

# MACOMB COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Investment Policy Statement

### I. PURPOSE OF INVESTMENT POLICY STATEMENT

The Board of Trustees (Board) is responsible for overseeing the administration of the Macomb County Employees' Retirement System (Retirement System or Plan). The purpose of this document is to detail the procedures for managing the System's assets, including the investment objectives, the asset allocation policy, the investment guidelines, and the investment performance standards. The guidelines also incorporate the requirements of the Public Employees Investment Act - Michigan Public Act 314 of 1965, MCL § 38.1132 *et seq.*, as amended (Act 314).

Investment objectives are formulated in response to the financial needs of the Plan. Financial needs are influenced by the County's benefit policies, funding objectives, Plan liabilities, and the successful management of Plan assets. Therefore, investment objectives consider the Plan's financial and liquidity needs and the Board's risk tolerances and inflation expectations. The asset allocation policy is developed 1) to attempt to achieve the investment objectives, 2) to maximize expected investment returns with a prudent amount of investment risk, and 3) in recognition that the capital markets may behave differently over any time period, throughout the life of the Plan.

Investment guidelines are established for each manager, consistent with their investment style and Plan return/risk objectives. The guidelines also incorporate state and local investment regulations.

Performance standards are developed as a means of independently determining whether or not investment objectives are being achieved. Each manager has specific performance standards based on their investment style, which incorporate return, risk and time horizon. Conformance to these standards and policies is closely monitored and evaluated in an unbiased analysis each quarter. This analysis includes an evaluation of each manager's contribution to the achievement of overall Plan investment objectives.

### II. DELEGATION OF RESPONSIBILITIES

#### A. Board of Trustees

The Board of Trustees acknowledges its responsibility as a fiduciary to the System. In this regard, the Board must act prudently and for the exclusive interest of the Retirement System's participants and beneficiaries.

More specifically, the Board's responsibilities include:

1. Comply with the provisions of pertinent federal, state, and local laws and regulations, including Act 314.
2. Establish and develop an Investment Policy Statement, which includes the strategic investment policy for the System (asset allocation). The Trustees will periodically review these policies in light of any changes in actuarial variables and market conditions.
3. With the advice of the Investment Consultant, select qualified investment managers and consultants to manage and advise on the System's assets.
4. With the advice of the Investment Consultant, monitor and review the investment performance of the System to determine achievement of goals and compliance with policy guidelines.
5. With the advice of the Investment Consultant, monitor and evaluate manager performance.

6. Conduct manager searches when needed for policy implementation.
7. When the Board is considering the engagement of a new investment manager, the Board may perform due diligence site visits to the offices of the interview candidates.

**B. Plan Administrator**

The Plan Administrator provides oversight and manages the daily operations of the Retirement System.

More specifically, the Plan Administrator's responsibilities include:

1. Inform the Retirement System of any significant events that impact the Retirement System and recommend changes in approved policy, guidelines, and objectives.
2. Manage the day-to-day operations for the Retirement System.
3. Act as the liaison between the Board, members, and the service providers responsible for managing and overseeing the Retirement System's assets.
4. Assume other duties as may be described in this policy, applicable state and federal laws, or as the Retirement System may otherwise delegate and request.

**C. Investment Consultant**

The Investment Consultant's (Consultant) role is that of an advisor to the Retirement System, enabling the Board of Trustees to make well-informed and timely decisions regarding the investment of the Retirement System's assets. The Investment Consultant acknowledges its responsibilities as a fiduciary under Act 314 and must act in the exclusive interest of the Retirement System.

More specifically, the Consultant's responsibilities include:

1. Assist the Board in strategic planning for the Retirement System. Provide objective advice and counsel that will enable the Board to make well-informed and well-educated decisions regarding the investment of the Retirement System's assets.
2. Assist the Board in the development and periodic review of a policy statement that properly reflects the Board's tolerance for risk, and that best assists the Board in meeting its rate-of-return, funded status, administrative expense objectives, and overall investment policies associated with administering this retirement fund.
3. Assist the Board in the development and periodic review of the asset allocation policy and investment manager structure that provides adequate diversification with respect to the number and types of asset classes and investment managers to be retained.
4. Determine the Retirement System's capacity to add new investments, participate in cash flow/liquidity forecasting for the Retirement System's needs, and advise on general compliance requirements.
5. Review, monitor, and advise the Board on the current asset allocation to determine whether the Retirement System complies with asset limitations under PA 314 (as amended) and the Board's investment objectives and guidelines.
6. Provide educational presentations of new asset classes to ensure the Board has sufficient education to fulfill its fiduciary responsibility.

7. Assist the Board in its due diligence and search for new investment manager(s) utilizing the appropriate data bases, both externally and proprietary.
8. Assist the Board in the development and review of performance standards and guidelines with which the Board can measure each investment manager's progress.
9. To provide to the Board quarterly performance measurement reports on each of the investment managers and on the Retirement System as a whole, and to assist the Board in interpreting the results.
10. Monitor and review monthly statements, review and advise the Board on information sent by the investment managers, review investment managers as necessary (based on the guidelines set forth in this IPS and the consultant's internal research policies; including but not limited to legal and financial information provided by the managers).
11. The Consultant's report will be the main report the Board utilizes when evaluating the overall investment results of the Retirement System and individual managers. The Consultant will reconcile performance, holdings, and security pricing data with the Retirement System's custodian bank and when necessary, staff reports/data. In the event of a discrepancy, the custodian's values will be used.
12. Provide general consulting services as requested by the Board and as deemed appropriate by the Investment Consultant. Attend necessary meetings as requested by the Board. Act as a liaison between investment managers and the Retirement System, and thereby facilitate the communication of important information in the management of the Retirement System.
13. Shall acknowledge in writing that they are a prudent expert for the Retirement System with all attendant duties and responsibilities, including without limitation, fiduciary responsibility.
14. Shall conduct themselves in accordance with this Investment Policy Statement.
15. Provide annual or such other periodic review of separately managed brokerage reports and, if relevant, commission recapture reports.
16. Such other duties as may be mutually agreed upon in writing.

#### **D. Investment Managers**

The investment managers (Managers) will acknowledge their responsibility as an investment fiduciary under Act 314. Each investment manager will have full discretion to make all investment decisions for the assets placed under their control, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement.

More specifically, the Managers' responsibilities include:

1. Manage the System's assets under its supervision in accordance with the guidelines and objectives contained in this Investment Policy Statement.
2. Exercise investment discretion in regard to buying, managing, and selling assets held in the portfolio, subject to any limitations contained in this Investment Policy Statement.

3. Perform its investment management duties with respect to the assets with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with such matters would use in the conduct of a similar enterprise with similar aims.
4. Seek to obtain “best execution” with respect to portfolio transactions.
5. Vote all proxies consistent with the guidelines contained in the Manager’s Investment Management Agreement or similar document. Investment managers shall provide documentation regarding the disposition of proxy solicitations to the Board upon request.
6. Comply with the reporting requirements outlined in Section VII – Communications of the Investment Policy Statement.
7. Acknowledge and agree in writing as to their fiduciary responsibility to comply fully with the entire Investment Policy Statement set forth herein.
8. Report to the Board and Consultant quarterly regarding the status of the portfolio and its performance for various time periods and meet with the Board as requested to report on their performance and compliance with goals and objectives.
9. Promptly inform the Board and Investment Consultant regarding all significant matters pertaining to the investment of the Retirement System’s assets. The Board shall be notified in writing of any material change in ownership, organizational structure, financial condition, senior staffing and management, or the management of the investment manager’s portfolio.
10. Michigan law shall apply to all investment manager contracts where individual investment manager agreements are negotiated.

**E. Custodian**

The custodian (Custodian) will provide safekeeping and accounting services for the Retirement System.

More specifically, the Custodian’s responsibilities include:

1. Provide adequate safekeeping services.
2. Upon receipt of proper, executable trade instructions, custodian shall seek to settle trades in a timely manner.
3. Collect interest and dividend income when due.
4. Notify investment managers of corporate actions, including mergers, tender offers, stock splits and capital changes that require a decision.
5. Sweep daily cash balances into appropriate investment funds.
6. Accept instructions from the designated individuals.
7. Disburse funds as directed.
8. Provide monthly statements by investment managers’ accounts and a consolidated statement of all assets.
9. To perform other services for the Board as are customary and appropriate for custodians.

**F. Actuary**

The Actuary (Actuary) provides an accounting of the assets and liabilities of the Retirement System.

More specifically, the Actuary's responsibilities include:

1. Perform periodic actuarial valuations to determine liability and funding requirements for the System.
2. Calculate the benefits for the participants.
3. Monitor the funding progress of the System over time.
4. Make appropriate recommendations regarding actuarial assumptions to be used for valuations.

**III. INVESTMENT OBJECTIVES**

The objectives of the System have been established in conjunction with a comprehensive review of the current and projected financial requirements as presented in an asset allocation review performed by AndCo Consulting. The objectives include:

- Provide sufficient liquidity at the Total Fund level to have the ability to pay all benefit and expense obligations when due.
- The Plan's overall investment objective is to earn an average, annual return sufficient to meet or exceed the actuary assumed rate of return over 10 year rolling periods. When adopting the assumed rate of return the Board recognizes that it is highly probable the investment portfolio will produce higher returns in some years and lower returns in other years.
- To maintain the purchasing power of the current assets and all future contributions by producing positive real rates of return on System assets.
- Maximize returns for the appropriate level of risk for similar Pension Funds.
- To achieve and maintain a fully funded status with regard to the accumulated benefit obligation.
- To control costs of administering the System and managing the investments bearing in mind the impact of management costs on investment returns.
- To meet all statutory requirements of the State of Michigan.
- The Board has taken a combined view of active and passive investments to control costs.
- Liabilities should influence the asset allocation structure to:
  - a. Ensure the ability to pay obligated benefits
  - b. Manage concentrations of illiquid assets to ensure sufficient liquidity to meet obligations without the need for redemption penalties.

- Long-term investment horizon will allow for the tolerance of volatility of returns.
- Illiquid investments should provide a return premium for illiquidity risk.

The Plan's objectives are based on the expected returns under the strategic asset allocation policy, which follows. This asset allocation policy should result in normal fluctuation in the Plan's actual return, year to year. The expected level of volatility (return fluctuation) is appropriate given the Plan's current and expected tolerance for short-term return fluctuations. Appropriate diversification of Plan assets will reduce the Plan's investment return volatility. All aspects of this statement should be interpreted in a manner consistent with the System's objectives.

The Trustees believe that responsible investing is important and recognize the importance of ESG (Environmental, Social, and Governance) factors. Integration of ESG into the investment process will be led by the underlying managers, however, these factors may be considered when evaluating current managers and selecting new managers.

Environmental refers to how a company performs as a steward of nature. Social factors involve how a company manages relationships with its workforce, customers, and community. Governance includes how a company aligns with its stated purpose, the role and makeup of boards, shareholder rights, and corporate performance.

**IV. TARGET ALLOCATIONS**

This strategic asset allocation (recognition that over 90% of the long term return will be based on the long term asset allocation targets) policy is consistent with the achievement of the Plan's financial needs and overall investment objectives. Asset classes are selected based on their expected long-term returns, individual reward/risk characteristics, correlation with other asset classes, manager roles, and fulfillment of the Plan's long-term financial needs. Conformance with statutory investment guidelines is also considered.

The Board of Trustees established an allocation range for each asset class in recognition of the need to vary exposure within and among different asset classes, based on investment opportunities and changing capital market conditions. The Board selected the target allocation for each asset class based on the Plan's current investments and present market conditions. The Board intends to review these allocation targets at least annually, focusing on changes in the Plan's financial needs, investment objectives and asset class performance.

<b>Asset Class*</b>	<b>Target</b>	<b>Range</b>	<b>Benchmark Index</b>
Domestic Equity	37%	30%-65%	Russell 3000
International Equity	15%	10%-20%	MSCI-ACWI Ex. US
Core Fixed Income	15%	10%-30%	Bloomberg Barclays US Aggregate Bond
Real Estate	10%	5%-15%	NCREIF ODCE Index
Infrastructure	5%	0-7.5%	Based on Strategy
Hedge Funds	8%	0% – 12%	Based on Strategy
Private Equity*	10%	0% - 13%	Based on Strategy
Cash*	0%	0%-10%	90-Day T-Bills

\* Benchmark will default to asset class where the funds would be pulled if these portfolios are not funded. Targets and ranges above are based on the total market value of Plan assets.

The Board's attitude regarding the System's assets combines both the preservation of capital and moderate risk-taking. The Board recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the potential of loss in purchasing power (due to inflation) are present to some degree with all types of investment vehicles. While high levels of risk are to be avoided, the assumption of a moderate level of risk is warranted and encouraged in order to allow the opportunity to achieve satisfactory results consistent with the objectives and character of the System. The policies and restrictions contained in this statement should not impede the investment manager to attain the overall System objectives, nor should they exclude the investment manager from appropriate investment opportunities.

The Board recognizes that from time to time the asset mix will deviate from the targeted percentages due to market conditions. A range has been established for each asset class to control the risk and maximize the effectiveness of the System's asset allocation strategy, while avoiding unnecessary turnover at the security level. The Investment Consultant will monitor the aggregate asset allocation of the portfolio, and notify the Board of Trustees to rebalance to the target asset allocations based on market conditions. To minimize turnover, an asset class that is outside of its allowable range, will be rebalanced towards its target allocation in a prudent and efficient manner. When possible, contributions and distributions will be utilized to maintain allocations within policy ranges and reduce transaction costs. The Board does not intend to exercise short-term changes to the target allocations.

## **V. INVESTMENT PERFORMANCE OBJECTIVES**

The following performance measures will be used as objective criteria for evaluating the effectiveness of the Investment Managers.

### **A. Total Portfolio Performance**

1. The Total Fund's overall performance will be compared to the return of a policy index over rolling three (3) and five (5) year periods. The policy index is constructed using the Fund's target asset class allocations and market indices representing those asset classes (see Appendix A).
2. On a relative basis, it is expected that the total portfolio performance will rank in the top 50<sup>th</sup> percentile of the appropriate peer universe over three (3) and five (5) year time periods.
3. On an absolute basis, the objective is that the return of the Fund will equal or exceed the actuarial assumed rate of return. This absolute return objective will be evaluated in the context of the prevailing market conditions.

### **B. Asset Class / Composite Performance**

The combined segments within an asset class will be compared to the return of a policy index over rolling (3) and five (5) year periods. The policy indices are constructed using the Plan's target segment allocations within the asset class and market indices representing those segments (see Appendix A). All Composites are expected to rank in the top 50<sup>th</sup> percentile of the appropriate peer universe over rolling three (3) and five (5) year periods.

## **VI. INVESTMENT GUIDELINES**

### **A. Overall**

All investment guidelines and restrictions of the State of Michigan are incorporated by reference, including, but not limited to: Michigan Public Act 314 of 1965, as amended.

### **B. Pooled Funds**

Investments made by the Fund may include pooled funds. For purposes of this policy pooled funds may include, but are not limited to, mutual funds, commingled funds, exchange-traded funds, limited partnerships and limited liability corporations. Pooled funds may be governed by separate documents which may include investments not expressly permitted in this IPS. In the event of investment by the Retirement System into a pooled fund, the Retirement System will adopt the prospectus or governing policy of that fund as that manager's addendum to this Investment Policy Statement.

### **C. Alternative Investments**

The Retirement System may invest in investments that would otherwise not be qualified under these Investment policies, to the extent permitted under MCL Section 38.1140d (informally referred to as the "basket clause").

### **D. Collective Investment Restrictions and Correcting Excess/Deficient Investments**

All Managers are restricted individually, and collectively, by this IPS. The Managers shall coordinate periodically with the Consultant, who shall (among other things) assure collective compliance with this IPS. In the event any investment based on changes in the market value of the Retirement System assets, causes the Retirement System to exceed or fall short of any range prescribed in this



IPS, the assets may be reallocated in a prudent manner to comply with PA 314 and the strategic allocation and ranges outlined in this IPS.

**E. Guidelines for Equity Investments**

1. Not more than 70% of the Retirement System's assets may be invested in global stocks per Section 14 of Public Act 314 of 1965, as amended.
2. Up to 20% of the Retirement System's assets may be invested in international securities (stocks or bonds), per Section 20k Public Act 314 of 1965, as amended.
3. The Retirement System shall not invest more than 5% of their assets in any one corporation.
4. For mutual funds and collective trusts guidelines will be outlined in their prospectus or offering document.

**F. Guideline for Fixed Income Investments**

1. Not more than 15% of the Retirement System's assets may be invested in below investment grade bonds. Investment grade is defined as securities graded in the top 4 major grades as determined by 2 national rating services.
2. For mutual funds and collective trusts, guidelines will be outlined in their prospectus or offering document.

**G. Leverage Limits**

1. It is recognized that various investment strategies can include predetermined leverage ranges but the Board will not pursue leverage as a tool at the Total Fund Level.

## **VII. COMMUNICATIONS**

### **A. Monthly**

On a monthly basis, the Custodian shall supply an accounting statement that will include a summary of all receipts and disbursements and the cost and the market value of all assets.

### **B. Quarterly**

On a quarterly basis the Investment Managers shall deliver a report each quarter detailing the Plan's performance, forecast of the market and economy, portfolio analysis and current assets of their portfolio. Written reports shall be delivered to the Board within 30 days of the end of the quarter. A copy of the written report shall be submitted to the person designated by the Macomb County Employees' Retirement System and shall be available for public inspection. The Investment Managers will provide immediate written and telephone notice to the Board of any significant market related or non-market related event, specifically including, but not limited to, any deviation from the standards set forth in Section IV.

The Investment Consultant shall evaluate and report on a quarterly basis the rate of return and relative performance of the Plan on a gross and net of fee basis.

### **C. As Necessary**

If an Investment Manager holds securities that complied with section VI at the time of purchase, which subsequently exceed the applicable limit or do not satisfy the applicable investment standard, such excess or noncompliant investments may be continued until it is economically feasible to dispose of such investment in accordance with the prudent person standard of care, but no additional investment may be made unless authorized by law or ordinance. In addition, an action plan outlining the investment 'hold or sell' strategy shall be provided to the Board immediately.

The Board will meet periodically to review the Investment Consultant's performance report. The Board will meet with the Investment Managers and appropriate outside consultants to discuss performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the Plan on a periodic basis.

## **VIII. COMPLIANCE**

It is the direction of the Board that the Plan assets are held by a third party Custodian, and that all securities purchased by, and all collateral obtained by the Plan shall be properly designated as Plan assets. No withdrawal of assets, in whole or in part, shall be made from safekeeping except by an authorized member of the Board or their designee.

At the direction of the Board, operations of the Plan shall be reviewed by independent certified public accountants as part of any financial audit periodically required. Compliance with the Board's internal controls shall be verified. These controls have been designed to prevent losses of assets that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the Board or employees of the Plan sponsor, to the extent possible.

The proxy votes must be exercised for the exclusive benefit of the participants of the Plan. Each Investment Manager shall provide the Board with a copy of their proxy voting policy for approval. On a regular basis, at least annually, each manager shall report a record of their proxy vote. Additionally, any proxy votes required for plan assets, such as commingled funds, collective trusts or mutual funds, shall be voted upon by the Plan Administrator after consultation with the Investment Consultant and or the Board of Trustees.

## **IX. CRITERIA FOR INVESTMENT MANAGER REVIEW**

The Investment Consultant will monitor the performance for each component of the Retirement System on a monthly basis utilizing a time-weighted rate of return calculation. Certain managers, based on their individual investment mandates, may report results using an internal rate of return calculation. The Investment Consultant will review investment manager information monthly and will provide updates to the Board as necessary. No investment manager will make a presentation to the Board unless requested by the Investment Consultant due to probationary status as outlined below or any other extenuating circumstance where the Investment Consultant deems it appropriate that the Board receives such presentation from the investment manager.

The Investment Consultant will evaluate each investment manager as outlined in this IPS and will then report to the Board.

The Board may initiate a change in investment manager at any time based upon performance results, a change in investment needs, a lack of confidence based upon the evaluation of the investment manager's results, or for any other or no reason at all.

The Board wishes to adopt standards by which judgments of the ongoing performance of a Manager may be made. The Board will rely on the Investment Consultant to carefully monitor the Retirement System's investment managers on several key indicators outlined below:

1. Three (3) out of Four (4) consecutive quarters of relative under-performance versus the benchmark.
2. Three (3) year trailing return below the top 50<sup>th</sup> percentile within the appropriate peer group and under-performance versus the benchmark.
3. Five (5) year trailing return below the top 50<sup>th</sup> percentile and under-performance versus the benchmark.
4. Three (3) year downside volatility greater than the index (greater than 100), as measured by down market capture ratio.
5. Five (5) year downside volatility greater than the index (greater than 100), as measured by down market capture ratio.
6. Investigation of the firm by the Securities and Exchange Commission (SEC).
7. Merger or sale of the firm.
8. Qualitative changes included but not limited to style consistency, purity drift from the mandate, Management turnover in portfolio team or senior management, investment process change, variation of the index or benchmark, failure to adhere to the IPS or Public Act 314, or significant asset flows into or out of the company, investigation by a regulatory agency.
9. Fee increases without the prior written consent of the Retirement Commission.

Failure to meet 3 of the listed criteria may result in placement on a watch list. Nothing in this section shall limit or diminish the Board's right to terminate the Manager at any time.

**X. REVIEW AND AMENDMENTS**

It is the Board's intention to review this document at least annually subsequent to the actuarial report and to amend this statement to reflect any changes in philosophy, objectives, or guidelines. In this regard, the Investment Manager's interest in consistency in these matters is recognized and will be taken into account when changes are being considered. If, at any time, the Investment Manager feels that the specific objectives defined herein cannot be met, or the guidelines constrict performance, the Board should be notified through their Consultant after the Investment Manager discusses the issues with the Investment Consultant.

**Adopted            MACOMB COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**APRIL 2022        ADOPTED**

**APPENDIX A**

**Total Fund Policy Index:** 37% Russell 3000 Index, 15% MSCI ACWI ex US Index (Net), 7.5% Bloomberg Barclays US Aggregate Bond Index, 7.5% Bloomberg Barclays Intermediate US Aggregate Bond Index, 10% NCREIF ODCE, 8% HFRI Hedge F of F Diversified, 5% ACWI Infrastructure Index, 10% Cambridge Private Equity and 3% 90 Day T-bills.

**Total Equity Policy Index:** 72% Russell 3000 Index, 28% MSCI ACWI ex US Index (Net).

**Total Fixed Income Policy Index:** 50% Bloomberg Barclays US Aggregate Bond Index, 50% Bloomberg Barclays Intermediate US Aggregate Bond Index.

*Other composites may be used to evaluate segments for the Total Fund; policy indexes for these composites will be constructed using this format and will be expected to perform in a similar fashion.*