



Kansas City Police Employees' Retirement Systems (KCPERS)

Police Retirement System of Kansas City, Missouri

&

Civilian Employees' Retirement System of the Police

Department of Kansas City, Missouri

Investment Policy Statement

Adopted September 14, 2023

## Table of Contents

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|                                                   |     |
|---------------------------------------------------|-----|
| I. Purpose of the Investment Policy               | 3   |
| II. Duties and Responsibilities                   | 4   |
| III. Investment Philosophy                        | 6   |
| IV. Asset Allocation Strategy                     | 8   |
| V. Investment Return Objectives and Benchmarks    | 9   |
| VI. Monitoring, Evaluation and Review             | 12  |
| VII. Reporting Requirements                       | 13  |
| Appendix A: KCPERS Investment Committee Charter   | A-1 |
| Appendix B: Asset Class Policy Target Allocations | B-1 |

## **KCPERS Policy**

### **Policy #004 Investment Policy**

**Adopted: December 2000**

**Revised: February 2002, January 2015, April 2018, March 2020, September 2023**

## **I. PURPOSE OF THE INVESTMENT POLICY STATEMENT**

The Police Retirement System of Kansas City, Missouri and the Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri ("Plan") exist solely to provide present and future retirement, disability, and survivor benefits to the law enforcement and civilian employees of the Kansas City, Missouri Police Department and to cover reasonable expenses incurred to provide such benefits. The Retirement Systems and benefit provisions are established in Chapter 86 of the Revised Statutes of Missouri. The Police Retirement System of Kansas City, Missouri and the Civilian Employees' Retirement System of the Police Department are different entities with separate Boards of Trustees ("Board" or "Board's") operating independently with fiduciary responsibility to their respective Retirement System. The membership of the two boards includes the same individuals.

This Investment Policy Statement ("Policy") is the product of the Board's careful and prudent study; it represents the Board's conclusions as to the most suitable combination of investments, within the applicable statutory requirements, which will satisfy the Plan's ongoing obligations for members and beneficiaries.

The purpose of the Investment Policy Statement is to:

- Provide a written document that sets forth the Board's expectations and objectives in the investment of Plan assets;
- Describe an organized structure for the investment of Plan assets including the identification of investable asset classes and investment strategies which, in aggregate and over time, are expected to meet the Plan's return objectives while maintaining a prudent level of diversification;
- Set forth guidelines that define the objectives and appropriate level of risk for each investment manager or mandate;
- Define criteria by which to monitor and evaluate the results and activities of each investment manager;
- Communicate the investment policies, objectives, guidelines, and performance criteria to the Members, Board, Staff, Investment Managers, Investment Consultants, and all other interested parties; and
- Demonstrate that the Board is fulfilling its fiduciary responsibilities in the management of the investments of the Plan solely in the interests of members and beneficiaries.

Although the Board intends to utilize this Policy in managing the Plan and the Plan's assets, it shall not be bound solely by its contents. The Board retains the right to amend, supplement or rescind items within the Policy if circumstances warrant a change.

## **II. DUTIES AND RESPONSIBILITIES**

Each of the entities below are fiduciaries to the Plan and must act prudently in the management of Plan assets, including diversifying the Plan's investments in order to minimize the risk of losses, and in accordance with the Revised Statutes of Missouri. The fiduciaries must also avoid conflicts of interest and may not engage in transactions on behalf of the Plan for the purpose of benefiting other parties unrelated to the Plan. Service providers, including Investment Consultants, Investment Managers, and Custodian Banks are hired by and serve at the pleasure of the Board.

### **Retirement Board of Trustees**

The Board is responsible for overseeing the investment of the funds supporting the Police Retirement System of Kansas City, Missouri, and the Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri. Its primary duty is to set the asset allocation by determining the asset classes to be used and allocating a certain percentage of funds to each asset class. It is also responsible for establishing an investment policy detailing the process for hiring, evaluating, and terminating Investment Managers. The Board has the authority to hire Investment Consultants, Investment Managers, and Custodian Banks to assist in the implementation of this policy and investment of such funds. Implementation of this Policy shall be in accordance with the fiduciary standards as set forth in the Revised Statutes of Missouri. The Board recognizes the protection which ERISA affords retirement plans that must abide by its provisions and intends to comply with its provisions, to the extent desirable, in order to further protect the assets of the Plan.

### **Investment Committee**

To expedite the duties as described, the Board has established an Investment Committee. The Investment Committee makes recommendations to the Board on investment actions; however, ultimate responsibility for investment and asset allocation decisions remains with the Board. The Committee will consist of four Board members and two non-voting members (one representing retired participants, and one representing active participants).

Committee responsibilities include investment policy and risk management, portfolio structure, vendor selection, monitoring and reporting, and other duties. Specific responsibilities and duties of the Investment Committee are contained in the Investment Committee Charter and are attached as Appendix A.

### **Retirement Systems Staff**

The Pension Systems Manager, with the assistance of other staff members ("Staff"), shall assist the Board and the Investment Committee in establishing, implementing, and monitoring the investment policy and procedures. The Staff shall also work on a day to day basis, with the Investment Consultants, Investment Managers, and Custodian to provide management and

oversight of the Plan's assets as directed by the Board.

### **Investment Consultant**

Investment Consultants ("Consultants") report directly to the Board. The Consultants' duty is to work with the Board, Investment Committee, and the Staff in the management of the investment process. This includes regular meetings with the Board and Investment Committee to provide an independent perspective on the Plan's goals, structure, performance, and managers.

Consultants will render investment advice to the Plan based on the needs and goals of the Plan. The Trustees may use Consultants to: (1) assist in appraising investment performance, (2) provide performance comparison data with other retirement plans, several capital market indices, and to other investment managers, (3) assist in evaluating manager style, discipline, and statistical and peer comparisons, (4) assist in strategic planning and management of Plan assets, and (5) other factors the Board deems appropriate. The Consultants do not have discretionary authority with respect to investments or Investment Managers and the Board makes all final decisions regarding Investment Managers recommended by the Consultants.

### **External Investment Managers**

External Investment Managers ("Managers") are selected by, and serve at the pleasure of, the Board. The Board will retain Managers that specialize in the investment of particular asset classes. Investments may be made via separate accounts, commingled funds, and/or mutual funds.

The Investment Management Agreement, or in the case of commingled vehicles, the governing management document, will provide explicit directions detailing the management assignment. Within the parameters as set forth within the Investment Management Agreement, or other governing management document, each Manager will have full discretion as to the selection, purchase, or sale of specific securities or investments. Managers will construct and manage investment portfolios consistent with the investment disciplines for which the Board hired them.

The duties and responsibilities of each of the Managers retained by the Board include, but are not limited, to:

1. Registration as an investment advisor under the Investment Advisers Act of 1940. The Manager must remain a registered investment advisor throughout the term of Manager's investment of the Plan's assets.
2. Exercising full investment discretion in accordance with the guidelines and objectives as set forth in the Investment Management Agreement between the Manager and the Board, or in accordance with the offering document of the commingled or mutual fund. Such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the Manager's current investment strategy and compatible with investment objectives.
3. Promptly informing the Board regarding all significant matters pertaining to the investment of the plan assets, for example:

- Changes in investment strategy, portfolio structure, and market value of managed assets;
  - The Manager's progress in meeting the investment objectives set forth in this document; and,
  - Significant changes in the ownership, affiliations, organizational structure, financial condition, professional personnel staffing, and clientele of the investment management organizations.
4. The Board has the authority to delegate to each Manager the duty of exercising all proxy and related actions of the Plan's investment assets assigned. The Board has directed each Manager to promptly vote all proxies and related actions in a manner consistent with the long-term interests of the Plan and its members and beneficiaries. The Board retains the ability to direct Managers to vote all proxies as determined by the Board. Each Manager shall keep detailed records of all said voting of proxies and related actions and will comply with all regulatory obligations related thereto.
  5. Each Manager shall utilize the same due care, skill, prudence and diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity, as a fiduciary, and fully familiar with such matters would use in like activities for like plans with like aims, while maintaining appropriate diversification to avoid the risks of large losses, in accordance and compliance with all applicable laws, rules and regulations from local, state, federal, and international political entities as pertaining to fiduciary duties and responsibilities.

### **Custodian**

The Custodian is selected by, and serves at the pleasure of, the Board. The Custodian will collect income and safe keep all cash and securities, and will regularly summarize these holdings, along with both their individual and collective performance, for Staff's review. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash flow prior to allocating it to the Managers, and to invest such cash in liquid, interest-bearing instruments. The Custodian shall ensure that any idle cash not invested by the Managers shall be invested daily via an automatic sweep Short Term Investment Fund managed by the Custodian or by others on behalf of each Manager. The Custodian will provide performance reports and data to the Staff and the Consultants at intervals specified by the Plan's written policy or contract.

### **III. INVESTMENT PHILOSOPHY**

The Plan's overall objective is to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. Because of the long-term nature of the Plan's pension liabilities, the Board maintains a long-term perspective in formulating and implementing the Plan's investment policies, and in evaluating its investment performance.

Based on general beliefs about the long-term investment returns available from a well-diversified portfolio, the Board adopted the following Plan Investment Objectives:

- The Plan's assets will be invested in a manner consistent with generally accepted standards of fiduciary responsibility and with the safeguards that would guide a prudent person/investor.
- The Plan's assets will be invested in a manner expected to earn a sufficient total rate of return on average and over time to meet all benefit and expense obligations while striving to reduce the volatility of member and employer contribution rates.
- Within the framework of prudent risk limitations, the investment objective is to achieve a long-term total rate of return which satisfies on average the actuarial assumed rate of return.
- The Plan shall also strive to achieve investment performance over time that matches or exceeds the rate of inflation thereby sustaining the real value of Plan assets.
- The Plan costs associated with the management of the Plan assets will be carefully considered and should be held at the lowest possible level, all other items equal, consistent with the prudent management of Plan assets.
- Individual Investment Management Agreements will define and control the discretion and authority of each Investment Manager within the respective investment strategy or mandate.

### **Liquidity Posture**

Plan assets should be invested in a manner consistent with the liquidity needs of the Plan, as estimated through a periodic asset liability study.

### **Risk**

The investment risk philosophy for the Plan is based on the precepts of capital market theory. These precepts are generally accepted and followed by institutional investors, who by definition are long-term oriented investors. This philosophy holds that:

- Market risk is rewarded with compensating returns over time and, therefore, prudent risk taking is justifiable for long-term investors.
- Efficient risk exposure can be gained through diversification of asset classes. Diversification provides for the capture of market returns at the lowest level of market risk.
- Active investment management presents a different set of risks from those associated with asset classes and have different expected returns.
- The strategic allocation of assets is the primary determinant of long-term investment performance.

- Future returns are largely unpredictable in the short term and attempts to time the markets are unlikely to be rewarded.

Given these principles, the Plan has established a long-term asset allocation policy (with strategic asset allocation ranges as stated in Appendix B) that seeks to balance the Plan's return objectives and risk constraints. In determining its risk posture, the Board will consider, in accordance with its fiduciary obligations and applicable statutory requirements, the Plan's purpose and characteristics, current and projected financial condition, liquidity needs, sources of contributions, income, and general operating conditions.

### **Diversification**

In seeking to meet the return objectives, the Plan will rely on an investment strategy utilizing an appropriate long-term, diversified asset allocation model. Diversification distributes a portfolio across many investments to avoid excessive exposure to any one source of risk. The Board will determine the proper allocation among asset classes and investment managers, based on advice and analysis as provided by the Plan's Investment Consultants with assistance from the Staff.

## **IV. ASSET ALLOCATION STRATEGY**

### **Asset Class Targets and Ranges**

The Plan's asset allocation strategy is intended to reflect, and be consistent with, the return objective and risk tolerance expressed in this Policy. It is designed to provide the highest probability of meeting or exceeding the Plan's objectives at a targeted level of risk which is acceptable to the Board.

Specific asset class target allocations, and their acceptable allocation ranges, can be found in Appendix B to this Policy.

### **Rebalancing**

Rebalancing is the term that describes the periodic movement of funds from one asset or asset class to another in order to realign assets to the Target Asset Allocation. A rebalancing strategy is an important element of asset allocation strategy. Systematic re-balancing can reduce portfolio volatility and increase portfolio return over the long term. However, frequent rebalancing resulting from excessively tight ranges can lead to unnecessary transaction costs.

The Board has chosen to adopt a rebalancing strategy governed by allocation ranges rather than time periods. Maximum and minimum allocation limits have been established for each asset class as defined in Appendix B. The Board has authorized the Staff, with guidance from the Investment Consultants, to rebalance the portfolio in accordance with these strategy guidelines. While the allocation to all asset classes remains within these limits, the Staff will use cash flow, as available, to maintain the overall allocation as close as possible to the target. When any one of the public market asset classes violates a lower or upper limit, the entire Fund may be rebalanced to within its strategic asset allocation target range. Recognizing that it may be impractical or costly to reallocate illiquid alternative assets, if an



alternative asset class breaches an upper or lower limit, the asset class will be rebalanced to within its strategic asset allocation range as soon as is practically possible, subject to reasonable transaction costs.

## **V. INVESTMENT RETURN OBJECTIVES AND BENCHMARKS**

### **Total Fund Performance Objectives**

The Board adopted the following objective for the Total Fund:

The Plan's overall annualized total net of fees return, as measured over the course of a typical market cycle and/or a minimum period of five (5) years, should exceed the return that would have been achieved if the Plan had been fully invested according to the approved target allocation (the "Target Allocation Index").

The Target Allocation Index is a custom benchmark established to reflect the returns consistent with the asset allocation targets specified in Appendix B of this Policy.

Meeting or exceeding the Target Allocation Index returns is an investment performance objective of the Plan and is subject to many variables outside the control of the Board. As such, failure to meet the listed objective is not an indication that the Board is not in compliance with its fiduciary duty.

### **Asset Class Objectives**

#### 1. Global Equity

The following minimum performance goals have been established for the Plan's global equity portfolio:

- The global equity portfolio total return (net of management fees) should exceed, over the course of either a typical market cycle and/or a minimum period of five (5) years, the total return of the MSCI All Country World Investable Market Index (net).
- The global equity portfolio should maintain an acceptable risk level, as measured by standard deviation, which is reasonable relative to the applicable assigned benchmark.
- The global equity portfolio total return should perform at the fortieth (40th) percentile or better compared to a nationally recognized universe of global equity managers measured over a minimum period of five (5) years.

The following minimum performance goals have been established for the Plan's global equity investment managers:

- The individual active equity manager's total return (net of management fees) should

exceed, over the course of either a typical market cycle and/or a minimum period of five (5) years, the total return of the designated global equity index for the specific manager mandate.

- Active equity managers should maintain an acceptable risk level, as measured by standard deviation, which is reasonable relative to the applicable assigned benchmark.
- The individual active equity manager's total return should perform at the fortieth (40th) percentile or better compared to a nationally recognized universe of comparable equity managers possessing a similar style over a minimum period of five (5) years.
- Passive equity managers should provide a level of return (net of fees) and risk similar to that of the applicable assigned benchmark.

## 2. Fixed Income

The following minimum performance goals have been established for the Plan's fixed income portfolio:

- The fixed income portfolio total return (net of management fees) should exceed, over the course of a typical market cycle and/or a minimum period of five (5) years, the total return of the Bloomberg US Aggregate Bond Index.
- The fixed income portfolio should maintain an acceptable risk level, as measured by standard deviation, which is reasonable relative to the applicable assigned benchmark.
- The fixed income portfolio total return should perform at the fortieth (40th) percentile or better compared to a nationally recognized universe of fixed income managers measured over a minimum period of five (5) years.

The following minimum performance goals have been established for the Plan's fixed income investment managers:

- The individual active fixed income manager's total return (net of management fees) should exceed, over the course of a typical market cycle and/or a minimum period of five (5) years, the total return of the designated fixed income index for the specific manager mandate.
- Active fixed income managers should maintain an acceptable risk level, as measured by standard deviation, which is reasonable relative to the applicable assigned benchmark.
- The individual active fixed income manager's total return should perform at the fortieth (40th) percentile or better compared to a nationally recognized universe of fixed income managers possessing a similar style over a minimum period of five (5) years.
- Core separate account fixed income managers shall only purchase bonds with a rating

equal to or above BBB (or equivalent). In the event a core separate account fixed income manager holds a security that is downgraded below the minimum rating a sale is not mandated. The decision to continue to hold the security is at the discretion of the manager, but subject to prompt notification to the client. Reasonable efforts will be made by that manager to ensure, over time, that all portfolio holdings are rated BBB or higher; however, the manager should also consider the potential impact to the portfolio during periods of market distress and manage the portfolio in a manner that is intended to maximize risk-adjusted return in accordance with the portfolio's objective.

- Passive fixed income managers should provide a level of return (net of fees) and risk similar to that of the applicable assigned benchmark.

### 3. Private Credit

The following minimum performance goals have been established for the Plan's Private Credit portfolio:

- The private credit portfolio total return (net of management fees) should exceed, over the course of a typical market cycle and/or a minimum period of five (5) years, the total return of Credit Suisse Leveraged Loan Index + 200 basis points.
- The individual private credit manager's total return (net of management fees) should exceed, over the course of a typical market cycle and/or a minimum period of five (5) years, the total return of the designated index for the specific manager mandate.
- Private credit managers should maintain an acceptable risk level, as measured by standard deviation, which is reasonable relative to the applicable assigned benchmark.

### 4. Real Estate

The performance objective of the real estate portfolio is to achieve a total time-weighted rate of return (net of fees) over the course of a typical market cycle and/or a minimum period of five (5) years in excess of the NCREIF ODCE Property Index.

The performance objective of individual real estate managers is to achieve a total time-weighted rate of return (net of fees) over the course of a typical market cycle and/or a minimum period of five (5) years in excess of the NCREIF ODCE Property Index.

### 5. Private Equity

Private equity represents investments in Venture Capital, Buyouts, Mezzanine, and Distressed Debt. Typically, Private equity is accessed through a fund of funds approach. A fund of funds manager invests in a group of funds or managed accounts, each of which creates funds of managers employing different strategies, thus creating a diversified investment vehicle for its investors. Private equity managers will be evaluated quarterly.

The performance objective of the private equity portfolio is to achieve a rate of return (net of fees) over the course of a typical market cycle and/or a minimum period of five (5) years in excess of the Cambridge U.S. Private Equity Index (one-quarter lag). On a shorter-term basis, the objective of the private equity managers is to outperform the Russell 3000 Index plus 300 basis points.

#### 6. Absolute Return

The absolute return composite portfolio consists of a custom hedge fund of one portfolio. The performance objective of the absolute return composite portfolio is to achieve a total time rate of return (net of fees) over the course of a typical market cycle and/or a minimum period of five (5) years in excess of the long-term benchmark of 3 month Treasury Bills plus 500 basis points. The short-term performance objective over periods of less than a complete market cycle is to achieve a total time rate of return in excess of the Hedge Fund Net Fund of Funds Multi-Strategy Index.

#### 7. Cash and Equivalents

The total cash and equivalents return should perform in line with the Citigroup 3 Month Treasury Bill Index measured over the course of a typical market cycle and/or a period of five (5) years.

### **VI. MONITORING EVALUATION AND REVIEW**

On a timely basis, but not less than four times a year, the Board will review actual investment results achieved by each Manager (with a perspective toward rolling five-year time horizons) to determine whether:

- The Managers have performed in adherence to the investment philosophy and policy guidelines as set forth herein,
- The Managers have performed satisfactorily when compared with:
  - The objectives as set forth in Appendix B;
  - Their own previously stated investment style;
  - Other investment managers, comparable as to asset class and style group; and
  - Appropriate market indices.

The Board will also review qualitative factors including, but not limited to:

- Adherence to investment guidelines and stated investment style;
- Turnover of one or more key personnel;
- Change in firm ownership or structure;

- Significant loss of clients and/or assets under management;
- Significant and persistent lack of responsiveness to client requests;
- Failure to disclose significant information, including potential conflicts of interest; and
- Any other issue or situation of which the Staff, Consultants, Investment Committee, and/or Board become aware that is deemed material.

In addition to reviewing each Manager's performance results and qualitative factors, the Board will re-evaluate, from time to time, progress made in achieving the Total Fund, as well as asset class portfolio objectives previously outlined. The periodic re-evaluation will also include an evaluation of the continued appropriateness of: (1) the manager structure, as set forth in Appendix B; (2) the allocation of assets among the managers; and (3) the investment objectives for the Plan's assets.

## **VII. REPORTING REQUIREMENTS**

### **Investment Consultant Reporting**

The Plan's General Investment Consultant will provide quarterly reports to the Board which, at a minimum, will include the following information:

- Overview of the most recent quarter and year-to-date investment results;
- Total Fund asset allocation;
- Sources of investment return (income, capital appreciation or loss);
- Performance results for the Plan compared to appropriate benchmarks and peer groups;
- Performance results by asset class compared to appropriate benchmarks;
- Performance results of individual managers compared to appropriate benchmarks and peer groups;
- Statistical measurements of investment performance for the Plan compared to relative benchmark data;
- Statistical measurements of asset class performance for the Plan compared to the asset class relative benchmark data;
- Statistical measurements of the investment performance of the individual managers compared to each manager's benchmark.

Further, the Plan's general Investment Consultant will provide monthly reports to the Investment Committee (which will in-turn provide them to the Board) which, at a minimum, will review the following information:

- Summary of the most recent month and year-to-date investment indicators;
- Total Fund asset allocation;
- Sources of investment return (income, capital appreciation or loss);
- Performance results for the Plan compared to appropriate benchmarks;

- Performance results by asset class composite compared to appropriate benchmarks;
- Performance results of individual managers compared to appropriate benchmarks;
- Periodic reports from the consultant's research staff regarding the Plan's current or contemplated investment managers;
- Consultant's research staff commentary on investment manager's performance drivers.

### **Investment Manager Reporting**

For separate accounts, each Manager will provide Staff and the Investment Consultant with a quarterly report of their activity no later than thirty (30) days after the end of the calendar quarter. Each report will contain the following information:

- Beginning asset value at cost and market;
- Ending asset value at cost and market;
- Securities sold and purchased during the quarter;
- Quarterly, year-to-date, and since inception performance results;
- Written description of the most recent quarterly results and near-term investment strategy and market outlook;
- On a calendar quarterly basis, the name and responsibility of key personnel who have been hired or terminated by the organization. The Manager is to provide written notice to Staff within ten days from the date a key person is hired or terminated.

## **APPENDIX A: KCPERS' INVESTMENT COMMITTEE CHARTER**

The Kansas City Police Employees' Retirement Systems recognizes the importance of prudent investing and monitoring of the assets of the Police Retirement System of Kansas City, Missouri and Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri. As such, the Retirement Board ("Board") has established a standing Investment Committee that includes members from both the Board and members of the Retirement Systems. The Investment Committee's goal is to collaborate with consultants, investment managers, custody banks, or any other entity that can provide positive results in managing or investing the Retirement Systems funds. The Investment Committee will report their findings and recommendations to the Board as more fully set forth within this Charter.

### **Introduction and Background**

1. The Retirement Board is responsible for:
  - a. Investment and reinvesting the moneys in the retirement fund in accordance with the fiduciary standards as set forth in law;
  - b. Adopting an investment resolution or resolutions containing detailed investment guidelines, as appropriate, and
  - c. Entering into custodian and investment management agreements, as appropriate.
  
2. To assist the Board in the duties as described, the Board has established an Investment Committee. The Investment Committee will consist of four board members and two non-voting members (one each representing retired and active participants).

### **Committee Operations**

3. The Investment Committee will operate in accordance with all applicable state laws and Retirement Board policy. These include but are not limited to the following:
  - a. The presence of a majority of Investment Committee members shall constitute a quorum;
  - b. All actions of the Investment Committee shall be by an affirmative vote of the majority of the members present at a meeting of the Investment Committee, provided a quorum is present.
  - c. All material actions of the Investment Committee shall be approved by the Board to be effective, unless otherwise provided herein. The Board need only be informed of any other actions of the Investment Committee;
  - d. The Investment Committee shall meet at least quarterly;
  - e. Investment Committee meetings shall be open to the public and noticed, held, and conducted in accordance with Missouri Sunshine Law Requirements; and
  - f. The Investment Committee shall keep and post minutes of its open-session meetings.

## **COMMITTEE RESPONSIBILITIES**

### **Investment Policy & Risk Management**

4. With the support of staff and advisors, the Investment Committee will develop and recommend to the Board an Investment Policy Statement. This Statement will set forth all material investment policies and procedures for the Plan. The Investment Committee will review the Statement at least annually and recommend modifications to the Board as appropriate.
5. As part of the Plan's risk management efforts, the Investment Committee will review processes designed to address risks associated with the investments and the investment management process. Staff and/or Investment Consultants and Managers employed by the Plan will be responsible for reporting their individual and Plan level risk management efforts to the Committee on a regular basis.

### **Portfolio Structure**

6. The Investment Committee will routinely review and assess the portfolios' strategic structure for effectiveness and risk/cost efficiency and in turn report their findings and make suggestions or recommendations to the Board as appropriate.

### **Vendor Selection**

7. As necessary the Investment Committee will conduct investment manager due diligence (which may include but is not limited to site visits, interviews, and statistical reviews of investment performance) to arrive at recommendations for the selection or termination of an investment manager.
8. As necessary the Investment Committee will review the performance of trust and custody providers, investment managers (for both public and private markets), investment consultants or other service providers and provide information and/or recommendations on actionable items for the Board's consideration. The Committee may also collect and monitor information on investment options, policies, and procedures.
9. The Investment Committee will lead and participate in investment manager interactions and communication, including on-going due diligence and interviews. In addition the Investment Committee will provide oversight and guidance to the Plans' staff and advisors, and will consider recommendations by staff and advisors as related to current or prospective investment managers.
10. With respect to the selection and engagement of Investment Consultants, the Investment Committee will provide preliminary due diligence, including in-house interviews, prior to providing finalist(s) or hiring recommendations to the full Board.



## **Monitoring & Reporting**

11. The Investment Committee will monitor all material aspects of the investment program including but not limited to:
  - a. Compliance with the Board approved Investment Policy Statement, other material investment processes, procedures and responsibilities of the Fund, as well as applicable legal requirements;
  - b. Compliance with established risk management procedures, parameters or actuarial targets;
  - c. Investment performance, including but not limited to total fund performance, asset class performance, and investment manager performance;
  - d. Implementation of any material changes or transitions in the portfolio or manager structures;
  - e. Proxy voting;
  - f. Cost effectiveness of the investment program including manager fees, service fees, and costs associated with transitions and trading; and
  - g. Working with staff and advisors to continually enhance the quality of investment reporting to the Investment Committee and the Board.

## **Other Duties**

12. The Investment Committee is expected to:
  - a. Remain abreast of trends and developments in the pension and investment industry and be available to advise the Board as appropriate;
  - b. Report at each regularly scheduled Board meeting on its activities; and
  - c. Perform any other duties in connection with the Plans' investments consistent with this Charter or as assigned by the Board.

## **Charter Review & History**

13. This Charter will be reviewed at least every three years.
14. This Charter was reviewed and approved by the Board on September 14, 2023.

## **MONITORING & REPORTING PROCESS**

### **Background**

1. In keeping with the duty of the Board to monitor the activities and performance of the Plan, its agents, and employees, the Board has established this Monitoring and Reporting Process which sets forth the Board's expectations concerning the routine reports it is to receive from various sources.

**Guidelines**

2. Staff and advisors will provide the Board and its committees with the routine reports, and at the frequency listed, as outlined in Appendix 1. Staff will also provide the Board with any ad hoc reports deemed necessary or as requested by the Board or committees of the Board.
3. Additional reports (to be provided on an ongoing basis) or the discontinuation of any prior routine report listed in Appendix 1 shall require board approval. Upon approval this document shall be updated accordingly.

**Process, Review & History**

4. The Board will review this process at least once every three years.
5. The Board adopted this process as part of the Investment Committee Charter on June 11, 2013.

**Appendix 1 to Investment Committee Charter**

| <b>INVESTMENTS</b>                                    |                  |                                           |                                                            |                                                                                                                                                               |                              |
|-------------------------------------------------------|------------------|-------------------------------------------|------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| <b>Task</b>                                           | <b>Timeframe</b> | <b>Reported to</b>                        | <b>Responsible Party</b>                                   | <b>Description</b>                                                                                                                                            |                              |
| 1. Asset/Liability Study                              | 3-5 Years        | Investment Committee/<br>Retirement Board | Staff /<br>Investment Consultant                           | A review of the appropriateness of the Plan's asset mix policy (in the support of liability management) and any recommendations for change.                   | Investment Policy Statement  |
| 2. Asset Allocation Study                             | 3-5 Years        | Investment Committee/<br>Retirement Board | Staff /<br>Investment Committee /<br>Investment Consultant | A review of the appropriateness of the Plan's asset mix policy (in the support of liability management) and any recommendations for change.                   | Investment Policy Statement  |
| 3. Presentation on the Portfolio Investment Structure | Annually         | Investment Committee/<br>Retirement Board | Staff /<br>Investment Consultant                           | A review of the structure and composition of the various asset classes in the portfolio and their role in support of overall actuarial and System objectives. |                              |
| 4. Investment Performance Report                      | Quarterly        | Investment Committee/<br>Retirement Board | Staff /<br>Investment Consultant                           | A performance review of the total fund and its components relative to an appropriate benchmark or index.                                                      |                              |
| 5. Derivatives Update                                 | Quarterly        | Investment Committee                      | Staff /<br>Investment Consultant                           | Report of the long, short, net, and gross exposure of managers utilizing leverage within the portfolio.                                                       |                              |
| 6. Report on Brokerage Commissions                    | Annually         | Investment Committee/<br>Retirement Board | Custodian                                                  | Summarizes brokerage commissions (also contained in CAFR).                                                                                                    |                              |
| 7. Investment Cost Report                             | Annually         | Investment Committee/<br>Retirement Board | Staff /<br>Custodian/<br>Investment Consultant             | Report of the costs of the investment program (also contained in the CAFR).                                                                                   | Investment Committee Charter |
| 8. Monthly Investment Analysis Report                 | Monthly          | Investment Committee/<br>Retirement Board | Staff/<br>Investment Consultant                            | A preliminary review of the trailing monthly performance of the fund and each asset class relative to benchmarks.                                             |                              |

## APPENDIX B: ASSET CLASS TARGET ALLOCATIONS

The Plan's asset allocation is intended to reflect, and be consistent with, the return objective and risk tolerance expressed in this Policy. It is designed to provide the highest probability of meeting or exceeding the Plan's investment objectives at a controlled level of risk that is acceptable to the Board.

The Board has completed a periodic asset allocation study for the Plan. The study included projections that were based on long term capital market behavior and the Plan's financial and demographic characteristics. The financial implications of a wide range of investment alternatives (conservative to aggressive) were evaluated. The result of the study is an updated, long term strategic asset allocation plan.

The Trustees elected to employ six broad and distinct asset classes in the portfolio:

|                |                 |
|----------------|-----------------|
| Global Equity  | Real Estate     |
| Fixed Income   | Absolute Return |
| Private Credit | Private Equity  |
|                | Cash            |

Return, risk and diversification assumptions were established for each, and efficient portfolios of the seven asset classes were identified. As a result, commitment to the asset classes listed in the table below will be made to ensure diversification. Based on its determination of the appropriate risk tolerance for the Plan, and its long-term return expectations, the Board has chosen the following Asset Class Target Allocation:

| <b>Asset Class</b> | <b>Target</b> | <b>Minimum</b> | <b>Maximum</b> |
|--------------------|---------------|----------------|----------------|
| Global Equity      | 38%           | 33%            | 43%            |
| Fixed Income       | 31%           | 26%            | 36%            |
| Private Credit     | 10%           | 7%             | 13%            |
| Real Estate        | 13%           | 9%             | 17%            |
| Private Equity     | 2%*           | 0%             | 3%             |
| Absolute Return    | 8%            | 6%             | 10%            |
| Cash               | 0%            | 0%             | 5%             |

The target allocation will be reviewed annually for reasonableness relative to significant economic and market changes or to changes in the Plan's long-term goals and objectives. A formal asset allocation study should be conducted at least every three years to verify or amend the targets.

The Plan's Target Allocation Index reflects the target asset allocations and, as of August 10, 2023, consists of 38% MSCI All Country World IMI Index (Net), 31% Bloomberg US Aggregate Bond Index, 10% Credit Suisse Leverage Loan Index + 2%, 13% NCREIF ODCE Index, and 8% Absolute Return Composite Benchmark.

The chart following indicates the benchmark index and peer universe used for each asset class and investment manager or commingled investment vehicle.

| <b>Manager</b>                     | <b>Benchmark Index</b>                                                                                  | <b>Peer Group</b>              |
|------------------------------------|---------------------------------------------------------------------------------------------------------|--------------------------------|
| Northern Trust MSCI ACW IMI        | MSCI All Country World Investable Market Index                                                          | N/A                            |
| LSV Global Large Cap Value         | Primary: MSCI World Index<br>Secondary: MSCI World Value Index                                          | Global Large Cap Value Equity  |
| Artisan Global Opportunities       | Primary: MSCI World Index<br>Secondary: MSCI World Growth Index                                         | Global Large Cap Growth Equity |
| GQG EM Equity                      | MSCI Emerging Markets Index                                                                             | Emerging Markets Equity        |
| Wellington Global Perspectives     | MSCI All Country World Small Cap Index                                                                  | Global Small Cap Equity        |
| <b>Total Global Equity</b>         | MSCI All Country World Investable Market Index                                                          | N/A                            |
| FCI Advisors                       | Primary: Bloomberg US Gov't Credit Bond Index<br>Secondary: Bloomberg US Aggregate Bond Index           | U.S. Broad Market Fixed Income |
| PIMCO Income                       | Bloomberg US Aggregate Bond Index                                                                       | U.S. Broad Market Fixed Income |
| <b>Total Fixed Income</b>          | Bloomberg US Aggregate Bond Index                                                                       | N/A                            |
| White Oak Fixed Income Fund        | Credit Suisse Leveraged Loan Index + 2%                                                                 | N/A                            |
| Ares Core Pathfinder Fund          | Credit Suisse Leveraged Loan Index + 2%                                                                 | N/A                            |
| <b>Total Private Credit</b>        | Credit Suisse Leveraged Loan Index + 2%                                                                 | N/A                            |
| Prudential PRISA II                | NCREIF ODCE Index                                                                                       | N/A                            |
| Morgan Stanley Prime Property Fund | NCREIF ODCE Index                                                                                       | N/A                            |
| <b>Total Real Estate</b>           | NCREIF ODCE Index                                                                                       | N/A                            |
| J.P. Morgan Private Equity*        | Primary: Cambridge U.S. Private Equity Index<br>Secondary: Russell 3000 + 3%                            | N/A                            |
| Abbott Capital Private Equity*     | Primary: Cambridge U.S. Private Equity Index<br>Secondary: Russell 3000 + 3%                            | N/A                            |
| <b>Total Private Equity*</b>       | Primary: Custom Benchmark: Cambridge U.S. Private Equity Index<br>Secondary: Russell 3000 + 3%          | N/A                            |
| Grosvenor Hedge Fund               | Long-term: 3 month Treasury Bills + 5%<br>Short-term: Hedge Fund Net Fund of Funds Multi-Strategy Index | N/A                            |

|                                  |                                                                                                                                                                                                   |                                                                                   |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| <b>Total Absolute Return</b>     | Long-term Composite Benchmark:<br>BofA ML 3 Mo US T-Bill Index +5%<br><br>Short-term Composite Benchmark:<br>Hedge Fund Net Fund of Funds Multi-Strategy Index                                    | N/A                                                                               |
| <b>Cash and Cash Equivalents</b> | Citigroup 3 Month Treasury Bill Index                                                                                                                                                             | N/A                                                                               |
| <b>Total Fund</b>                | 38% MSCI All Country World IMI Index (Net), 31% Bloomberg US Aggregate Bond Index, 10% Credit Suisse Leveraged Loan Index + 2%, 13% NCREIF ODCE Index, and 8% Absolute Return Composite Benchmark | Median Pension Plans<br><\$2 Billion (Mellon Analytical Solutions Trust Universe) |

\*Private equity allocation was removed from asset allocation target as of June 11, 2020; however due to the illiquid nature of the investments, the allocation will naturally decline over time.

Self-Funded Line of Credit - From time to time the hedge fund of one manager may request a temporary cash commitment to provide liquidity for pending opportunities not to exceed 10% of the current market value of the account. The commitment is intended to allow for investment in opportunities while awaiting the return of capital from positions being liquidated. When the capital is received by the manager, the manager will record a simultaneous capital redemption payable equal to the amount being called with the same effective date. This is an accounting procedure that will ensure there is no impact to the NAV of the portfolio and therefore no impact to the management fees paid. The commitment will be returned, and the investor redemption payable satisfied, as soon as cash is received within the portfolio from positions being liquidated.