



## MoDOT & Patrol Employees' Retirement System

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TO: Kevin Leonard, NEPC

CC: MPERS' Investment Committee

FROM: Larry Krummen, Chief Investment Officer

DATE: January 19, 2022

SUBJECT: MPERS' Internal Fixed Income Review

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### Background:

For compliance and auditing purposes, MPERS' investment policy requires a periodic review of the internal fixed income portfolios to ensure compliance with the guidelines established by the Board of Trustees. Any action items or exceptions to the policy are presented to the Investment Committee for approval. MPERS' staff recently conducted a review for all holdings effective 1/10/2022 and the following results are presented for your consideration. Any exceptions or findings previously disclosed have either been sold or remain in the portfolio and continue to perform to expectations.

### MPERS' Core Fixed Income portfolio: No findings

- **Key Portfolio Statistics (as of January 10, 2022)**
  - Market Value: \$219.0 million
  - Average Yield (YTW): 0.68% (down from 0.8% in Aug. 2021)
  - Average Rating: AA+
  - Average Duration (OAD): 2.57 years (up from 2.08 years in Aug. 2021)
  - Number of Holdings: 106
  - Largest exposure (not backed or guaranteed by a Government Agency): 2.4% of portfolio
    - Description: COMM 2019-521F A  
Par amount: \$5,161,000  
AAA-rated commercial mortgage backed security (CMBS) backed by a senior loan on a multi-tenant office building at 521 Fifth Avenue, New York, NY (one block west of Grand Central).

### MPERS' Inflation Protection portfolio: No findings

- **Key Portfolio Statistics (as of January 10, 2022)**
  - Market Value: \$24.0 million
  - Average Yield: -0.54% (real yield – up from -0.83 in Aug. 2021)
  - Average Rating: AAA
  - Average Duration (OAD): 14.0 years
  - Number of Holdings: 2
  - Both bonds in the portfolio are issued by the U.S. Treasury.

MPERS' Long Duration portfolio: No findings

- **Key Portfolio Statistics (as of January 10, 2022)**
  - Market Value: \$140.2 million (down from \$150.7 million in Aug. 2021)
  - Average Yield (YTW): 2.46% (up from 2.08%)
  - Average Rating: AA+
  - Average Duration (OAD): 13.7 years
  - Number of Holdings: 68
  - Largest exposure (not backed or guaranteed by a Government Agency): 3.8% of portfolio
    - Description: MOSMED 3.086 09/15/51
    - Par amount: \$5,000,000
    - Taxable municipal backed by Washington University in St. Louis, MO. Bond is issued through the Missouri State Health & Educational Facilities Authority (MoHEFA).

MPERS' Cash Collateral portfolio: No findings.

- **Key Portfolio Statistics (as of January 10, 2022)**
  - Market Value: \$97.6 million (down from \$128.2 million in Aug. 2021)
  - Average Yield (YTW): 1.43% (up from 1.26%)
  - Average Rating: AA+
  - Average Duration (OAD): 0.07 years
  - Number of Holdings: 82 (down from 95)
  - Largest exposure (not backed or guaranteed by a Government Agency): 3.03% of portfolio
    - Description: AFHT 2019-FAIR A
    - Par amount: \$3,000,000
    - AAA-rated commercial mortgage-backed security (CMBS) backed by a senior loan on a Fairmont Hotel in Round Rock, TX.

**Prior Downgrades in the Portfolio:**

The following exceptions have been reported to the board in prior fixed income reviews, and approval was granted to continue holding the securities within their respective portfolio. An update on the status of these securities is provided below:

<b>Issuer</b>	<b>Account</b>	<b>Date Reported</b>
FFELP Loans	Cash Collateral	February, 2017
<ul style="list-style-type: none"> <li>○ Update: These are student loan pools guaranteed by the Federal Family Education Loan Program (FFELP). In 2016, rating agencies started to downgrade various FFELP pools due to the expectations that the final maturity payments could extend beyond the original stated maturity date. These are government insured bonds, so these are technical downgrades versus a credit downgrade. MPERS' internal fixed income policy specifically states there are no restrictions on holding securities that are guaranteed by a U.S. Government agency, but we brought the rating issue to the Investment Committee in order to avoid any confusion. These bonds continue to perform a valuable role in the cash collateral portfolio, and we plan to continue holding the bonds until maturity.</li> </ul>		
Bank of America Funding Corp 2005-D A1	Cash Collateral	February, 2013
<ul style="list-style-type: none"> <li>○ Update: This was downgraded in 2012 when rating agencies essentially downgraded all structured mortgage products across the board. This particular bond remains a very high credit quality, currently carries a coupon of 2.78%, is priced at 101.27% of par and has paid down to only \$3,721 of remaining principal (from \$1.8 million at time of downgrade). We plan to continue holding the bonds until final maturity payment is received.</li> </ul>		

All of the other previously downgraded bonds have either been sold, matured, or called by the issuer.