

Municipal Police Employees' Retirement System
Minutes of the Meeting of the Investment Committee
March 19, 2025.

The Investment Committee of the Municipal Police Employees' Retirement System held a Regular Meeting on Wednesday, March 19, 2025.

I. Call to Order

The meeting was called to order by Major (Retired) Kelly Gibson at 9:35 am.

II. Roll Call

Members Present

Major Raymond Burkart, Jr.
Major (Retired) Kelly Gibson, Chairman
State Treasurer Designee Julius Roberson
Chief Christopher Wilrye

Members Absent

Mayor Rick Allen
Mayor Greg Cromer

Others Present

Chief Edwin Bergeron, Jr.
Asst. Chief Jason DiMarco
Lt. (Retired) Chad King
Chief Beth Westlake
Mr. Benjamin Huxen II, MPERS, Executive Director and General Counsel
Ms. Taylor Camp, MPERS, Chief Financial Officer
Ms. Emily Thurston, MPERS, System Analyst
Ms. Melissa Frazier, MPERS, Benefits Administrator
Mr. David Barnes, NEPC, Investment Consultant
Mr. Greg Curran, Curran Actuarial Consulting
Ms. Melissa Cahill, Managing Director, HarbourVest
Mr. Edward Powers, Managing Director, HarbourVest
Mr. Pdraid Sheehey, Senior VP, KBIGI
Ms. Lindsay Saienni, FIN News (remote)
Ms. Christie Ziadeh, Benefits Analyst, MPERS (remote)
Ms. Isabella Bruno, Sr. Associate, HarbourVest (remote)
Mr. Kevin Balaod, with Intelligence (remote)
Ms. Erin Estilette, Curran Actuarial Consulting (remote)

IV. Public Comment

No public comment.

V. Approval of the August 20, 2024 Committee Meeting Minutes

Motion by Chief Christopher Wilrye, seconded by Mr. Julius Roberson, to approve the minutes of the meetings held August 20, 2024. Without objection the motion carried.

VI. New Business

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

Market Overview

Mr. Barnes provided the monthly performance update, noting significant volatility in February due to economic uncertainty. Key economic indicators showed mixed signals:

Inflation and Employment:

- January CPI: 3%
- February CPI: 2.8% (improvement)
- January unemployment: 4%
- February unemployment: 4.1% (slight increase)
- Initial jobless claims increased in late February
- Consumer spending declined month-over-month in January

Bond Market Signals: The yield curve flattened as five-year and ten-year Treasury yields dropped 31 and 33 basis points respectively. This movement indicated investors were seeking safe-haven assets, with rising Treasury bond prices suggesting the bond market was signaling a higher probability of recession.

Corporate Earnings: Despite market concerns, fourth quarter earnings season ended positively. S&P 500 companies reported earnings growth of almost 17%, with energy being the only sector showing negative growth.

Global Market Developments

European Markets: Following the Trump/Zelensky meeting, markets interpreted potential reshaping of global security arrangements. Germany's new chancellor committed to significant fiscal spending increases for defense upgrades, providing a catalyst for European market gains.

China: Announced meaningful stimulus spending and set a 5% growth rate target for 2025.

February Market Performance

US Markets:

- S&P 500: -1.3%
- Small caps: -5.0%+
- High yield bonds: +0.5%+

International Markets:

- International stocks: +2.0%
- Emerging market stocks: +0.5%
- Bond markets: +3.0%
- Emerging market bonds: +7.0%

MPERS Portfolio Performance

Overall Results: MPERS' investment portfolio finished February with assets of \$2.859 billion, representing net investment gains of approximately \$4.4 million and an investment return of +1%.

Mr. Barnes emphasized that while the US stock market declined nearly 2%, MPERS achieved positive returns due to diversification strategies. He noted that pension plans heavily concentrated in the S&P 500 are now struggling, while MPERS' diversified approach continues to provide stability.

Portfolio Component Analysis

US Equity Strategy: Several years ago, MPERS addressed concentration risk in the S&P 500's seven technology stocks by reallocating approximately one-third of S&P 500 exposure to the Russell 1000 Value. This strategy proved effective in February:

- S&P 500: -1.3%
- MPERS' Russell 1000 Value allocation: +0.4%

Small-Cap Performance: MPERS' small-cap portfolio outperformed the broader market:

- Broader small-cap market: -5.3%
- MPERS small-cap portfolio: -4.6%

This outperformance was driven largely by LSV, MPERS' small-cap value manager, which exceeded its value benchmark.

International Investments:

- International portfolio showed some lag, primarily due to KBI performance (to be discussed later)
- International small caps: -0.3% (earning benchmark return)
- Emerging market stocks: +0.4% (vs. +0.5% benchmark)
Acadian, the active emerging markets manager, kept pace with the market benchmark.

Fixed Income: The bond portfolio gained approximately 1.5%, slightly below the policy index due to Loomis Sayles' underperformance:

- MPERS bond portfolio: +1.5%
- Broader US investment grade market: +2.2%
- Loomis Sayles: +1.6%

However, Mr. Barnes noted that the portfolio has outperformed the US investment grade market by over 3% during the past year.

Real Estate Update

Mr. Barnes provided a positive update on real estate performance. MPERS had previously reduced its core real estate allocation to approximately 4% and submitted significant redemption orders:

- 2022 redemption: \$30 million
- 2024 redemption: \$55 million

After an 18-month period where no capital was returned to investors, MPERS received its final redemption payment of \$25.1 million at the end of February. The real estate market has begun to loosen, allowing completion of outstanding redemption orders.

Next Steps

At the next Investment Committee meeting, NEPC will present asset allocation recommendations for deploying the redeemed capital. Mr. Barnes noted that having funds in cash earning 4.5% is not concerning given current market volatility.

B. International Equity Manager Search Report (Action Item)

Background and Methodology

Mr. Barnes reported that NEPC has conducted a comprehensive review of KBI, the underperforming manager in MPERS' international equity portfolio, and

identified potential replacements. NEPC considers KBI's investment style currently out of favor and rates the manager as neutral. The review compared KBI against seven of NEPC's top-rated managers in the international equity space.

The analysis focused on managers that would pair well with MPERS' existing growth manager, William Blair. NEPC evaluated candidates across multiple categories including organizational structure, fee comparison, portfolio characteristics, and performance consistency. Mr. Barnes emphasized that NEPC prioritizes performance consistency over short-term results, noting that academic studies show pension plans often make the mistake of firing underperforming managers during 3-5 year down cycles, only to see those managers recover in subsequent periods.

The review also analyzed correlations between each candidate and William Blair using statistical measurements ranging from +1.0 (moving in lockstep) to -1.0 (moving in exact opposition). Lower correlations indicate better portfolio pairing potential.

Recommended Candidates for Interview

Acadian

Portfolio Structure: Approximately 600 holdings with high diversification

Investment Style: Quantitative manager using computer models to analyze financial metrics, similar to fundamental managers but more efficient and with fewer behavioral biases

Characteristics: Core strategy with value tilt, managed by a large 60-member team

Fees: Around 61 basis points (median for the space)

Consideration: MPERS already uses Acadian for emerging markets, which would create some portfolio overlap.

LSV

Portfolio Structure: 220-stock portfolio

Investment Style: Quantitative manager with traditional deep value characteristics, focusing on companies with strong fundamentals

Characteristics: Traditional value style with low beta and good downside protection; tends to invest more in midcap space than other candidates

Team: 13-member team following a team-driven strategy

Correlation: Shows the most consistently low correlations with William Blair, making it potentially the best pairing

Recent Changes: Director of Research retired in 2024, with responsibilities distributed among team members (not viewed as significant negative)

KBI (Incumbent Manager)

Investment Style: Focuses on quality companies with above-average dividends and dividend growth, analyzing payout patterns to identify underappreciated companies

Team: 8-member team, generally stable

Recent Changes: CEO and Chief Investment Officer retired in March 2025

Other Candidates Reviewed

Aristotle

Portfolio: 40-stock concentrated portfolio

Concern: High concentration creates "win big or lose big" scenarios that can persist for extended periods

Neuberger Berman

Portfolio: 95-stock portfolio with 2 portfolio managers and 6-member global team

Focus: Return on invested capital for reasonably priced companies with strong fundamentals

Silchester (London-based)

Portfolio: 100-150 stock portfolio with traditional fundamental value style

Concerns: Highest tracking error (volatility relative to benchmark) among candidates; significant exposure to small-cap names (MPERS already has international small-cap coverage)

Sprucegrove (Canada-based)

Portfolio: 65-85 stock portfolio with long-term, bottom-up research approach

Concerns: Least consistent track record; inconsistent upside/downside capture ratios; highest absolute volatility

Westwood

Portfolio: 30-stock concentrated portfolio (most concentrated of all candidates)

Investment Approach: Deep-dive fundamental analysis with disciplined valuation and 3-5 year investment horizon

Concerns: High concentration risk; high absolute volatility (second only to Sprucegrove); shortest track record; currently top performer but represents the type of "hot manager" that NEPC advises against chasing

Additional Considerations

Pricing: Mr. Roberson inquired about potential fee advantages. Mr. Barnes noted that MPERS' existing relationships with the recommended managers could lead to volume discounts.

LSV Litigation: Discussion addressed ongoing litigation involving four former LSV employees who received equity payouts but believe they were undervalued. NEPC's research team does not consider this lawsuit a significant business risk to LSV.

Motion by Mr. Julius Roberson, seconded by Chief Christopher Wilrye, to invite for interviews at the next investment committee meeting: Acadian, LSV, and the incumbent manager KBI. Without objection, the motion carried.

C. NEPC Private Equity Strategic Planning Report and HarbourVest Frenchmen Street Fund Review and Proposal (Action Item)

Program Background and History

Mr. Barnes provided background for newer Board members on MPERS' private equity program, which began in 2021 with HarbourVest. The original challenge was that the private equity portfolio had become too cumbersome for MPERS staff, as each new fund brought capital calls and legal documentation requiring review. NEPC worked with the Board and staff to streamline the portfolio while maintaining access to private equity markets without requiring additional staffing dedicated solely to private markets management.

The program has been highly successful, generating strong returns for MPERS. NEPC developed a strategic plan that paced out MPERS' commitment levels to account for the unique characteristics of private equity investments.

Private Equity Investment Structure

Mr. Barnes explained how private equity differs from other portfolio allocations:

Traditional Investments: Direct allocation changes (e.g., increasing international equity) involve moving money from one asset class to another, where the allocation remains in place until sold.

Private Equity Structure:

- Initial commitment represents a legal obligation, not immediate capital deployment
- Managers call capital as investment opportunities arise
- Companies are purchased with intent to add value and sell at higher prices
- Capital is returned to MPERS as successful investments are realized
- Typically, by the time final commitment dollars are called, earlier investments have already returned capital
- Peak investment is typically around 75% of total commitment
- Continuous new commitments are required to maintain target allocation over time

NEPC strategically plans annual commitments to maintain MPERS' 7% target allocation, forecasting four years ahead with one-time commitments deployed over four-year periods.

2021 Manager Selection

In April 2021, after reviewing proposals, conducting manager interviews, and analyzing performance, the Board selected HarbourVest as the Fund of One manager. The allocation strategy included:

- **60%** - Private equity funds as limited partner
- **10%** - Secondaries (seasoned investment funds being sold for liquidity)
- **15%** - Co-investments (minority investor opportunities, typically without management fees)
- **15%** - Private credit (fixed income component for portfolio balance)

This mandate was approved by the Board in October 2023.

Portfolio Evolution and Real Estate Reallocation

Following the decision to reduce real estate allocation and add real assets infrastructure to improve returns, the Board approved moving from a 7% real estate target to 4%, reallocating the 3% difference to private real assets infrastructure. HarbourVest's top-rated infrastructure fund provided the vehicle for this transition, with a \$70 million investment commitment approved. Additionally, HarbourVest assumed administration of legacy investments at no additional cost.

Current Commitment Proposal

As MPERS approaches the end of the initial four-year commitment period, NEPC has forecasted plan growth and private markets portfolio performance relative to the overall plan. To maintain the 7% target allocation, NEPC analyzed total plan projections, individual investment capital calls, and cash returns over the coming years.

Recommended Commitment Structure:

- **2025-2026:** \$50 million annually (\$100 million total)
- **2027-2028:** \$60 million annually (\$120 million total)
- **Total Four-Year Commitment:** \$220 million

NEPC recommends continuing with HarbourVest based on strong performance, having returned an average of 14% per year since hiring.

The Board recessed at 10:27 am and reconvened at 10:32 am.

HarbourVest Presentation

Company Overview

Ms. Melissa Cahill, Managing Director of Investor Relations, and Mr. Ed Powers, Managing Director of Custom Solutions, represented HarbourVest Partners.

Firm Characteristics:

- Exclusively focused on private markets for over 40 years
- Boston-based with 14 global offices and 1,200 employees
- 230-person investment team
- Client-centric, independently owned with no external shareholders
- Most managing directors have 20+ years of firm experience
- Continuous investment in technology and personnel

Investment Platform

HarbourVest operates across five pillars: Primary, Secondary, Direct Co-Investment, Credit, and Infrastructure and Real Assets. The firm maintains a philosophy of fair and equitable client treatment, sourcing sufficient allocations to share across their client base.

MPERS Portfolio Performance

Since 2021, HarbourVest has invested across four of the five pillars, with the

portfolio showing early strong performance. The program is approximately 90% complete in making initial commitments, making this an appropriate time for the next iteration to maintain private markets investment.

Portfolio Composition:

- 40 primary fund commitments
- Majority of capital deployed in North American buyouts through primaries
- Performance meeting expectations with strong initial results

Mr. Powers noted that most primary investments are still in early stages, with no capital draws expected for the next couple of years, which represents normal timing for this investment type.

Infrastructure Addition

The infrastructure component added in the fourth quarter has performed exactly as planned, with \$30 million committed to HarbourVest's Infrastructure Opportunities Fund (a secondary infrastructure strategy). Despite MPERS' recent entry, early performance indicators are positive.

Separately Managed Account Benefits

HarbourVest has expanded their separately managed account capabilities, providing customized solutions for clients. Benefits for MPERS include:

- Single commitment structure rather than multiple fund commitments
- Consolidated capital calls and distributions
- Administrative simplification
- Forced diversification across strategies regardless of market conditions
- Improved economics compared to previous commitment
- Continued comprehensive service provision

Geographic Strategy Adjustment

Ms. Cahill noted that unlike 2021 market conditions, current strategy would target approximately 0% allocation to Asia and China due to deal sensitivities and uncertainties. Capital would be redirected to US and European opportunities where value can be captured without additional geopolitical risk.

Board Q&A

Mr. Roberson inquired about potential challenges in capital deployment timing. Mr. Powers indicated no anticipated issues due to their ability to invest across multiple strategies.

Mr. Roberson asked about carried interest and potential legislative changes. Mr. Powers clarified that HarbourVest does not charge carried interest on primary manager investments (the primary managers charge carried interest), and predicting legislative impacts remains difficult.

Staff Recommendation

Mr. Huxen reiterated NEPC's recommendation to commit \$220 million for deployment through HarbourVest over the next four years within the existing Frenchman Street Fund of One structure.

Motion by Chief Christopher Wilrye, seconded by Mr. Julius Roberson, to commit \$220 million to be deployed through commitments by HarbourVest over the next four years within the existing HarbourVest Frenchman Street Fund of One structure. Without objection, the motion carried.

IV. Other Business

Sigular Guff Legacy Investment Decision

Mr. Barnes discussed a decision regarding MPERS' legacy private real estate investment with Sigular Guff Distressed Real Estate Opportunity Fund 2, to which the Board made commitments in 2013 and 2014. The fund is set to expire in 2025 but still holds real estate assets requiring liquidation.

Industry Trend and Options

Mr. Barnes explained a common trend in private market portfolios: when funds near expiration with remaining assets, outside investors often purchase those assets for passive management. In this case, a continuation vehicle has been created that offers all investors two options:

1. **Liquidate:** Take cash and exit the investment entirely
2. **Roll Over:** Transfer the investment into the continuation fund and remain until final liquidation

Current Offer and Analysis

MPERS has received an offer of approximately 60.4 cents on the dollar for its legacy investments. NEPC's team conducted modeling to evaluate the options:

If MPERS accepts the 60.4% offer: Immediate liquidity but significantly diminished returns due to the steep discount

If MPERS rolls over the investment: NEPC's best-case scenario modeling projects returns of 6-7% per year until final liquidation

NEPC Recommendation

After analyzing long-term scenarios, NEPC's research team concluded that the decision depends on MPERS' liquidity needs:


- **If liquidity is needed:** Accept the discounted offer despite reduced returns
- **If liquidity is not needed:** Roll over the investment to avoid the steep discount and potentially achieve better returns

Based on this analysis, NEPC has recommended to Mr. Huxen that MPERS remain in the continuation vehicle rather than accept the 60.4% liquidation offer.

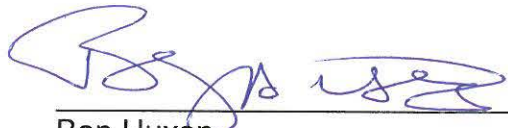
V. Adjourn at 10:56 am

Motion by Chief Christopher Wilrye and seconded by Mr. Juluis Roberson to adjourn the meeting at 10:56 am. Without objection, the motion carried.

To the best of my knowledge, the foregoing minutes accurately represent the actions taken at the meeting held March 19, 2025.



Major (Retired) Kelly Gibson, Chairman



Ben Huxen,
Executive Director and General Counsel