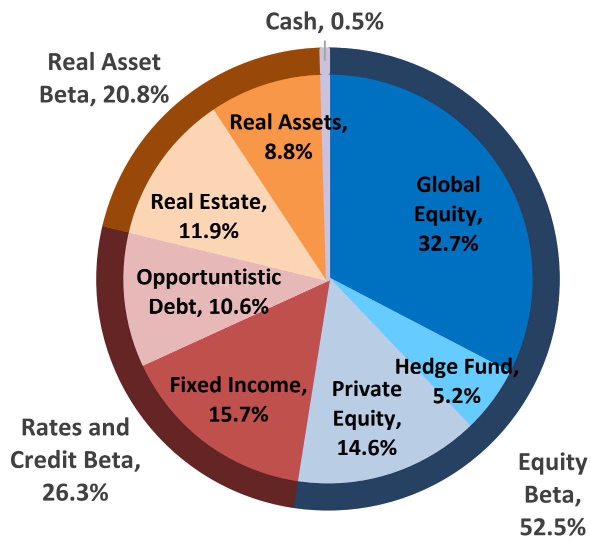
CIO INVESTMENT REPORT
~ by Larry Krummen, CFA ~
Chief Investment Officer
MPERS Board Meeting – September 24, 2020

Investment Performance Report

NEPC will present MPERS' finalized Fiscal Year 2020 investment performance report. A high level summary of the report is provided below.

MPERS' Asset Allocation
June 30, 2020
Market Value $2,361,830,385



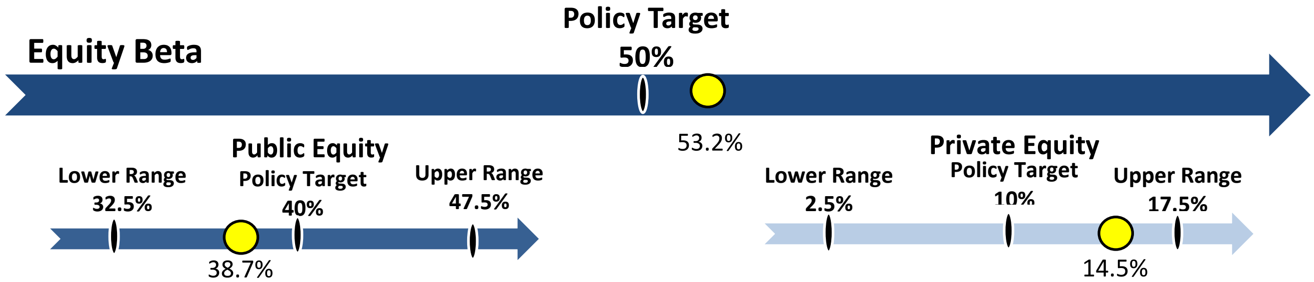
1-Year Return:	-0.46%
Benchmark Return:	4.03%
Excess:	(4.49%)
3-Year Return:	5.18%
Benchmark Return:	6.81%
Excess:	(1.63%)
5-Year Return:	5.51%
Benchmark Return:	6.60%
Excess:	(1.09%)
10-Year Return:	8.80%
Benchmark Return:	8.19%
Excess:	0.61%

- For the fiscal year ending June 30th, MPERS' portfolio generated a -0.46% return. It was a challenging year from a number of perspectives. For the first time since the financial crisis, MPERS' portfolio failed to outperform the actuarial return, the policy index, and a passive 60/40 stock/bond allocation. MPERS' portfolio is designed for the long term, and includes a diversified mix of strategies to perform well throughout a wide range of investment markets. Unfortunately, the past few years have proved to be a difficult time for the portfolio, especially relative to MPERS' policy benchmark. Fiscal year 2019 saw a significant shift in policy targets which led to a disconnect between the actual asset allocation versus the new policy targets (including a meaningful underweight to the public equity markets during a time when equity markets rallied), while fiscal year 2020 brought a new set of challenges associated with the COVID-19 outbreak. Staff remains confident the portfolio is well positioned to meet the long term goals of the system, but acknowledges the recent underperformance requires further discussion. To that point, the investment committee met earlier in the month to hear updates from staff and NEPC regarding the management plan to address the recent shortfalls.

- Longer term, MPERS' performance remains strong. MPERS' ten year return ranks in the top 21% of the universe, with a risk profile (as measured by volatility of returns) in the bottom 1% of the peer universe. The strong risk-adjusted performance is an important reminder to focus on the long term goals of the system, which includes not overreacting to the recent short term performance during the middle of a pandemic.

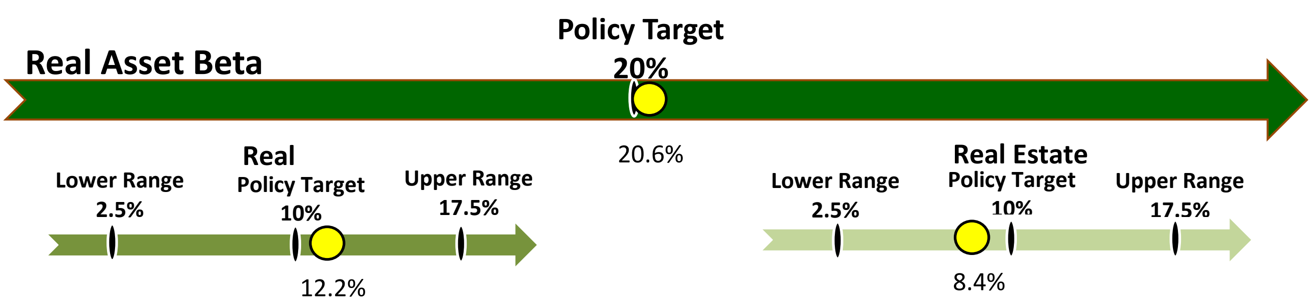
Current Asset Allocation and Positioning Relative to Targets

MPERS' breaks down all investment strategies into three broad beta groups (equities, interest rates and credit, and real assets). As of September 15, 2020, each of the respective allocations are within the permissible ranges established in MPERS' investment policy. The current allocation relative to the new policy targets, along with additional comments on the positioning of the portfolio, is provided below. MPERS' current cash balance stands at $6.8 million (or 0.2% of assets), and there is not any total fund leverage in place at this time.



With equity markets trading at/near all time highs, along with the uncertainty around COVID-19 and the pending presidential election, we liquidated $20 million in July which moved the portfolio to an underweight position to the public equity markets. Within the 38.7% public equity allocation, 69% of the exposure (28.1% of assets) is obtained through the use of derivative and/or portable alpha (hedge fund) strategies.

Uncertainty surrounding COVID-19 continues to push interest rates lower. In an effort to boost jobs and inflation, the Federal Reserve has stated that short term rates will remain near zero through 2023. The 10-year Treasury now yields 0.67%, while the 30-year Treasury now yields 1.73%. Given this current interest rate environment, we intend to underweight the broader rates and credit portfolio in favor of equities and real asset strategies for the foreseeable future.



The overall real asset sector remains under stress given the reduced economic growth outlook from COVID-19. The energy portfolio remains vulnerable to further losses, with $40/barrel representing an important hurdle to simply maintain operation of certain oil-based strategies. Within real estate, the office and retail sectors are still struggling to find their new base valuations while multi-family and industrial sectors remain very healthy. The timber portfolio has a number of pending sales which should close over the coming months and could offset some losses in other areas.