit of being investors in secondaries is that you enter into the funds a little bit later in the life of the primaries. Secondary investors are buying into a portfolio with diligence because they know what assets they are buying, and they know what value they want to pay for them. Ms. Cahill stated that they are able to underwrite those investments, and it helps clients mitigate any early losses that a primary fund could have. Ms. Cahill defined co-investments as investments directly into companies. Ms. Cahill gave the following example: if a manager is raising a fund and they find a company they want to invest in, and that company is \$50 million, but they only have \$25 million, they will call their investors and ask if they would like to come into this co-investment. Ms. Cahill explained that because HarbourVest has invested in so many primary funds, they get that call, and they are able to pass along the economics that are beneficial in a co-investment down to their investors. She explained that she reviewed this because this is the same way that they invest the Frenchman Street Fund, which is how they are proposing investing in the infrastructure and real assets part of this portfolio. She stated they would implement the same methodology and the same expertise that they have across the three segments and apply that from what they've been doing successfully in private equity, so they could do it successfully in infrastructure and real assets.

Ms. Cahill went on to give a snapshot of the Frenchman Fund, which again is the private equity and private credit fund-of-one. Ms. Cahill stated that this type of investment is designed to give investors easy access to a diversified portfolio where their staff and investment consultants don't have to come to the Board multiple times in order to get the portfolio up and running and it ramps up getting a diversified program established. Ms. Cahill stated that since they've been investing in the fund, they've committed to 33 primary funds, 60 co-

investments, 55 secondary transactions, and 65 credit transactions. Ms. Cahill noted that to do this on your own, it would have taken a lot of board meetings with a lot of approvals, and that probably would have been another staff of 10 people that you would have to hire. Instead of this scenario, you would rely on your extension of staff at HarbourVest to implement that for you. Ms. Cahill explained that the guidelines are built together with MPERS. She went into detail stating that MPERS tells them how much they want to invest in each of the segments, what areas of the market they want to focus on, and if there are any geographies that they don't want to be invested in. Ms. Cahill stated that the structure is in place, and they are ready to set up the fund-of-one for infrastructure. She reviewed the team members available and reiterated that they are in the market finding the best investments for MPERS' portfolio and will implement it based on the guidelines that they have agreed upon. Ms. Cahill ended her presentation and asked if there were any questions to which there were none.

Mr. Powers then spoke about infrastructure and explained that he may refer to it as "Infra." He stated there has been incredible growth in Infra over time. Mr. Powers noted that there are multiple players following multiple strategies and you can invest in it and do something on a diversified basis. Mr. Powers stated that is what they have done for MPERS on the private equity side and what they are proposing to do for MPERS on the infrastructure side. Mr. Powers stated that buying into a portfolio that someone else has already purchased, with the aging and maturity of the infrastructure market makes sense right now. Mr. Powers stated that when they are building portfolios, they are looking to diversify across different sectors of infrastructure, and then underneath those sectors there are seeking different revenue drivers. He discussed how the companies or projects that they were investing in actually get paid. He stated that there is more than one source. Mr. Powers stated that there is not only a large and growing part of the potential asset class to invest in, but there are many different kinds of opportunities within the sector that HarbourVest has expertise in. Mr. Powers went on to discuss the big picture on infrastructure and why it's interesting, and why they like it. He stated that just like in private equity, there are different places where they can put invested capital to work and there are different managers who are explored in strategies. These managers have built up expertise in those strategies. Mr. Powers introduced Mr. Dean to provide additional details.

Mr. Dean then spoke about the approach that they would use in the proposed portfolio and mentioned several different building blocks including the power of their platform, their differentiated sourcing, and their opportunistic approach with a mid-market focus. Mr. Dean spoke about the team's long track record and expertise. He mentioned again that the in-house expertise gives HarbourVest a competitive edge. He stated that by having a specialist infrastructure team integrated within a broader generalist private markets platform, investors get the best of both. He stated that HarbourVest was able

to look at deals and opportunities in infrastructure in the mid-markets beyond just the conventional sourcing channels which makes them a better partner. He stated that they were proud of their track record, but that they continue to build and improve over time.

Mr. Dean spoke more about their large team covering North America and Europe with specialized backgrounds in the infrastructure space including pension funds and direct investors in both the US and Canada. He stated that this includes consulting experience, investment banking experience, principal investment, all with a long track record within their team. Mr. Dean mentioned again that having in-house professionals is a real source of value and gives them tremendous confidence in the investments that they make.

Mr. Powers then explained that they are trying to build a diversified customized global and infrastructure program for MPERS with an emphasis on the most developed parts of the market. He stated that the portfolio was designed to outperform public markets like private equity and that working within the current structure results in certain cost advantages. Mr. Powers proposed that MPERS commit an additional \$70 million over the next four years. He mentioned their infrastructure opportunity fund that they would put into the vehicle immediately. Mr. Powers noted that HarbourVest made some initial investments that will help with the J-curve that exists in private equity and in infra.

Mr. Powers stated that they would start out with a portfolio of secondaries and co-investments, then they would pick the best managers in infrastructure over the next several years. He stated that just like on the private equity side, it's a very similar structure that provides diversification while trying to find the best investment opportunities. He briefly discussed their comingled infrastructure opportunities fund. Mr. Powers discussed the costs related to this additional investment. He stated that MPERS would not pay anything additional to put the infrastructure opportunities fund into the vehicle. It's the same as coming directly into the fund. For the primary investment, MPERS would be charged a management fee as HarbourVest goes out and selects investments, manages those investments, and reports.

Mr. Dean stated he would walk the Board through the fund itself and would be happy to take any questions. He reviewed slide 20 and stated that we would likely recognize some of the names on this slide. He stated they try to take a broad approach to how they source and particularly as they are looking at direct and secondary investments. Mr. Dean referenced J-curve mitigation through delivering exposure to seasoned assets. Mr. Dean said that secondaries are intended to provide an average of about a six-year in-the-ground period for the businesses they are investing in. He stated this allows them to invest from a perspective where they are able to analyze early performance, underwrite actual businesses, and then price them based on how they are performing. Mr. Dean noted they are typically pricing at a discount because of their sourcing

approach and because of the lack of secondary infrastructure capital in the market, which gives them a real competitive advantage. He stated that they wanted broad. He stated we are getting immediate exposure to a very broad set of companies. The board could expect over 500 companies in the fund with about 15 sub-sectors. This diversification removes isolated risks of individual companies and provides consistent inflows and outflows of capital. Mr. Dean stated they want to make sure we are not overly exposed to good times or bad times in a particular sector at any given time. He went on to explain that infrastructure has performed very well from an inflation perspective in the past three to four years, but they have had a very high inflation or inflation above the long-term average. Mr. Dean said that it performed better than he expected, and better than their models would have forecasted based on key features of inflation like contracts and monopolistic characteristics of assets. He stated that the typical investment being made has a high fixed cost to build but is relatively inexpensive to operate.

Mr. Dean discussed the fund structure including traditional secondaries which are LP stakes, buying interest from selling LP's and individual funds or portfolios of funds. He stated the investment would include GP-led secondaries, which look for the best companies in particular funds that a GP wants to continue to own. He also discussed co-investments where they are partnering alongside a GP that's acquiring a business.

Mr. Dean then explained the sector exposure and stated that the main sectors will invest in different areas of the energy complex. Traditional energy and renewable energy around telecom and data infrastructure is a fast-growing part of the infrastructure market. He added that classic infrastructure includes areas of infrastructure such as utilities, transportation, and logistics. These are not easy to find. They require investors to work harder as a lot of them are only accessible through the secondary market or through certain types of direct liquidity transactions. Mr. Dean stated that the fund was off and running and already has exposure to 40 companies across 3 projects: Pendant, Bellagio, and Reston. He stated that these are diverse. He went on to say that they will be following these with a fourth transaction in the waste and waste management sector. Mr. Dean stated that in building out that diversification, they expect multiple additional transactions to be completed this year and they will continue to deploy the fund and raise the fund into early next year.

Mr. Roberson asked a question regarding the overall strategy. He asked why they are deciding to start building out with the opportunistic core plus side of things first?

Mr. Dean stated that the terms used are borrowed from real estate but is a crude borrowing. He stated that when you get into opportunistic real estate, it would be describing something as distressed or development. He said there is very little distress in infrastructure. He noted there are not a lot of funds that go

in and try to turn assets around or reposition things. He stated that opportunistic is usually pure development. Much of the development in the market today is the value-add risk profile because a lot of it is pre-contracted. He said people aren't just building things on speculation or in the hope that there will be a market for it. He stated they already have people in place to buy it. Mr. Dean noted it's a different profile, but as a secondary investor with the fund, they are very much focused on value and quality and growth. Ms. Cahill further explained that you can start with a diversified portfolio that has already had some commitments in the ground and then as you get distributions from your real estate portfolio, you can use those distributions to allocate to primary funds. Mr. Dean added that one of the more attractive features for their proposal was that within the first few years from a portfolio positioning standpoint, it's going to look like we've been in infrastructure for several years.

Mr. Roberson then asked where they found most of the global opportunities. Mr. Dean stated that the investments are mostly in North America, primarily the US. He stated they have done a tiny bit of exposure in Canada and Mexico, but about 90% is within the United States. Mr. Dean noted there was meaningful exposure to Western Europe with the rest of the world being a little bit of a catch-all. Ms. Cahill explained that is just for the secondary fund. She stated that the primaries would be mostly North America and Europe. Ms. Cahill closed out by thanking everyone and stating that it has been great working with everyone. She noted that NEPC negotiated some great fees for MPERS on the infrastructure opportunities fund side and added that they would be happy to answer any questions and hoped to expand the partnership.

4. NEPC International Small Cal Equity Search Report (Qualifies as Investment Training)

a. NEPC and Staff's Recommendations

Mr. Barnes discussed that the Board approved a 3% allocation to international small cap. He stated this would increase the return expectation of the portfolio and was approved by the Board in March. He stated that they can either index with passive management which buys all stocks in the market or pay a higher price to "beat the market" or could do a combination of the two.

b. Selection of International Small Cap Equity Manager (Action Item)

Mr. Barnes explained that there are two tests related to when it makes sense to actively manage: (1) Is it easy to pick a manager? and (2) Is there meaningful outperformance available? He noted that when looking at International Small Cap, NEPC thinks active management makes sense. He also noted that these tests do not take into account the risk tolerance

of the investor.

Mr. Barnes stated that the biggest risk of active management is actually with the Board. He said that all managers will eventually not outperform and are at risk of being fired before they can return to outperformance.

Mr. Barnes stated that NEPC is seeking to find the best managers for their client and have narrowed it down to 6 managers to be considered. For passive management, State Street has an International Developed Country Small Cap portfolio. He said they have a broad investor base and are proposing to manage for only 3.5 basis points. For Active Management, Mr. Barnes stated that the fee would be 75-basis points.

If the Board decides it wants to try to outperform, NEPC recommends half in the index and half in Acadian. Mr. Barnes stated that if the Board decides not to take that additional risk, NEPCs recommends hiring State Street to index the allocation and get the market exposure at a cheap cost. Mr. Barnes explained that once the portfolio grows, a portion could be carved out and given to an active manager to earn a little bit of additional return. NEPCs overall recommendation is to initially passively manage it with State Street at a low cost of 3.5 basis points to get the market exposure.

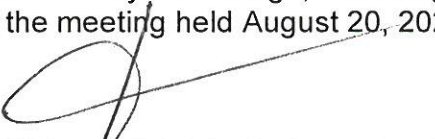
F. Other Business

There was no other business to discuss.


G. Adjourn

Meeting was adjourned at 3:38 pm.

To the best of my knowledge, the foregoing minutes accurately represent the actions taken at the meeting held August 20, 2024.



Major Ray Burkart, Jr., Acting Chairman



Ben Huxen,
Executive Director and General Counsel