

Municipal Police Employees' Retirement System
Minutes of the Investment Committee Meeting
July 19, 2023

The Investment Committee of the Municipal Police Employees' Retirement System held a meeting on Wednesday, July 19, 2023 at the system's office at 7722 Office Park Boulevard in Baton Rouge, Louisiana.

A. Call to Order

The meeting was called to order by Major (Retired) Kelly Gibson. at 9:00 am.

B. Roll Call

Members Present

Major (Retired) Kelly Gibson, Chairman
Chief David Addison, MPERS Board Member
Chief Edwin Bergeron, Jr., MPERS Board Member
Major Raymond Burkart, Jr
Asst. Chief Jason Dimarco, MPERS Board Member
Lt. (Ret) Chad King, MPERS Board Member
Mr. Rick McGimsey, Commissioner of Administration designee
Mr. Julius Roberson, State Treasurer designee
Lt. Tyrone Warren, MPERS Board Member
Chief Chris Wilrye

Members Absent

Mayor Greg Cromer

Others Present

Mr. Benjamin Huxen II, MPERS Executive Director and General Counsel
Ms. Taylor Camp, MPERS, Chief Financial Officer
Ms. Melissa Frazier, Benefits Administrator
Ms. Emily Thurston, Accountant
Ms. Ashlee McNeely, Exec. Management Officer (virtual)
Mr. David Barnes, NEPC, Investment Consultant
Ms. Sheri Morris – Daigle, Fisse & Kessenich
Mr. Greg Curran, Curran Actuarial Consulting, Actuary
Mr. Kevin Balaod, With.Intelligence (Virtual)
Mr. Shinji Hain, LLA (Virtual)
Mr. Claude Schlesinger, NOPD retired (Virtual)

Mr. David Zielinski, CFA – Loomis Sayles Investment Director
Mr. Matthew Buxton – Loomis Sayles Director of Public Fund Relationship Mgmt.

C. Public Comment

No public comments.

D. Approval of the April 19, 2023 Committee Meeting Minutes

Motion by Chief Wilrye, seconded by Major (Ret) Raymond Burkart, Jr. to approve the minutes of the meeting held April 19, 2023. Without objection, the motion carried.

E. New Business

1. Discussion and Action Regarding NEPC Report on Investments (Qualifies as Investment Training)

Mr. Barnes stated that the Federal Reserve had elected to keep interest rates unchanged in June. They were working off of the May inflation numbers which showed a decrease in the annual rate of inflation. Mr. Barnes stated that, in June, headline CPI was down to 3% while core CPI remained high at 5.3% in May and 4.8% in June. Core CPI excludes food and energy which are two areas of greatest volatility. Previously, market participants had expected the Federal Reserve to approve 2 additional interest rate increases; now, expectations were that the Federal Reserve would approve at least one additional rate hike. Mr. Barnes stated that the market was a little cloudy on whether there will be a second hike. In addition, market expectations currently indicate no expected recession. Mr. Barnes stated that if the Federal Reserve has to hold rates higher for longer than the market expects there may be volatility in 2024.

The United States continues to see strong economic data with unemployment falling, housing starts up, existing home sales up. In addition, the Federal Reserve performed stress tests on the 23 largest banks and all of them passed. First quarter GDP was revised upward. All of this positive news pushed the market forward. Mr. Barnes stated that with a strong June, the fiscal year to date estimated return was 7.6%. This measure is missing private equity and real estate final figures which have a lag in reporting. Mr. Barnes stated that he did not expect the return figure to change much.

Mr. Barnes stated that in June the total equity portfolio outperformed the global equity market. The Alliance Bernstein S&P 500 Index fund and Mellon Large Cap Value Index Fund both returned 6.6% for the month of June. Total Small Cap returns were above the benchmark largely driven by strong performance by LSV. The one

piece of the portfolio that lagged the index returns for June was the international equity portfolio. For the month of June, the portfolio experienced a slight outperformance in Emerging Markets and for the fiscal year Emerging Market equities outperformed the index by 3.7%. Both periods' outperformance was due to Acadian's returns. The fixed income portfolio outperformed for the month of June and for the fiscal year. The bond portfolio returned 3.5% for the fiscal year to date versus 1.9% in bond index returns.

The last piece of the portfolio with valuations and returns is real estate. Last year Real Estate was the only asset class with positive returns. Now it's the only asset class that's down. MPERS put in a \$30 million redemption to trim this portfolio about twelve months ago but since many other investors have also asked for redemptions it has been slow to occur. Mr. Barnes suggested that he would ask their real estate manager, Principal, to come to discuss with the Board what they see in the real estate markets and to report on what the system can expect related to the redemption.

Major (Retired) Gibson asked about what amount of investment was left with Entrust Global. Mr. Barnes stated that a redemption order was put in and that MPERS now has less than \$1million left in that investment. The amount that remains invested is the illiquid piece that Entrust is working to sell. Mr. Barnes guessed it would take between 6 and 9 months.

Mr. McGimsey asked why the real estate portfolio experienced negative returns when there was good news on housing starts. Mr. Barnes stated that the real estate portfolio was invested in commercial real estate where there has not been a complete return to occupancy since Covid shutdowns. He stated that he was discussing with Mr. Huxen what MPERS should do in this portion of the portfolio. MPERS had put in a redemption request 12 months ago and was still waiting even though the portfolio is supposed to provide quarterly liquidity. These managers invest in high quality assets.

Mr. McGimsey asked how much of the total portfolio was invested in real estate. Mr. Barnes stated that they currently had 8.5% in real estate despite the target of 7%. This is because of the positive returns in 2022 when other assets lost value. He stated that this larger allocation was the reason that MPERS put in a redemption request last year. Mr. Barnes stated that they would be looking at this part of the portfolio in the next asset allocation study. He stated that their managers were invested in the highest quality real estate. NEPC was looking at other areas where the system could have better liquidity.

Mr. Roberson asked about the lag in valuations and whether it was possible that the valuation lag meant that things were not as bad as these returns suggest. Mr. Barnes stated that the values in the flash report were based on valuations as of June 30th.

2. Presentation by Loomis, Sayles & Company

Matthew Buxton and David Zielinski made a presentation on the MPERS investment portfolio with Loomis Sayles. Mr. Buxton reviewed page 3 of the presentation. Loomis Sayles has \$302.1 billion in assets under management. He stated that there had been no changes in senior management or in their ownership structure. Mr. Zielinski referred the committee to page 6, which discussed the Multisector Full Discretion product. The full discretion products have \$61 billion in assets under management with the largest amount in the Multisector Full Discretion product that MPERS uses. He stated that flows have been flat with retail investor outflows and institutional inflows. He stated that Elaine Stokes would be retiring as portfolio manager in February 2024 but would transition from portfolio management by the end of 2023. He stated that Matt Eagan would take on her duties and the firm had elevated some key strategists to associate portfolio managers. These associate portfolio managers will take on more responsibility for monitoring portfolio risk.

Mr. Zielinski discussed performance on page 11. He stated that the portfolio has generated alpha consistently. This portfolio targets 200 to 300 basis points in alpha over a full market cycle. Loomis Sayles added value in the past year through duration positioning and in this year by focusing on credit selection.

Mr. Barnes stated, as a reminder, that the system was previously invested in the Loomis Sayles Core Bond Plus product. With an uncertain bond market, the system wanted to provide their bond manager with more freedom to navigate the bond market volatility. In June 2021, the portfolio was transitioned from the Core Plus investment into a Multisector Full Discretion portfolio. He stated that the move has worked really well.

Mr. McGimsey asked what MPERS was invested in within the multisector product that they were not invested in within the Core Plus investment. Mr. Barnes stated that now Loomis Sayles can elect to invest in international and emerging markets along with wider bands for high yield investment. Mr. Zielinski stated that they looked internationally, invested in currency, and enjoyed flexibility in guidelines to add more high-yield investments. In total, the investment policy allows up to 35% in non-investment grade debt. This allows the system to add more alpha versus the benchmark.

Mr. Zielinski asked the committee to turn to the return attribution on page 13. He stated that over a full market cycle, the portfolio derives alpha mostly from security selection. He stated that the portfolio suffered a little underperformance on the yield curve but was comfortable on a duration basis. He stated that the portfolio generated alpha recently from Uber Technologies and added that Rocket Mortgage

was another rising star. He stated that he expected these investments to upgrade into an investment grade rating in the future.

On page 18, he reviewed how Loomis Sayles sought to build excess return by seeking a yield advantage to the index with a portfolio duration near the benchmark. In the prior year, duration was set short of the benchmark, but now is more neutral to the benchmark. This helps to balance the risk factors as credit risks tend to work inverse to other risks. He stated that they focus on where markets are in the credit cycle and stated that he felt markets were in the late cycle expansion phase where consumer financial and large banks have strong balance sheets. The portfolio is positioned with yield advantage, neutral duration and plenty of liquidity. Mr. Zielinski stated that they have tried to balance the portfolio across high quality credits with some high quality securitized debt. Loomis Sayles is looking for a softer landing but slower growth economy, but the portfolio is set up to perform well in several scenarios. If a soft landing occurs, the portfolio has a yield advantage. If not, the liquidity exists to reinvest at new levels.

The investment team looks at the consumer. Low unemployment drives consumer spending; currently, the consumer is strong. Corporate bond default rates continue to be low and COVID caused corporations to be conservative. Inflation remains sticky and lagged impacts may push levels back toward the Federal Reserve target inflation rate. Loomis Sayles expects the Fed to have a chance to cut interest rates in the second half of 2024.

Mr. Roberson asked when Loomis Sayles expects a return to a normal yield curve. Mr. Zielinski stated that when the Fed starts to lower the front end of the yield curve investors could see a more normal curve. He stated that the yield curve could remain inverted for another year or so.

Mr. McGimsey asked if Mr. Zielinski considered China an emerging market. He answered that he did. Loomis Sayles has limited exposure to China with only 30 basis points of total exposure. He stated that they have seen growth in China lagging and have not seen government support for the bond sector. Overall, 5.5% of the portfolio is in Emerging Markets. The uncertainty in developed market growth can hurt the emerging market economies. Many of the Emerging Markets investments are in quasi-developed market exposures. The portfolio owns a small allocation of Chinese property developers. They have taken a large hit but there could be upside from this point.

Motion by Chief Wilrye and second by Major (Retired) Burkhart to accept the report from NEPC and the presentation by Loomis Sayles. Without objection, the motion carried.

F. Other Business

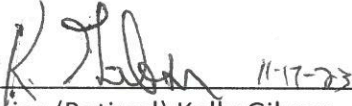
There was no other business brought before the committee.

G. Adjourn

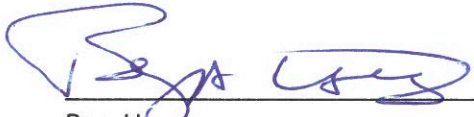
Motion by Chief Wilrye, seconded by Julius Roberson, to adjourn the meeting at 9:55a.m. Without objection, the motion carried.

The next meeting date is October 18, 2023.

To the best of my knowledge, the foregoing minutes accurately represent the actions taken at the meeting held July 19, 2023.



Major (Retired) Kelly Gibson
Investment Committee Chairman



Ben Huxen,
Executive Director and General Counsel