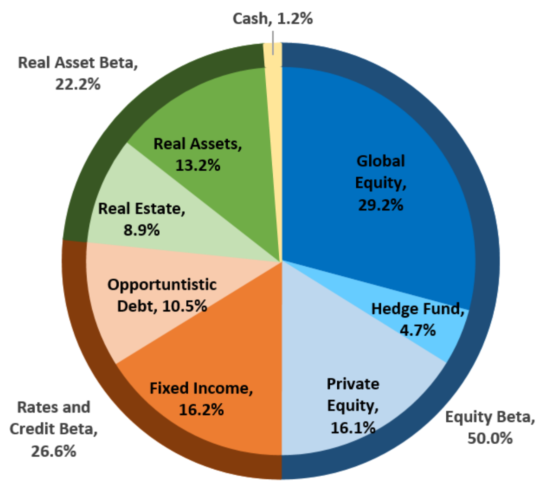
CIO INVESTMENT REPORT
~ by Larry Krummen, CFA ~
Chief Investment Officer
MPERS Board Meeting – June 18, 2020

Investment Performance Report

NEPC will present MPERS' finalized 1st quarter 2020 investment performance report. A high level summary of the report is provided below.

MPERS' Asset Allocation
March 31, 2020
Market Value $2,283,811,659



1-Year Return:	-1.51%
Benchmark Return:	1.43%
Excess:	(2.94%)
3-Year Return:	4.82%
Benchmark Return:	5.54%
Excess:	(0.72%)
5-Year Return:	5.14%
Benchmark Return:	5.30%
Excess:	(0.16%)
10-Year Return:	8.03%
Benchmark Return:	7.09%
Excess:	0.94%

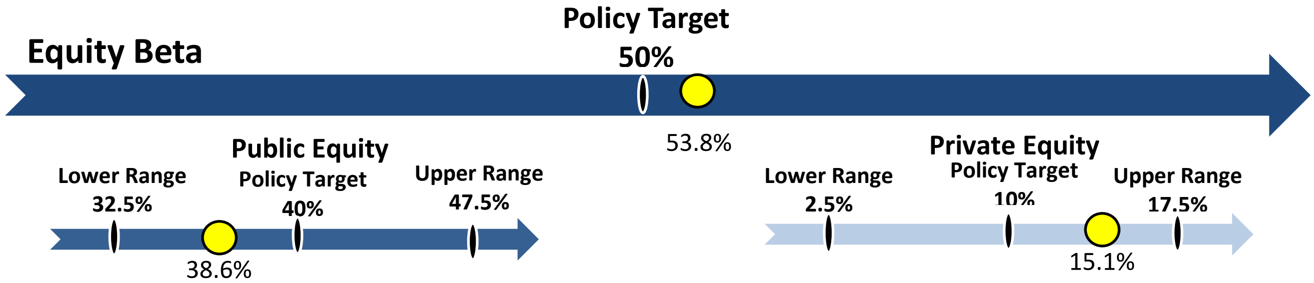
- The 1st quarter of 2020 witnessed large declines in the equity markets as investors responded to the slowing economic growth from the COVID-19 pandemic. Global equities ended the quarter down over 21%, which led to a negative 8.9% return for MPERS' portfolio during the quarter (in line with the estimates provided by the investment staff at the April 24, 2020 board meeting). While it was certainly a difficult quarter from an absolute return perspective, MPERS' performance ranked in the top 4% of the public fund universe as the average public fund lost 13.8% during the quarter.

- Equity markets have rallied significantly thus far in the second quarter, recovering most of the losses incurred during the prior quarter. As of June 10th, global equity markets are only down 3.5% for the calendar year, with the NASDAQ trading all the way back to record highs. With only a few weeks remaining in Fiscal Year 2020, MPERS' overall performance is now positive again with an estimated return of 1.6% (July 1, 2019 through June 10, 2020).

- Longer term, MPERS' performance remains excellent. As of March 31, 2020, MPERS' performance ranks in the top 1% of the universe over the trailing 10-year period and in the top 6% of the public fund universe over all measurement periods. The portfolio also has a risk profile (as measured by volatility of returns) in the bottom 1% of the peer universe. MPERS' strong risk adjusted performance is one of the primary reasons why MPERS' staff and NEPC both recommend the Board maintain the current asset allocation policy as outlined in the Asset/Liability Study as presented in the agenda and board materials.

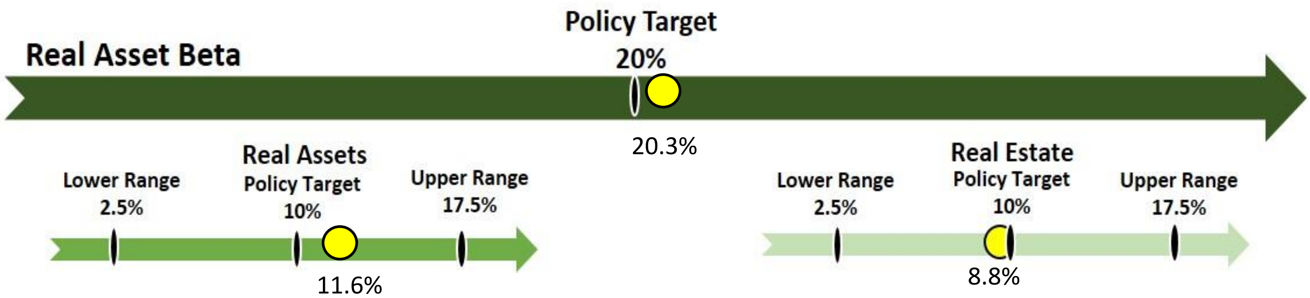
Current Asset Allocation and Positioning Relative to Targets

MPERS' breaks down all investment strategies into three broad beta groups (equities, interest rates and credit, and real assets). As of June 10, 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 $8.5 million (or 0.3% of assets).



As the uncertainty surrounding COVID-19 sent equity markets down in the first quarter, we made a number of rebalancing trades to deploy funds into more attractive equity valuations. A total of $105 million of cash was invested during the downturn, funded by existing cash allocations and liquidations within the fixed income and real estate portfolios. As equity markets rebounded and approached the highs set earlier this year, we have liquidated $10 million to manage liquidity needs in the portfolio. The combination of the (net) new investments, along with the rebound in public equity markets, has led to an overweight to the equity beta class and brought us closer to the long-term policy targets for public equity. Within the 38.6% public equity allocation, 72% of the exposure (27.9% of assets) is obtained through the use of derivative and/or portable alpha (hedge fund) strategies.

Uncertainty surrounding COVID-19 also sent interest rates to all time lows as investors reduce expectations for economic growth. The 10-year Treasury now yields 0.72% (after trading as low as 0.54% on March 9th), while the 30-year Treasury now yields 1.5% (after briefly trading below a 1% yield). Given this current interest rate environment, we intend to underweight the broader rates and credit portfolio in favor of equities for the foreseeable future.



A $30 million redemption from a core real estate manager in March (to fund equity purchases) moved the overall real assets allocation closer to long-term targets. We continue to monitor all of the various real asset strategies to determine the impact COVID-19 will have on their respective sectors and are evaluating several strategies for potential investment once the markets stabilize.