

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

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

A. Call to Order

The meeting was called to order by Major (Retired) Kelly Gibson at 9:22 a.m.

B. Roll Call

Members Present

Major Raymond Burkart, Jr.
Major (Retired) Kelly Gibson, Chair
Mr. Julius Roberson
Chief Christopher 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. Emily Thurston, Accountant
Ms. Melissa Frazier, MPERS, Benefits Administrator
Mr. David Barnes, NEPC, Investment Consultant
Mr. Tyler Brannan, PhD, Curran Actuarial Consulting
Chief David Addison, MPERS Board Member
Chief Edwin Bergeron, Jr., MPERS Board member
Mayor Gerard Landry
Lt. Tyrone Warren, MPERS Board member
Ms. Karen Correll, Membership Analyst, MPERS (virtual)
Ms. Brooke LeBoeuf (virtual)
Mr. Kenneth Herbold, LLA Actuary
Mr. Shinji Hain, LLA
Mr. Kevin Balaod, With.Intelligence

C. Public Comment

Major (Retired) Gibson called for public comments. There were no public comments.

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

Motion by Major Raymond Burkart, Jr., seconded by Mr. Julius Roberson, to approve the minutes of the meeting held July 19, 2023. Without objection, the motion carried.

E. New Business

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

Mr. Barnes stated that the system had another good performance report for February. Mr. Barnes stated he would review two reports, (1) the flash report for monthly performance updates and (2) the Asset Allocation Report to recommend changes to the portfolio. Mr. Barnes noted he would review NEPCs adjustments to asset class performance expectations.

Mr. Barnes started with the first report, the performance update, and referenced page 3 of the flash report. He stated that the market had a really strong 4th quarter earnings season. Mr. Barnes noted that 75% of companies in the S&P 500 were above analysts' estimates and above company guidance. Mr. Barnes stated this is what they call a positive earnings surprise.

Mr. Barnes stated that one company, Nvidia, created an enormous amount of buzz. He stated that Nvidia is the largest producer of AI hardware and software. He noted that they reported earnings of \$60.9 billion, or 126% growth in earnings. Mr. Barnes said that Nvidia grew \$277 billion in one day and noted that the company was now larger than the entire German stock market.

Mr. Barnes stated that inflation was also a surprise for the month of February. He said it is still above 3%, at 3.1%. He also stated that core inflation is up 3.9%. Mr. Barnes noted that they were starting to see pockets of weakness in the economy and reviewed several categories with negative reports in the month of January: housing, manufacturing, production, retail sales, and US consumer confidence (which Mr. Barnes mentioned was the first negative reading in over a year). Mr. Barnes stated that the US labor market is still historically very, very strong. He noted that unemployment picked up, but it is still below 4%. It is up from 3.7% to 3.9%. Mr. Barnes stated that unemployment is still at historically low levels. Wage growth is still strong.

Mr. Barnes stated that everyone is waiting today to see what the Federal Reserve is going to do at their March meeting. Mr. Barnes noted that most do not anticipate the Fed to lower rates in March. Instead, most market observers are anticipating June to be when the Fed first lowers interest rates. Mr. Barnes stated that the messaging from the Fed meeting in March will determine how the markets will react.

Mr. Barnes stated that the Chinese government stepped in and lowered its 5-year loan prime rate by 25 basis points, which indicates a shift in their policy to being more supportive. Mr. Barnes noted that China was up 8.4% for the month of February, which led the emerging market stocks.

Mr. Barnes then reviewed how different markets performed. Mr. Barnes stated the S&P 500 was up 5.3% and was led by all the big tech stocks, like Nvidia. Mr. Barnes stated the Small Cap stocks were up 5.7%, International stocks were up 1.8%, and Emerging Market stocks were up almost 5%. Investment grade bonds were down 1.4%, High Yield Bonds were up slightly at 0.3%, bank loans were up 1.1%, and Emerging Market Bonds were flat to slightly negative at -0.6%, but still outperforming the US Bond market.

Mr. Barnes stated that he would comment on how all of this impacted the MPERS portfolio during the month of February. He referred to page 3 in the flash report and stated that LA MPERS Investment program finished the month of February with \$2,677,000,000, with gains of about \$49 million during the month. Mr. Barnes stated this was a positive investment return of 1.9%, which brings the fiscal year-to-date return to a positive 6.8%, with four months left to go. Mr. Barnes noted that so far in March the markets were doing pretty well. He stated that with about three and a half months left in the fiscal year, the MPERS fiscal year to date return was probably around 7.0 to 7.1%.

Major (Retired) Kelly Gibson asked if Mr. Barnes was predicting a fruitful next three months. Mr. Barnes stated that he was not, but continued by speaking about the biggest risk he thinks there is over the next three months. He stated that it was highly likely that returns would enter June at or above 8%. Mr. Barnes noted that if inflation, job growth, and wage growth, along with other things, remain persistent, and the Fed decided at its June meeting to hold rates still and not lower them, he would expect the market to pull back. Mr. Barnes stated that in that case MPERS could end up with a fairly significant negative month in the last month of the fiscal year. He stated that this was the biggest risk facing the portfolio before the end of the fiscal year. He commented on the unfortunate timing of the Fed meeting in June.

Mr. Barnes then reviewed the portfolio components and stated that they looked really good. Mr. Barnes noted it was very easy to see what went well and what did poorly. Mr. Barnes stated the growth managers that have exposure to all those tech stocks did well. The value managers did not have exposure to those high-flying stocks like Nvidia, Apple, and Microsoft. Instead, they were looking for deals in the market and buying stocks at discounts; these stocks generally did not do as well. Mr. Barnes stated that the performance of the system's active members over the long term was really good. Mr. Barnes noted that all of the managers were either adding meaningful value, or in line with the general benchmarks.

Mr. Barnes stated that when looking at the MPERS portfolio, the S&P 500 index fund generated a really strong return. Mr. Barnes noted that the system has exposure to Nvidia and others like it. He added that the portfolio also had some diversification away from that so all of their eggs were not in one basket. For instance, having the Mellon Large Cap value index offsets some diversification.

Mr. Barnes reviewed the Small Cap portfolio managed by LSV. He stated that over the longer term, LSV has added on average 1.5% above their benchmark, even though February was a little behind.

Mr. Barnes then reviewed the international market, including KBI and William Blair. He stated that both outperformed. He stated that the total international equity portfolio outperformed at 2.1% versus the index, up 1.8%. Mr. Barnes stated the Emerging Markets portfolio was up above and beyond the benchmark. Mr. Barnes stated that the active manager in the emerging markets, Acadian, outperformed by a little over 1%. He stated the emerging market stock portfolio was up 5.5% versus the index which was up 4.8%. Mr. Barnes stated that when looking at the MPERS international and emerging market active managers, all managers outperformed over the longer term. Mr. Barnes stated that the system was paying managers to try to beat the market, and the managers are beating the market.

Mr. Barnes moved on to page 5 to review the bond portfolio. He reminded all that the bond market was down about 1.1%. He stated that the MPERS bond portfolio was down also, but not nearly as much. Mr. Barnes stated it was down only 0.8%. Mr. Barnes noted again that managers were adding value by preserving the portfolio value from these losses.

Mr. Barnes noted that the system's active core manager, Loomis Sayles, as well as the high yield loan manager both outperformed as well.

Mr. Barnes stated that the only manager the underperformed during the month of February was the high yield bond manager, Hotchkis & Wiley. Mr. Barnes stated that again, when looking at the longer term periods, Hotchkis & Wiley had outperformed or were even with their benchmark.

Mr. Barnes concluded that the total fund performance of 1.9% for the month was very positive news. Mr. Barnes stated that the portfolio was in positive territory with a little bit of breathing room, in terms of meeting the actuarial rate of return for the fiscal year. Mr. Barnes asked if anyone had any questions. Members thanked Mr. Barnes for his positive report.

Mr. Barnes then moved on to the second report, the asset allocation report. Mr. Barnes stated this report is 92 pages long and that he would not go through each page. Mr. Barnes discussed what happened in last year's investment markets. He stated that the sizable returns during 2023 affected NEPC's

forecasts for the future. He stated that what they think stocks and bonds will do over the next ten or thirty years was impacted by what happened just last year.

Mr. Barnes outlined that he would walk the committee through last year, and then he would talk through how the NEPC forecast of returns had changed from the beginning of last year to the beginning of this year. Mr. Barnes stated he would then take all asset class forecasts and apply them to the MPERS portfolio to see if changes would improve the return and risk expectations.

Mr. Barnes explained the asset allocation study is updated every year. He noted that it's the framework they use to evaluate where the portfolio is in terms of their expected returns and volatility. He added that NEPC used it to test adjustments that make sense to them, given what they know in the markets.

Mr. Barnes referred to page 3 of the asset allocation report as he discussed the events of last year. Mr. Barnes mentioned that the main debate going into 2023 was whether the U.S. would enter recession and how deep the recession would be. Mr. Barnes stated this view made most expect the Federal Reserve to start lowering interest rates in 2023. Mr. Barnes reviewed the U.S. GDP Growth on page 5, which showed there was no recession in 2023. Mr. Barnes notes that the Fed had increased interest rates from 0.5% to 4.5%, which was a 4% increase which was an historically sharp interest rate rise. He stated that everyone expected these increases to push the U.S. into a recession. In 2023, because the economy was still running so strongly, with a strong labor market, unemployment below 4%, wage growth above 4%, and consumer spending consistently resilient the Fed Funds rate was increased from 4.5% to 5.5%, where the rate sits today.

Mr. Barnes stated that the market has continued with the idea that inflation was going to come down quickly and the Fed was going to be able to lower rates quickly. He questioned this logic and stated that when looking at the markets during 2023 it was a very concentrated market. Mr. Barnes stated that in 2023, the S&P 500 had a return of over 26%. Mr. Barnes noted that coming in to 2023, the NEPC forecast for US Large Cap stocks was an average return of about 5.5% each year over ten years. Mr. Barnes noted that to get that average, future returns would have to be much lower than 5.5%.

Mr. Barnes explained that the NEPC stock forecasts have come down based on the significantly positive year in 2023. He added that when looking at the composition of returns in the S&P 500, which had a return of 26%, returns primarily came from seven stocks. Mr. Barnes stated that these stocks were termed the Magnificent Seven. These seven stocks were META, Tesla, Alphabet (which is Google), Amazon, Microsoft, Apple, and Nvidia. These seven stocks returned over 90% by the end of the year while the rest of the stock market, the other 493 stocks, returned only about 10%.

Mr. Barnes stated that NEPC gets worried when only five, six, or seven stocks dominate the market. This is called a very concentrated office. He noted that this makes NEPC nervous, and it has been this way for a couple of years. Mr. Barnes stated that this is why they recommended adding the Russell 1000 value index fund. Mr. Barnes explained that by adding this, they have shaved off a little bit of that S&P 500 concentration to those seven stocks and put it in the Russell 1000 value index fund, which has less exposure to those stocks, to kind of diversify so that all our eggs are not riding on the success of just a few stocks. Mr. Barnes continued by saying that as those seven stocks continue to rip-roar, MPERS returns will be a little behind. Mr. Barnes stated that these situations where there is such a concentrated market tend to end badly. He mentioned a few situations like this in the past. Mr. Barnes stated that he didn't recommend being fully exposed to those markets going forward. He explained that the system should maintain some exposure to participate in the upside, but that it was important to diversify so the system is not completely exposed to those seven stocks.

Mr. Barnes moved on to page 30 and explained the table. He stated that due to the past year, their forecast has come down across equity markets. Mr. Barnes stated that this happened because returns were a positive 26% in 2023 which drove up stock valuations.

Mr. Barnes stated that the bond forecasts were down only slightly. He stated that the bond market didn't experience such a significant run up in valuations and prices. With the high interest rate environment, NEPC believes that bond yields will be more persistent for a little bit longer than people are anticipating.

Mr. Barnes stated that U.S. Treasuries forecast, which makes up a good portion of the bond portfolio, remained stable. He then referred to page 33 and reviewed the NEPC 10 year forecast for all asset classes. He added that they applied these forecasts to the target asset allocation. Mr. Barnes stated that he and Ms. Taylor Camp work together to stay as close to these targets during the year.

Mr. Barnes stated that the current portfolio had a ten-year expected return of about 6%. The thirty-year expected return, which is what they look at for the actuarial valuation, for this portfolio is 7.2%. Mr. Barnes stated that the volatility is 13.5%. Mr. Barnes noted that the forecast return had decreased a bit since last year, down from 7.3% to 7.2%.

Mr. Barnes explained the expected impacts of potential changes to the portfolio. The first tested change was moving the stock portfolio to equal the weights of the overall stock market. This would mean adding a couple of asset classes, like international and emerging markets small cap equity. This portfolio would lower the expected return. Mr. Barnes explained that the overall portfolio now includes 23% in US Large Cap stocks because the market ran up

significantly in 2023. The US stock market is now much bigger than it was when MPERS set this investment policy. Mr. Barnes then discussed simply moving the stock portfolio to a market weight and explained that it would lower the system's expected return because the US Large Cap market now has one of the lowest expected returns going forward over the next ten years.

Mr. Barnes stated that NEPC developed strategic views, which reflect where NEPC believes clients should be overweight and where they should be underweight relative to the market. Mr. Barnes stated that changing to a portfolio based on strategic views would not really move the needle.

Mr. Barnes then noted that in previous meetings, board members had asked why they could not increase the expected return by accepting an increase in risk. He modeled what would happen in the future if the portfolio was changed by increasing stock allocations. He stated that if the portfolio were increased to a 60% weight in global equities while reducing fixed income, but keeping the riskier, higher returning parts of the fixed income market, the expected returns would decrease over the next ten years because the system would be buying at the top.

Mr. Barnes stated that the last column was the actual NEPC recommended changes in the portfolio. Mr. Barnes stated there were two things to point out. The first recommendation is changes to the stock portfolio. Mr. Barnes stated they recommend lowering the stock exposure by just a little bit, 1%. In addition, Mr. Barnes stated that the recommendation included implementing NEPC's strategic views. He stated they were recommending a small underweight in US Large Cap stocks because that segment of the market has increased so much. He noted that it wasn't good to have too much exposure to the part of market that has run up the most. He explained that the recommendation included underweighting international large cap stocks and slightly overweighting the emerging markets which have recovered significantly lately. Mr. Barnes noted that the block highlighted in red shows an exposure that the system did not currently have to International Small Cap stocks. Mr. Barnes stated that the portfolio was big enough now that adding this asset class would move the needle in the portfolio's expected return. Mr. Barnes stated that adding this asset class would include adding a new manager. He stated that if the Board approved adding this, NEPC would come back with information on how to implement a search at the next investment committee meeting. Mr. Barnes described the process of bringing 2 or 3 managers for the committee to interview and comparing that to an index fund. He then explained that it would be about three to four months to implement this change.

Mr. Barnes stated that the recommendation lowered equity by 1 and raised the fixed income target allocation by 1%. He stated that the recommendation was to increase high yield. Mr. Barnes stated that when looking at the relative value between stocks and high yield bonds, NEPC thinks that the system would be

better off as far as risk/return goes. He stated this was true for both high yield bonds and high yield loans, but NEPC favors high yield loans a little more right now.

Mr. Barnes stated a few months back we had Principal, our real estate manager, come in to talk. He noted that MPERS put in a \$30 million redemption order to Principal about a year and half ago and have gotten back a little over \$2 million dollars to date. Mr. Barnes stated that Principal is slowly working through their redemption orders. Mr. Barnes noted that the investment is supposed to offer quarterly redemption, meaning investors should get their money back three months after a redemption order. Mr. Barnes stated that the issue was not just with Principal but that every real estate manager in the country was going through this. Mr. Barnes noted that this was supposed to be a liquid asset class, but because it has turned out to be so illiquid the recommendation was to cut this allocation significantly. He added that if the portfolio was going to utilize an illiquid asset class, he would recommend it be core real estate. Mr. Barnes stated he would want to move these assets somewhere that could generate a better return. He noted they recommended real assets like infrastructure that gives a lot of the same benefits as real estate. Mr. Barnes explained this is when instead of buying stock in public companies, like Nvidia, they buy infrastructure projects, like roads, bridges, railways, and shipping ports. He explained that the investment was still in hard assets like real estate, but with a much more attractive return and expectation from NEPC's perspective. Mr. Barnes noted again that money tied up in hard assets should not be in retail and office real estate. Mr. Barnes stated that the transition to infrastructure would take time to implement. The recommendation was to trim the allocation to real estate and add 3% to real assets infrastructure. He noted that he would prefer to continue on this path for several years and continue trimming real estate as the system receives redemptions. This would mean putting in another fairly large redemption order to Principal. There were some signs that real estate markets were starting to transact a little bit, but it will probably take a long time to get the money back. Mr. Barnes noted that the system would have to put in a redemption soon or would take even longer to get it back.

Mr. Barnes stated that NEPC's recommendation was to shift from the current policy target allocation to the asset allocation shown on slide 32, titled Recommendation. Mr. Barnes asked if there were any questions.

Major (Retired) Kelly Gibson asked about how long it would take to make the infrastructure investment. Mr. Barnes stated that the money was coming from real estate and was being invested in real assets infrastructure. He stated that this investment would not be like changes in the rest of the portfolio. Major Gibson asked if it was going to take the redemption of this money to finance the infrastructure investment or would the Board take money from somewhere else.

Mr. Barnes stated he was not proposing taking funds from anywhere else in the long term. Mr. Barnes stated that a 3% commitment to a real assets infrastructure manager would not mean having all of the investment called immediately. He stated that periodically the manager would find another investment and call more money from their investors. Mr. Barnes stated that the funds would be called over time little by little. The timing of distributions from Principal and called capital are not going to match up perfectly. Mr. Barnes stated that because of this the system may have to pull money from other places temporarily and then it would get refunded as Principal distributes capital.

Mr. Barnes stated that as of February 29th, Principal has lost 10.7% in the last year, but over a long-term perspective they have returned a positive 3.9% average for the last three years and since inception have averaged about 6.5% per year. Mr. Barnes noted that the system would take a short-term loss but had made meaningful money with Principal over the long-term.

Mr. Barnes asked if there were any other questions. He stated that he was asking the Investment Committee to approve a recommendation to the full board based on NEPC's recommendation for asset allocation changes as noted on page 32 of their report.

Major (Retired) Kelly Gibson asked if Mr. Barnes was talking about International Small Capital management, and Mr. Barnes stated yes. He asked Mr. Barnes what the difference is between active and passive management?

Mr. Barnes answered by defining a passive product as an index fund. Mr. Barnes stated that using an index fund gives exposure to the asset class. The cost of an index fund would be almost nothing with funds costing 3, 4, or 5 basis points. Mr. Barnes then said the other option hiring a manager to try and beat the performance of that index. Mr. Barnes stated that when you pay a manager, you take a risk. He gave the example that instead of paying 0.05%, you might pay 0.7% for active management. He stated that the cost is higher, but investors expect active managers to beat the performance of the asset class and add extra return.

Mr. Barnes referred to page 42 in the presentation on BoardPaq. Mr. Barnes stated that if approved, the next part of the process would be looking at two things to see if the system would hire an active manager or just go with the index. He stated the first is what is the probability that you can pick a good manager who will outperform. Mr. Barnes stated the other thing they would look at is magnitude. He stated that if we are successful and pick a manager who outperforms the benchmark, what's the likelihood that the outperformance will be meaningful. Mr. Barnes noted that if you are taking a 25% chance of getting a good manager, and even if you do pick a good manager, on average

the outperformance will only be about 25 basis points, what's the point? Mr. Barnes stated that at that point they would recommend passively managing it. Mr. Barnes explained that they consider two things. First, they consider the probability of picking a good manager. He stated that the chart was green where there was a better than 50% chance of picking a winner. Then, they check for the magnitude of potential outperformance. He stated that in this asset class, if you pick a winner, the winnings will be fairly meaningful at a 1.5% return. For international EAFE large cap, the chance of picking a good manager is good but the magnitude of excess return is not significant. So, we've allocated a good portion to the index fund with a couple of active managers on top of that. For EAFE small cap it's the same situation. Can justify doing either or both.

Motion by Major Raymond Burkart, Jr., seconded by Chief Christopher Wilrye, to adopt the NEPC recommendation for changes in the asset allocation. Without objection, the motion carried.

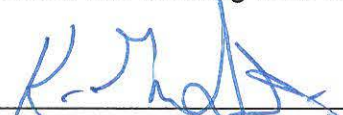
F. Other Business

There was no other business to discuss.

G. Adjourn

A motion was made by Major Raymond Burkart, Jr., seconded by Chief Christopher Wilrye, to adjourn the meeting at 10:16 a.m. Without objection, the motion carried.

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



Major (Retired) Kelly Gibson, Chairman



Ben Huxen,
Executive Director and General Counsel