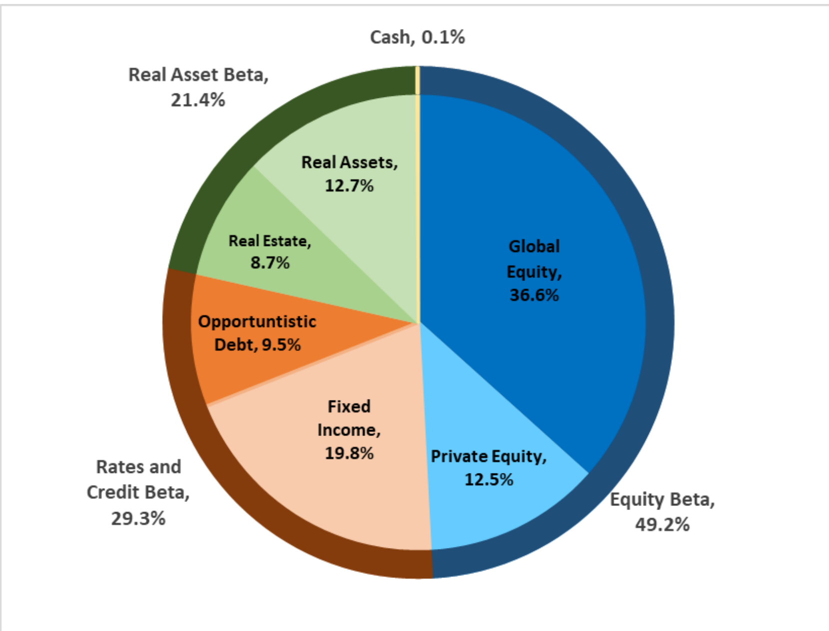
CIO INVESTMENT REPORT
~ by Larry Krummen, CFA ~
Chief Investment Officer
MPERS Board Meeting – September 21, 2023

Investment Performance Report

NEPC will present MPERS' Fiscal Year 2023 investment performance report. A high-level summary of the report is provided below.

MPERS' Asset Allocation June 30, 2023
Market Value $3,275,163,126



1-Year Return:	8.88%
Benchmark Return:	6.44%
Excess:	2.44%
5-Year Return:	9.50%
Benchmark Return:	7.30%
Excess:	2.20%
10-Year Return:	9.27%
Benchmark Return:	7.62%
Excess:	1.65%
20-Year Return:	8.32%
Benchmark Return:	7.48%
Excess:	0.84%

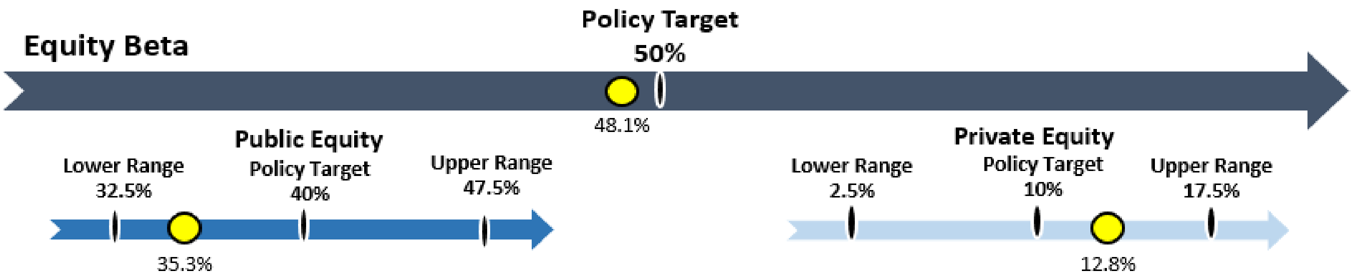
- "Eights are wild" is the story for Fiscal Year 2023, as MPERS' portfolio ended the year with an 8.88% return. That return outperformed MPERS' policy benchmark of 6.4% yet underperformed the median public fund return of 9.1%. With global equities up 16.5% for the year, it was a year where simpler was better. The more equity exposure you had, the better you performed. Most alternative strategies offered little, if any, diversification in the rising interest rate environment of the past year. Fixed income fared equally poorly given the inverse relationship between bond yields and prices.

- We are pleased to report that MPERS now has 20-year net-of-fees returns to report on a going-forward basis. MPERS' 20-year return of 8.3% ranks in the 1st percentile of the public fund universe and has outperformed the policy benchmark return of 7.5% over the same period. Perhaps more important is the fact that MPERS' policy benchmark (the return you expect to earn investing passively across the targeted asset allocation) ranks in the top 15% of the public fund universe. The two key takeaways from this are 1) MPERS' asset allocation has served the system very well and 2) staff has done an excellent job of delivering alpha (excess return) over and above a very difficult benchmark.

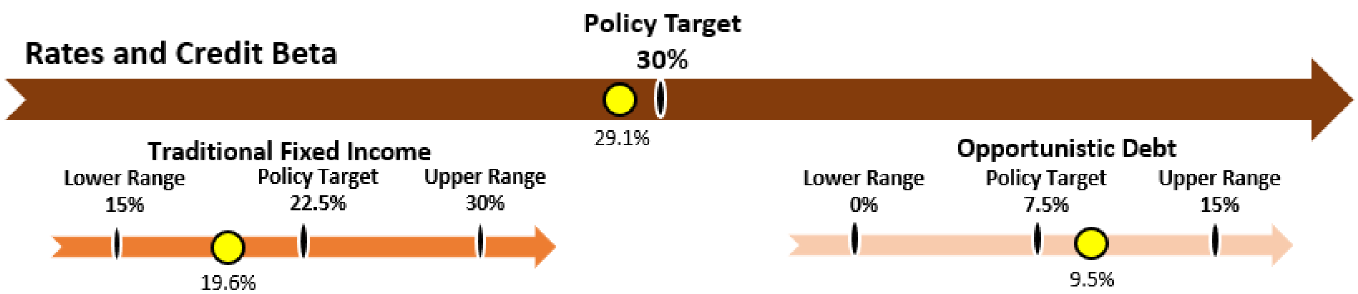
- MPERS' other long-term returns look equally strong, as the three-, five-, and ten-year returns all rank in the top 1% of the public fund peer universe. The risk-adjusted returns (measured by a system's Sharpe ratio) also rank in the top 1% of the peer rankings.

Current Asset Allocation and Positioning Relative to Targets

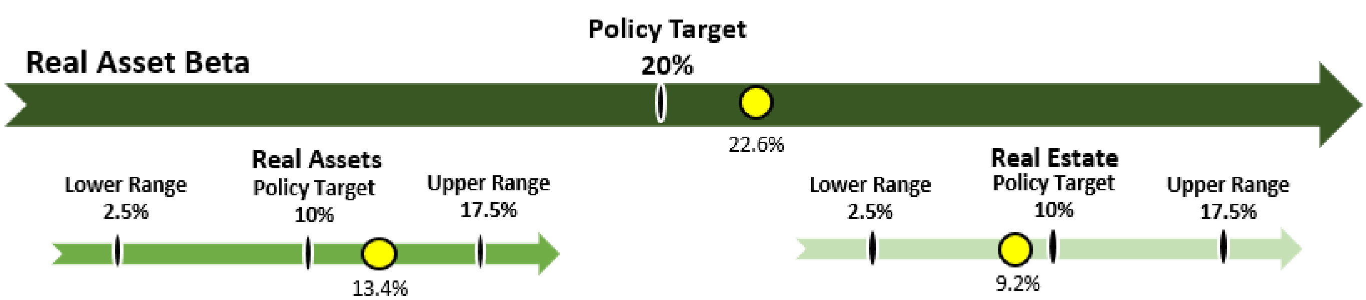
The current allocation relative to policy targets, along with additional comments on the positioning of the portfolio, are provided below. As of September 12, 2023, each of the respective allocations are within the permissible ranges established in MPERS' Investment Policy. The total fund leverage authority is being utilized moderately, with total leverage standing at 7.8% of assets. Staff has a general de-risk/de-lever theme in place at this time, as leverage has dropped from 10.6% on July 1st and the line of credit was paid off in mid-July.



Staff continues to take a cautious approach to the public equity markets, as the strong performance in calendar year 2023 has pushed valuations to less attractive levels. Given the uncertainty of the impact that higher interest rates will have on the economy, staff would prefer to stay defensive and wait for more attractive entry points in the future.



Bond yields have increased roughly 40 basis points (four-tenths of a percent) since the start of July, as the Federal Reserve continues to increase the Fed Funds rate to curb the stubborn inflationary environment. With 10-year Treasury yields around 4.3% and government-guaranteed mortgages yielding above 6%, staff continues to increase the traditional fixed income allocation closer to policy targets. We expect to continue allocating capital to fixed income if yields stay at or above the current levels.



The real assets portfolio continues to be the staff's preferred asset class for new investments, as it continues to benefit from the current inflationary environment. The timber portfolio was up another 43% in Fiscal Year 2023, led by strong realized land sales in Tennessee and Montana. The timber portfolio now has a five-year annualized return of 16.1%, which is the second highest returning asset class behind private equity over that period.