



# Defined Benefit Investment Concepts

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2020





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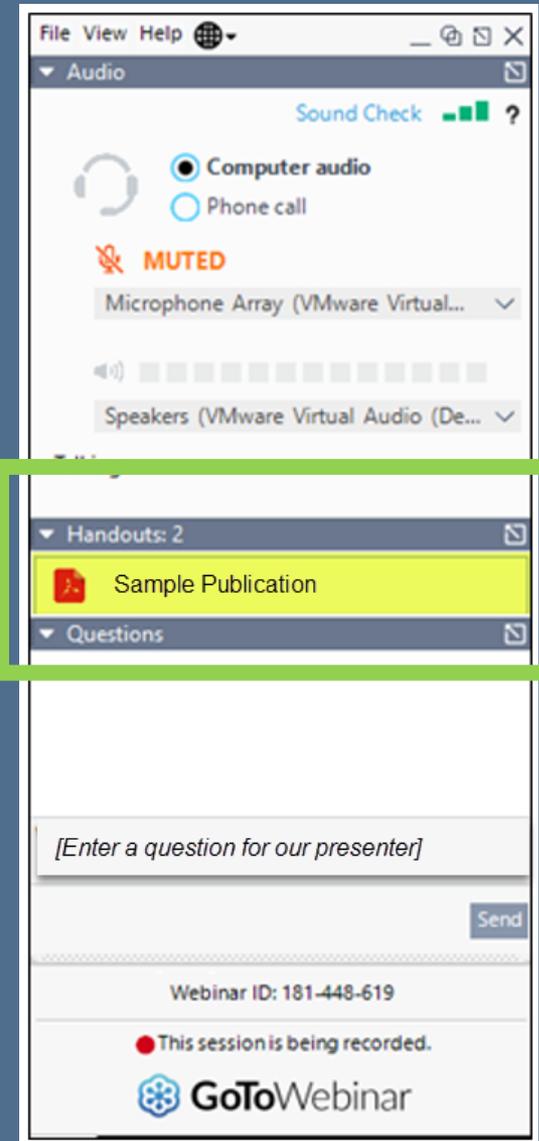
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# Publications

A copy of this presentation and additional publications on this topic are available for you to download

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# Agenda

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- MERS Investment Roles
  - Retirement Board
  - Investment Committee
  - Portfolio Review Committee
  - Office of Investments
- MERS Defined Benefit Portfolio
- Impact of MERS' Investments on Plan Funding



# MERS Investment Roles

# About the MERS Retirement Board

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- MERS is governed by an elected Retirement Board that operates without compensation
- They are committed to accountability and transparency, holding the line on costs, and watching out for the best interest of our members
- The nine-member board consists of:
  - Three officer board members
  - Three employee board members
  - Two appointed members
  - One retiree board member



## **MERS Retirement Board**

is responsible for administration of the system with fiduciary responsibility for the investment of assets and oversight.

# Fiduciary Responsibility

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- MERS is the **sole fiduciary** for our retirement plans – we provide customers with:



Oversight



Administration



Investment Monitoring



Low Plan Costs



Participant Education

**Are all of MERS  
investments  
managed in-house?**

# MERS Retirement Board

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## *Investment roles and responsibilities*

- Acts as sole fiduciary
- Appoints Investment Committee, including public members with investment expertise
- Monitors activity of the Investment Committee
- Approves governance documents
- Sets the fund's asset class allocation ranges
- Establishes the long-term actuarial investment return assumption
- Sets the Policy Benchmark

# MERS Investment Committee

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## *Investment roles and responsibilities*

- Board's investment policy development arm
- Monitors investment management activity
- Approves recommendation to hire/fire managers
- Provides advice on investment activities including: industry best practices, fiduciary duties and risk expectations of the Board
- Monitors portfolio risk and asset allocation

# MERS Portfolio Review Committee

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## *Investment roles and responsibilities*

- Decision-making body chaired by CIO and consisting of senior investment staff
- Determines and implements asset allocation within Board approved ranges
- Approves investments and co-investments up to discretionary limits
- Reports decision to the Investment Committee

# MERS Office of Investments

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## *Investment roles and responsibilities*

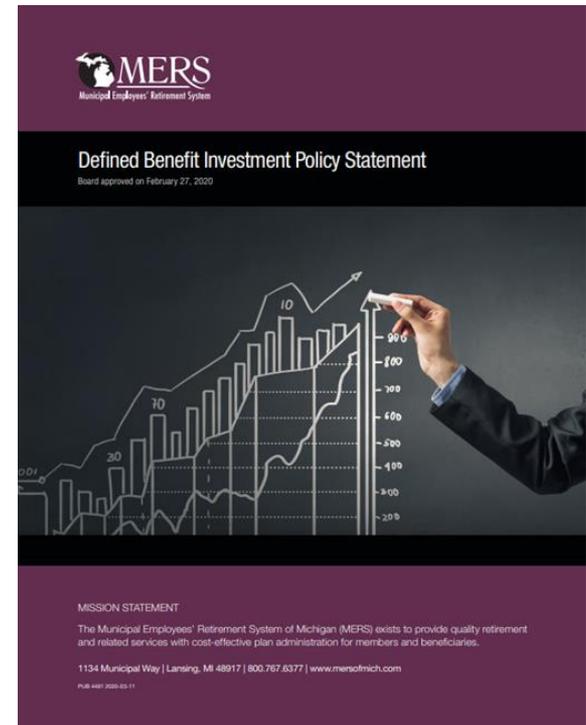
- Carries out all investment activity on behalf of the fund
- Monitors all consultants, vendors and custodial bank
- Reports quarterly on the fund's activities and performance
  - Reports material changes to Investment Committee and Board
- Manages a portion of the fund internally, primarily in index exchange traded funds (ETF)
- Monitors external investment managers
- Conducts its affairs according to the highest standards of ethical conduct



# MERS Defined Benefit Portfolio

# What is the Investment Policy Statement?

- Ensures investment activities are carried out within the framework established by MERS' policy and administrative documents
- Offers a road map to assist in making prudent and informed decisions regarding:
  - Goals of MERS investment program
  - Investment policies
  - Performance objectives and evaluation
  - Major investment programs
  - Investment processes and procedures



# Investment Philosophy and Principles

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- **Capital preservation is paramount**
- Keep it simple – if it cannot be understood, do not invest in it
- A clearly defined and sound governance structure is a prerequisite for the successful management of any investment strategy
- Asset allocation is the most important decision investors face
- A valuation-driven investment process can generate outperformance by exploiting market inefficiencies
- Low-cost implementation is fundamental to achieving required returns
- The fund's long-term time horizon allows it to capitalize on the constraints of short-term focused investors
- Diversification is critical because the future is unknown

**What is MERS'  
primary investment  
objective?**

# Primary Investment Objectives

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- Exceed the actuarial investment assumption on a **long-term** basis
- Maintain adequate liquidity to pay benefits
- Adopt a strategic asset allocation plan
- Minimize the costs through the efficient use of internal and external resources

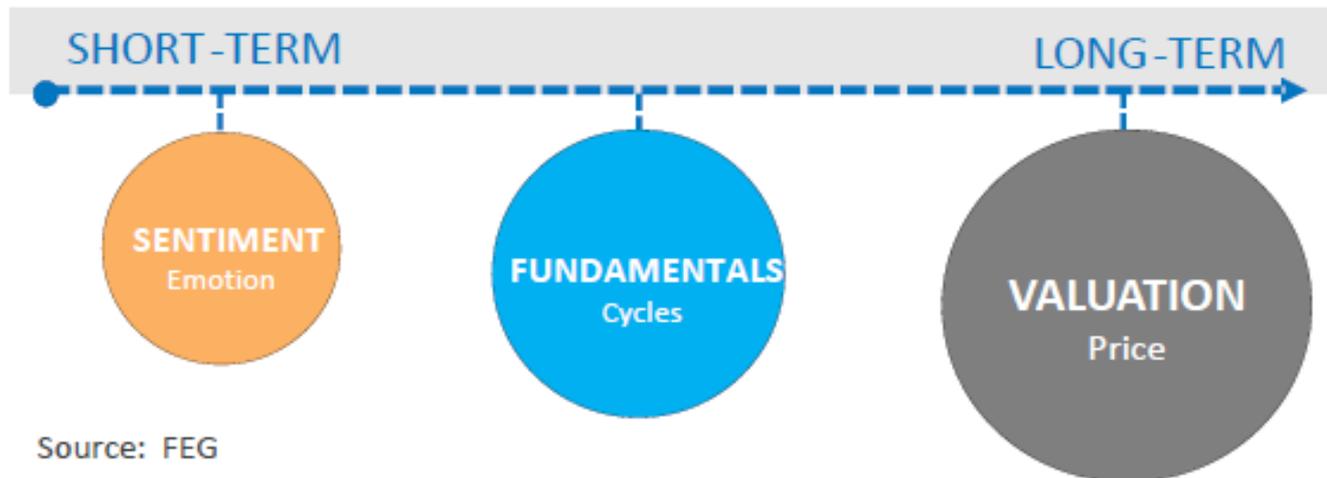
# Secondary Investment Goals

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- Maintain above median peer rankings for 3, 5 and 10-year time periods
- Exceed the fund's policy benchmark, which currently consists of:
  - 45% Russell 3000
  - 20% MSCI ACWI IMI ex-US6
  - 25% Bloomberg Barclays Aggregate
  - 10% Bloomberg Barclays Global Aggregate ex US

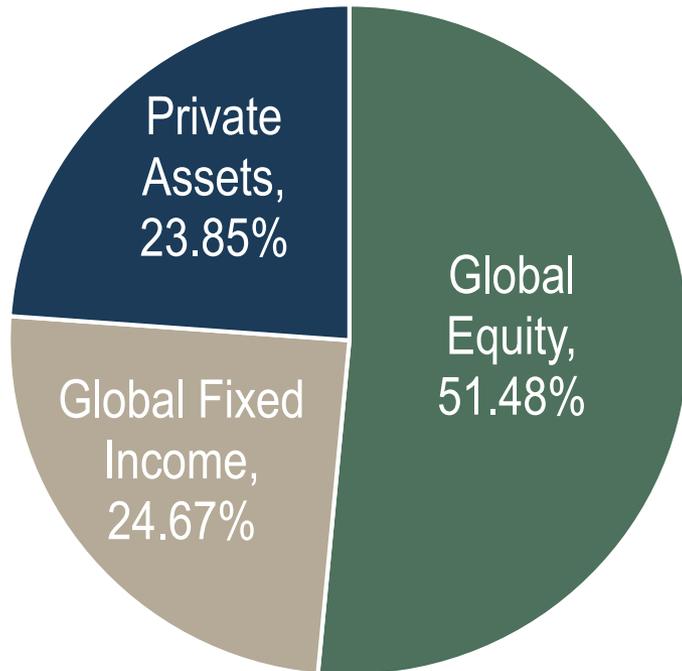
# Asset Allocation Summary

- Valuation-focused investors
- Ongoing, active asset allocation
- Risk is taken only when appropriately compensated
- Consistent and disciplined process
- Aligned with our long time horizon

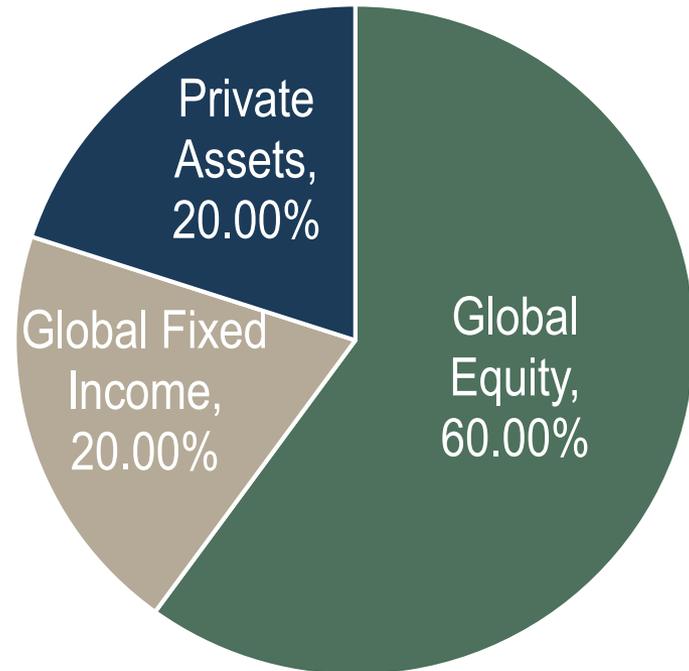


# MERS Total Portfolio Asset Allocation

## Actual Asset Allocation



## Base Asset Allocation



As of 6/30/2020

# Investment Manger Due Diligence & Selection

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- A disciplined process is necessary to conduct proper due diligence and objectively evaluate prospective managers
- The goal is to provide a consistent, systematic framework for investment manager due diligence and selection
- The Office of Investments considers several factors:
  - Organization
  - People
  - Investment Process
  - Procedures
  - Performance
  - Price
  - Portfolio Impact

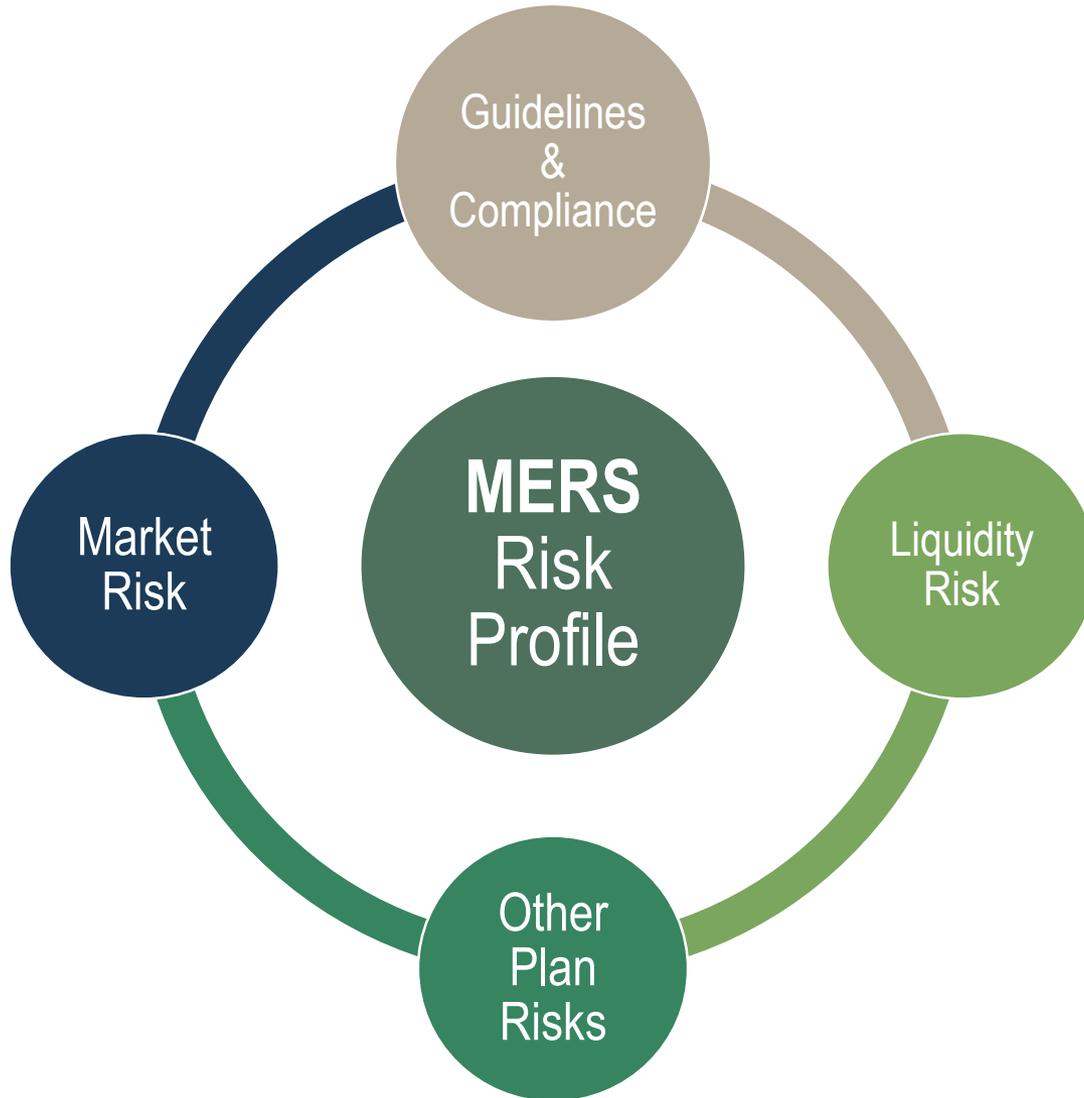
# Investment Manager Monitoring & Retention

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- Ongoing manager evaluation is required to maintain the desired allocation and meet overall investment objectives
- Meet with each manager at least twice per year
- Qualitative assessment focuses on organizational stability, adherence to investment philosophy and process
- Quantitative assessment focuses on performance versus benchmark, peer comparison and risk analysis
- Courses of action:
  - Probation
  - Comprehensive review

# Risk Management and Controls

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# The Role of MERS Investments on Plan Funding

# Investment Earnings

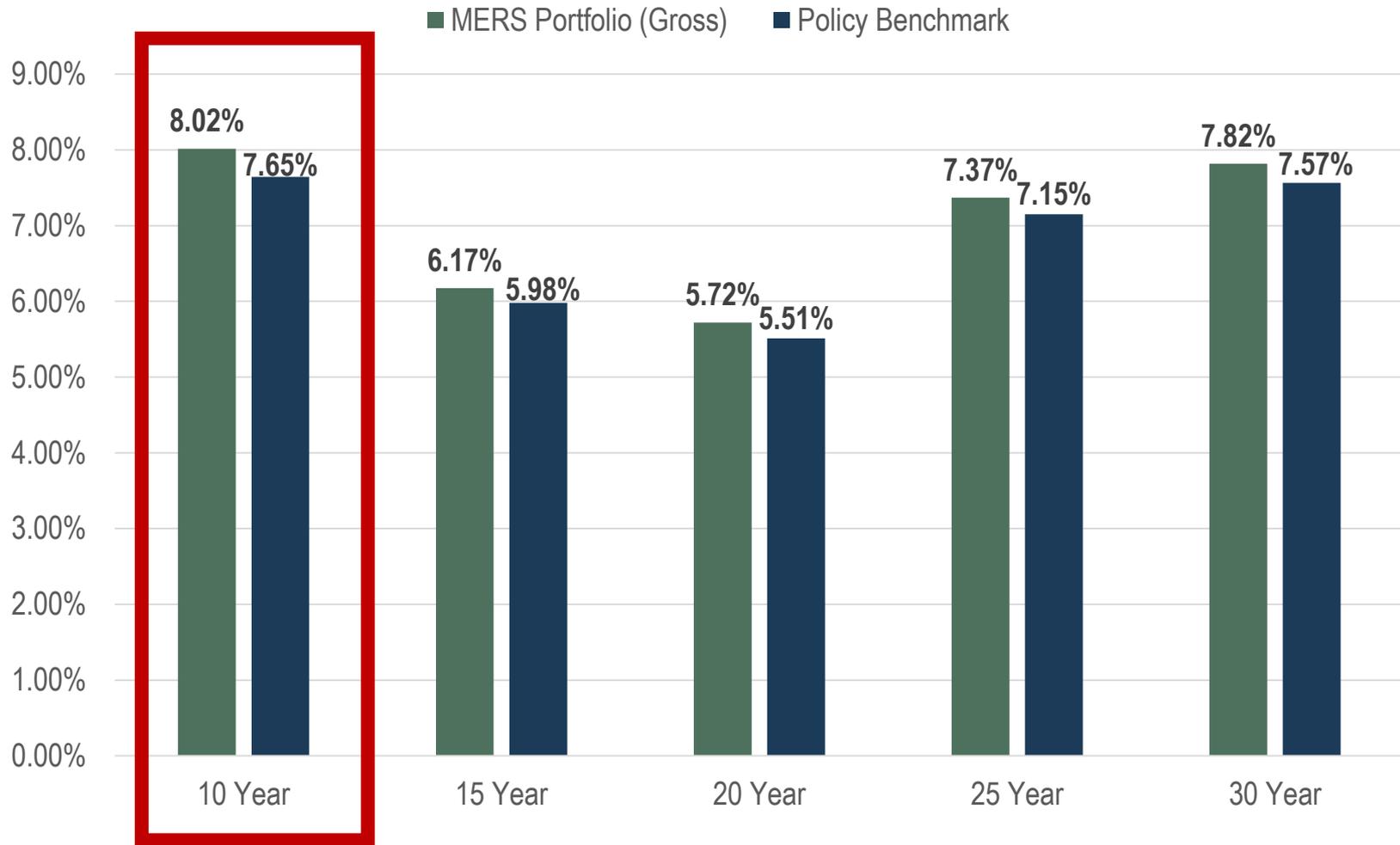
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- For over 20 years, more than half of retirement benefits paid have come from MERS' investment earnings, not taxpayer dollars
- MERS consistently outperforms its benchmarks and market averages, with a prudent, long-term approach designed to provide downside protection and upside market participation
- Effective with your 2019 Annual Actuarial Valuation, the assumed investment rate of return is 7.35%

**MERS' investment earnings pay more than ½ of retiree benefits**



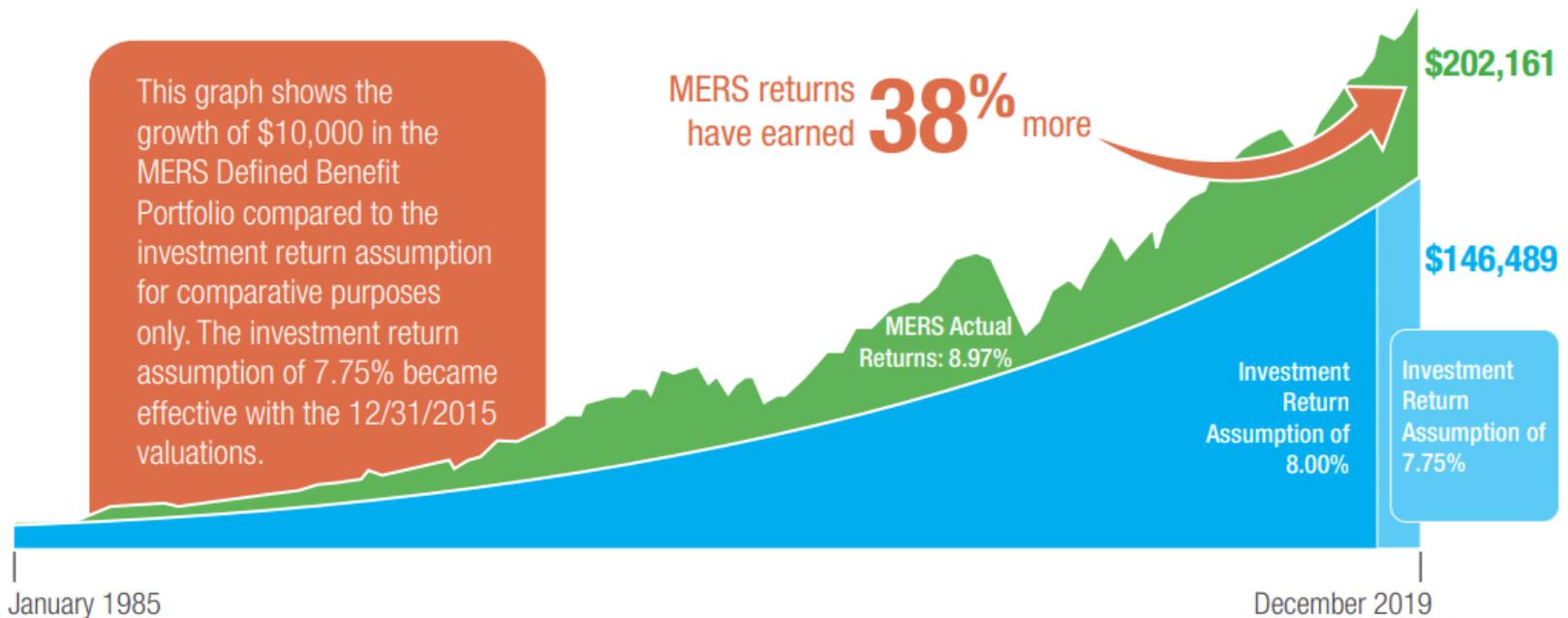
# Long-Term Performance Summary



As of 06/30/2020

# Long-Term Investment Returns

*Actual returns have outperformed the actuarial assumption*



# Finding Your Plan's Investment Income

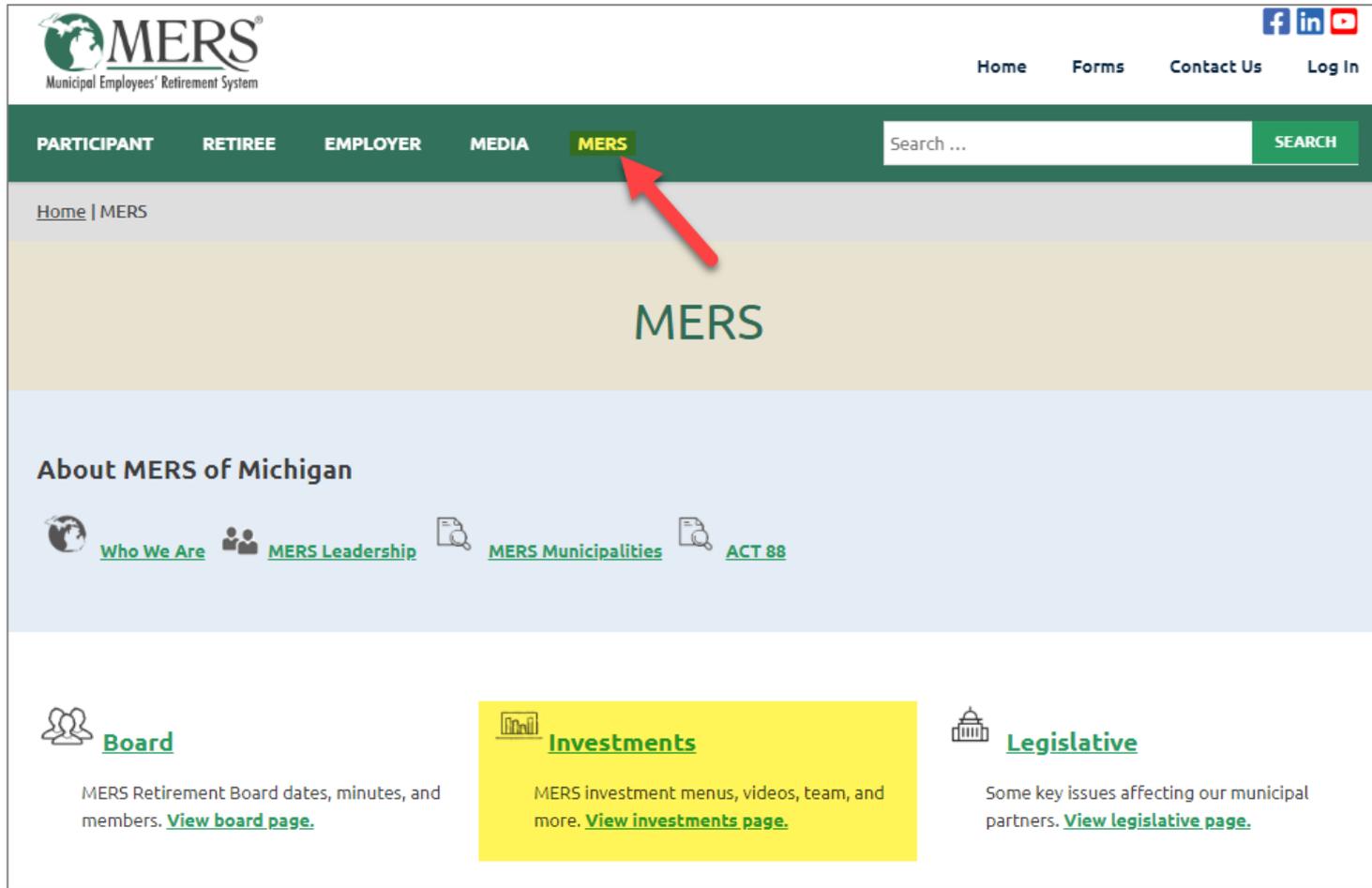
*Investment income is provided in your Annual Actuarial Valuation*

**Table 5: Flow of Valuation Assets**

Year Ended 12/31	Employer Contributions		Employee Contributions	Investment Income (Valuation Assets)	Benefit Payments	Employee Contribution Refunds	Net Transfers	Valuation Asset Balance
	Required	Additional						
2009	\$ 444,248		\$ 45,431	\$ 530,693	\$ (705,581)	\$ 0	\$ 0	\$ 11,949,782
2010	476,745		42,312	637,073	(792,792)	0	3,607	12,316,727
2011	461,584	\$ 7,840	39,409	603,953	(884,442)	0	0	12,545,071
2012	501,968	0	40,656	553,892	(977,892)	0	39,619	12,703,314
2013	560,638	0	42,688	731,830	(1,073,353)	0	0	12,965,117
2014	600,799	0	43,096	723,228	(1,175,336)	(12,268)	0	13,144,636
2015	644,663	367,360	45,268	671,237	(1,254,098)	(1,394)	71,972	13,689,644
2016	678,756	211,804	63,408	712,054	(1,329,938)	(2,011)	0	14,023,717
2017	735,905	67,100	72,297	833,634	(1,400,996)	(3,675)	3,706	14,331,688
2018	890,987	134,151	77,042	527,445	(1,475,888)	(7,782)	64,419	14,542,062
2019	909,771	92,876	81,717	681,449	(1,575,617)	0	15,166	14,747,424

# Investment Resources

Available at [www.mersofmich.com](http://www.mersofmich.com)



The screenshot shows the MERS website interface. At the top left is the MERS logo with the text "Municipal Employees' Retirement System". To the right are social media icons for Facebook, LinkedIn, and YouTube. Below these are navigation links: Home, Forms, Contact Us, and Log In. A dark green navigation bar contains links for PARTICIPANT, RETIREE, EMPLOYER, MEDIA, and MERS. A red arrow points to the MERS link. To the right of the navigation bar is a search bar with the text "Search ..." and a "SEARCH" button. Below the navigation bar, the text "Home | MERS" is visible. The main content area features a large "MERS" heading. Underneath is the section "About MERS of Michigan" with four links: "Who We Are", "MERS Leadership", "MERS Municipalities", and "ACT 88". At the bottom, there are three columns of content. The first column is titled "Board" and includes the text "MERS Retirement Board dates, minutes, and members. [View board page.](#)". The second column is titled "Investments" (highlighted in yellow) and includes the text "MERS investment menus, videos, team, and more. [View investments page.](#)". The third column is titled "Legislative" and includes the text "Some key issues affecting our municipal partners. [View legislative page.](#)".

# Key Takeaways

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- An experienced investment team oversees your investments
- MERS carefully balances risk and liquidity to **ensure that monthly pension obligations are paid**
- MERS' asset allocation policy creates a well-diversified portfolio that provides downside market protection with upside market participation
- Our disciplined, long-term approach has consistently outperformed our benchmarks and the assumed investment rate of return



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# What questions can we answer?

# Contacting MERS of Michigan

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## MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

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[www.mersofmich.com](http://www.mersofmich.com)

