

## INVESTMENT BELIEFS

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### **Belief 1 – Focus on the Long-Run**

In accordance with the Strategic Plan adopted by the Board, MCERA is a long-term investor and holds a 50+ year investment horizon. As a long-term investor, the MCERA Board concentrates its efforts on strategic decision making via the asset allocation, which is the single most important determinant of long-term investment returns accounting for up to 95% of total return. Investment decisions below the strategic level are specifically delegated to the Investment Consultant, Investment Managers or Staff as part of the Investment Policy Statement (IPS).

### **Belief 2 – Diversification Adds Value**

Diversification of plan assets, via the strategic asset allocation, is prudent and provides value to MCERA by reducing the volatility of investment returns in both the short- and long-term. The primary benefit of lower investment volatility is more stable contribution rates for the Members of the Plan and their Employers.

### **Belief 3 – Understand and Manage Risk**

Investing involves risk; volatility in asset values is a significant risk, but there are many others. MCERA seeks to understand risk in the broadest possible perspective. Accepting certain risks provides compensation to the investor and MCERA is willing to accept risk that is understood and for which we receive compensation. MCERA seeks to avoid risk that is not understood, or for which there is insufficient compensation. Examples of compensated risk may include: equity risk, volatility risk, illiquidity risk, default risk and others. Examples of uncompensated risk may include: governance risk, concentration risk, currency risk and others.

### **Belief 4 – Simple is Often Better**

With a 50+ year investment horizon, MCERA focuses on long-only holdings in two broad classes of investments: company ownership and lending money. Asset categories included in company

ownership are public equities (domestic, international and global) and private equity. Asset categories included in the lending money class include fixed income (domestic and international debt, both public and private). Asset categories that have components of both company ownership and lending money include real estate and infrastructure. Research has shown that complexity in the investment program often provides no net benefit to the Plan. Accordingly, MCERA avoids overly complex investment structures or vehicles.

### **Belief 5 – Public Investment Markets are Largely Efficient**

Many of the public investment markets in which MCERA invests are highly efficient in that most information is freely and widely available and is processed rapidly at nearly zero cost. In such environments, it is difficult for investors to add value, net of their fees, above the returns of a broad market index, especially in the long-run. Accordingly, in efficient market segments MCERA utilizes index funds unless we are confident in our ability to choose managers that will outperform their benchmark, net of fees over the long term. In market segments that are less efficient, MCERA will rely on active managers, and hold them accountable to achieving net-of-fees outperformance over the long term.

### **Belief 6 – Investment Costs Matter**

Administering an institutional investment program, such as MCERA's, requires the expenditure of funds to pay the various experts involved including: Investment Consultant, Investment Managers, Custodial Bank and others. These fees are paid by MCERA and can be thought of as negative investment returns since they reduce the assets of the Plan. Investment experts are vital and necessary for the successful operation of the investment program, but the value provided by each of them must be evaluated in light of the negative investment return of their fees. This is especially critical in the long-run view where the compounding of even small return differentials causes large differences in asset values.

### **Belief 7 – Strong Governance Is Vital**

MCERA believes that a robust governance environment is a vital component of long-term organizational success. This is equally true for the companies in which MCERA invests, the experts MCERA hires as well as the MCERA itself. MCERA expects itself and all of its investment partners to implement and maintain documented governance policies, as well as monitor the proper implementation of said policies.