

**Municipal Police Employees' Retirement System
Minutes of the Meeting of the Investment Committee
August 17, 2022**

The Investment Committee of the Municipal Police Employees' Retirement System held a Regular Meeting on Wednesday, August 17, 2022.

A. Call to Order

The meeting was called to order by Ms. Amy Mathews at 9:03 a.m.

B. Roll Call

Members Present

Ms. Amy Mathews, State Treasurer Designee
Maj. (Retired) Kelly Gibson
Chief Christopher Wilrye

Members Absent

Maj. Raymond Burkart, Jr.
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, MPERS, Benefits Administrator
Ms. Emily Thurston, Accountant
Mr. David Barnes, NEPC, Investment Consultant
Ms. Francesca LoVerde, NEPC, Consulting Analyst
Mr. Bill Grayson, Principal, Managing Director
Ms. Meigan Phillips, Principal, Managing Director
Mr. Wallace Lore, NOPD Retiree
Mr. Jean Beckemeyer, NOPD Retiree
Mr. Kevin Balaod, Journalist

C. Public Comment

Ms. Mathews called for public comments. There were no public comments.

D. Approval of the March 23, 2022, Committee Meeting Minutes

Motion by Chief Wilrye, seconded by Mr. Gibson, to approve the minutes of the meeting held March 23, 2022. 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 and Ms. LoVerde presented the NEPC report on investments. Mr. Barnes stated that after a very difficult June with the market being down there has been a healthy rebound in July. Mr. Barnes stated that with two quarters of negative GDP, the country was in a technical recession, but the employment picture is not what you would expect in recession. Mr. Barnes discussed inflation and Fed actions to increase interest rates in order to bring inflation down. Mr. Barnes discussed some positive signs in the economy and discussed July market returns. Ms. LoVerde covered the system's portfolio performance. The total market value of the portfolio as of July 31, 2022, was \$2,500,853,051. July returns for the fund were 4.2%, outperforming the total fund allocation index at 3.9%. The year-to-date return has been -10.4%. Ms. LoVerde reviewed manager performance.

Ninety-One manages emerging market debt which also rebounded in July. Ninety-One still had a small position with Russian bonds. There was a brief discussion about the exposure to Russian bonds and Mr. Barnes stated that they were working to reduce exposure to these bonds. The sale of Russian bonds led to outperformance since they were previously written down to a \$0 value. There was a discussion about exposure to China as well. Mr. Barnes stated that Acadian had an underweight to China which hurt their returns in June when China was up. The index fund holds a market weight. Mr. Barnes assured that both Russia and China's exposure were being monitored.

After a discussion of fixed income returns, Mr. Barnes stated that the investment in adjustable-rate bonds helped during the rising interest rate market. Private real estate has been one area that has done well over the past year. Mr. Barnes stated that they needed to be mindful and trim profits. There has been a \$30 million redemption order to Principal, but there is a queue of others also asking to redeem profits.

Ms. Mathews asked if the June alternatives had reported yet. Mr. Barnes stated that the fiscal 2022 return with all the alternative investments updated through March 31st was -10.3%. Mr. Barnes said it went to Mr. Huxen and he will send it to everyone. Mr. Barnes discussed his asset allocation report to show the direction of NEPC's capital market assumptions. Because of the pullback in valuations and the rising interest rate environment they have higher expectations for returns from all equity classes, all fixed income classes, and most of the real estate classes (with the exception of core real estate). He stated that the asset allocation review showed a 10-year expected return of 6.9% and a 30-year expected return of 7.4% based on the system's target allocations. This represents an improvement of almost 80 basis points in the expected return over a 30-year period.

2. Presentation by Principal Global Investors

Mr. Bill Grayson and Ms. Meighan Phillips from Principal Global Advisors provided an update on the system's \$226,462,138 investment in the Principal U.S. Property Account. Mr. Grayson stated that an added \$20 million invested in January 2022 was well timed. Mr. Grayson stated that the fund was 40 years old and is invested in diversified properties across the country. The fund has returned 8.1% the initial investment in January of 2004, which amounts to 0.3% over the benchmark (NCREIF ODCE Net).

Ms. Phillips reiterated that it has been an exceptionally great time to be invested in real estate. She stated that the account is almost 14 billion in gross assets and has had low leverage in the strategy. She added that the Fund borrowed \$450 million priced with a weighted average cost of debt of 2.95% for risk mitigation. She then discussed the strategy of including real estate in a portfolio. She said that real estate is a natural hedge against this inflationary environment. She added that the recent building and labor shortages has made it more difficult to deliver new real estate supply. The cost of building a new building has escalated materially over the course of the last 18 months which means that the supply on the ground today has good landlord pricing power. There's very good tenant demand particularly within their highest allocation sectors, multi-family and industrial. What this means is that there are two forces that primarily drive their performance, capital markets (investor demand) and space markets (tenant demand). The fund has experienced a great year with a return of almost 30% and performance year-to-date of 11%. Tenant demand in industrials and multi-family has never been better. Capital markets have slowed. Principal's expectation for performance during the second half of the year is a best case of flat with the income return offset to slightly negative. Therefore, she agreed that it makes sense to redeem a portion of the portfolio. She stated that she expected they would be able to satisfy the withdrawal request in the back half of the year.

Ms. Phillips stated that although they have been overweight industrials, they are beginning to reduce their industrials exposure. The multi-family sector is the highest conviction sector with demographics favoring the space and chronically low supply. The fund managers have pared back office exposure. She stated that if interest rate increases outgrow income growth, the fund could see more downward pressure on valuations.

Ms. Mathews asked if the added debt was going to be used to pay out redemption requests currently in the queue. Ms. Phillips answered that many of their larger institutional investors found themselves overweight real estate based on the relative performance versus equities and fixed income this year, so the fund has seen a significant increase in redemption requests particularly in the back half of June. The fund paid out everything that had

been requested and put that withdrawal limitation on July 1. She added that there was only a \$133 million waiting in the queue right now which should be filled in the back half of 2022. Ms. Phillips indicated that they would balance the cash they see coming off the properties, upcoming debt maturities, and their ability to transact on a couple of very strategic dispositions as they determine how much will go to pay withdrawal requests and how much will go toward continued reinvestment.

Ms. Mathews asked about future dispositions including how much would be development versus purchases of existing properties. Ms. Phillips responded by saying that in the past years it has been favorable to do a little bit of development because they have been able to build at an ultimate cost that is less than what it was costing to buy core real estate. They are only using about 4% of the total account in development today and it will stay close to that as they work through the next couple of years. She also reviewed other dispositions outlined in the presentation for the remainder of 2022.

Mr. Gibson asked about the redemption amount. Mr. Barnes answered that the request was for \$30 million and added that they did not want to meet the system's cashflow needs by selling out of what was already down. He stated that they wanted to trim from what was already up by trimming profits. Since the real estate portfolio is a private investment that takes time to redeem, a small amount was trimmed from the equity portfolio for immediate needs.

F. Other Business


There was no other business to discuss.


G. Adjourn

A motion was made by Chief Wilrye, seconded by Mr. Gibson, to adjourn the meeting at 10:03 a.m. Without objection, the motion carried.

Next Meeting Date is October 19, 2022.

To the best of my knowledge, the foregoing minutes accurately represent the actions taken at the meeting held August 17, 2022.


~~Amy Mathews, Chairman~~
Chad King, for Amy Mathews (Chairman)


Ben Huxen,
Executive Director and General Counsel


Amy Mathews, Chairman