Metropolitan Water Reclamation District

Retirement Fund

Investment Policy

ADOPTED JUNE 25, 2003
REVISED: AUGUST 26, 2015

This page intentionally left blank

METROPOLITAN WATER RECLAMATION DISTRICT
RETIREMENT FUND

INVESTMENT POLICY

Table of Contents

I.	MISSION STATEMENT.	4
II.	PURPOSE OF THE INVESTMENT POLICY	4
III.	CONTEXT OF POLICY	4
	Duties of Fiduciaries.	5
	Identification of Fiduciaries	5
IV.	INVESTMENT RELATED AUTHORITY AND RESPONSIBILITIES	6
	Board of Trustees	6
	Fund Administration	6
	Fund Investment Staff	7
	Treasurer	8
	Investment Consultant	8
	Custodian	9
	Investment Managers	10
	Actuary	11
V.	INVESTMENT GUIDELINES	12
VI.	INVESTMENT OBJECTIVES	13
VII.	INVESTMENT PHILOSOPHY	13
	Investment Management Structure	13
	Investment Manager Selection.	14
	Investment Manager Evaluation	14
	Investment Monitoring Guidelines	15
VIII.	MANAGER REVIEW AND TERMINATION GUIDELINES	16
IX.	ASSET ALLOCATION	17
	Major Asset Classes, Allocation Targets and Ranges	17
	Active and Passive Asset Allocation	18
	Asset Allocation Guidelines	18
	Rebalancing Guidelines	19
X.	SECURITIES LENDING POLICY	19
XI.	PROXY VOTING POLICY	19
XII.	SECURITIES CLASS ACTION LITIGATION POLICY	20
XIII.	BROKERAGE POLICY	20
XIV.	TRANSITION MANAGEMENT POLICY	21

METROPOLITAN WATER RECLAMATION DISTRICT
RETIREMENT FUND

INVESTMENT POLICY

I. MISSION STATEMENT

The Board of Trustees ("Board" or "Trustees") of the Metropolitan Water Reclamation District Retirement Fund ("MWRDRF" or "Fund") has a fiduciary responsibility to the members and beneficiaries of the system. In recognition of this responsibility, the Board hereby adopts the following mission statement:

To provide, protect and enhance the present and future economic well being of members, pensioners and beneficiaries through efficient and effective management of equitable benefit programs, investment practices and member service efforts, utilizing sound actuarial and accounting principles, investment policies and management expertise, in compliance with applicable laws and standards.

The purpose of this mission statement is to provide broad operational direction for the Board, Administration Staff, and MWRDRF service providers. Bearing the Fund's mission in mind, the Board hereby adopts the following Investment Policy.

II. PURPOSE OF THE INVESTMENT POLICY

This Investment Policy reflects the Board's intent to:

- Establish investment objectives that satisfy the goal of funding current and future benefit obligations;
- Identify those parties having a fiduciary responsibility to the Fund and the accompanying obligations;
- Provide the criteria and framework for evaluating investment performance;
- Formally comply with the Illinois Pension Code's ("Code") requirements, (40 ILCS 5/1/113.6) (Investment Policies) and (40 ILCS 5/13-706) (Board powers and duties).

The Board, Staff and its Investment Consultant will periodically review this Investment Policy and MWRDRF's needs.

III. CONTEXT OF POLICY

The MWRDRF was established on July 7, 1931, as a governmental retirement system, as set forth in Internal Revenue Code Section 414(d). The MWRDRF provides financing for and the payment of retirement, survivor and disability benefits for eligible employees of the Metropolitan Water Reclamation District of Greater Chicago ("MWRDGC"). The MWRDRF is funded by employer and employee contributions and the income derived from the investment of contributions.

The MWRDRF is governed by a Board established by 40 ILCS 5/13-701 (Board created), whose power and duties are primarily enumerated in 40 ILCS 5/13-706 (Board powers and duties).

In developing the Investment Policy, the Trustees understand and accept their fiduciary obligations to the members of the Fund. These obligations are legal in nature and are enumerated in 40 ILCS 5/1-109 (Duties of Fiduciaries).

A. Duties of Fiduciaries

A fiduciary with respect to a pension fund established under the Code shall discharge his or her duties with respect to the pension fund solely in the interest of the participants and beneficiaries and:

1. For the exclusive purpose of:

    a) Providing benefits to the participants and their beneficiaries;

    b) Defraying reasonable expenses of administering the pension fund;

2. With the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and like aims;

3. By diversifying the investments of the pension fund so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

4. In accordance with the provisions of the Article of the Pension Code governing the Fund.

B. Identification of Fiduciaries

The Code provides:
A person is a "fiduciary" with respect to a pension fund or retirement system established under this Code to the extent that the person:

1. Exercises any discretionary authority or discretionary control respecting management of the pension fund or retirement system, or exercises any authority or control respecting management or disposition of assets;

2. Renders investment advice for a fee or other compensation, direct or indirect, with respect to any moneys or other property of the pension fund or retirement system, or has any authority or responsibility to do so; or

3. Has any discretionary authority responsibility in the administration of the pension fund or retirement system.

In the event of any inconsistencies arising between the Code and this Investment Policy, the Code shall govern.

IV. INVESTMENT RELATED AUTHORITY AND RESPONSIBILITIES

The authority and responsibilities listed below are examples of some of the more significant investment authority and responsibilities of the various parties. It is meant to provide the general scope of the authority and responsibility, as opposed to being considered a definitive listing.

A. Board of Trustees

The Code:

1. Provides the Trustees with the power to appoint and to allocate responsibilities to Fund staff and to such Investment Managers and Investment Consultants as are necessary to carry out the business of the Fund;

2. Requires any person or entity who exercises any discretionary authority or control of the administration of the Fund, or management or disposition of the Fund's assets, or who renders investment advice to be a fiduciary to the Fund. As such, the Trustees and all senior staff, Investment Managers, and Investment Consultants, hired by the Trustees are considered to be fiduciaries.

3. Requires the Fund to have a written agreement with its Investment Managers, Investment Consultant and advisers in accordance with the Code and incorporating the Board's Investment Policy;

4. Requires the diversification of the Fund's investments, so as to minimize the risk of a large loss, unless under the circumstances it is clearly prudent not to do so;

5. Provides the Trustees with the power to make rules and regulations necessary for the administration of the affairs of the Fund;

B. Fund Administration

1. Coordinates the efforts of the Fund's staff and consultants for the benefit of the Fund;

2. Works with the Fund's Investment Consultant and Actuary to insure that the Trustees are presented with accurate and the best available information, including oversight related to the agreement of the Investment Consultant's data and the Investment Manager's performance data, as reconciled by the Fund's Custodian;

3. Works with the Fund's investment professionals to help insure compliance with this Investment Policy, the Code and the Fund's Investment Management Agreements, including the Fund's Most Favored Client Policy which is a part of each Investment Management Agreement;

4. Insure that proper internal controls are in place to safeguard the assets of the Fund;

5. Works with the Fund’s Treasurer and such other District officers to insure that the Fund has accurately received all payments to which it is entitled, including employee contributions, tax levy allocations, and short-term principal and interest earned on the Fund’s assets.

6. Works with Investment Staff, the District and all business partners to insure that viable continuity plans are in place;

7. Studies, recommends and implements policies and operational procedures to ensure efficient and cost-effective fund administration;

8. Monitors each Investment Manager’s and Investment Consultant’s fees on an on-going basis to ensure that they are competitive, given the current market environment;

9. Has a fiduciary responsibility with regard to their Fund responsibilities.

C. Fund Investment Staff

1. Maintain the Fund’s target asset allocation in accordance with the approved model. The model shall be reviewed every three to five years;

2. Rebalance investment portfolios, as necessary, in order to maintain the asset allocation or to make cash available for benefit payments;

3. Initiate and monitor all wire transfers to and from the Investment Manager accounts to external sources;

4. Monitor external investments managers for compliance with the Fund’s policies, guidelines and Investment Management Agreement requirements and report to the Board any violations at monthly Board meetings;

5. Work in conjunction with newly hired Investment Managers and the Fund’s Legal Counsel to prepare Investment Management Agreements;

6. Negotiate fees relating to all investment services;

7. Maintain relationship with and monitor the Fund’s master custodian to ensure compliance with contract and all commitments;

8. Maintain relationship with the Investment Consultant in order to obtain necessary assistance with assignments from the Board;

9. Assist the Investment Consultant in the investment manager searches authorized by the Board;

10. Manage portfolio restructurings resulting from termination of an Investment Managers or the reduction of assets, with the assistance of the Investment Consultant, Investment Managers, a transition manager(s), and the Fund's custodian and to report results to the Board;

11. Report on investment activity and matters of significance at monthly Board meetings;

12. Assist the Investment Consultant in the development, implementation, and revision of the Investment Policy, as approved by the Board;

13. Monitor securities lending and class action litigation activity and report quarterly results;

14. Manage liquidity requirements to meet the Fund's needs without generating excessive trading costs;

15. Work in conjunction with the Investment Consultant to prepare and present research and recommendations for the Board's consideration on matters affecting the Fund's investments;

16. Has a fiduciary responsibility with regard to their Fund responsibilities.

D. Treasurer

The Treasurer of the MWRD shall be, ex officio, the Treasurer of the Fund pursuant to 40 ILCS 5/13-709(b) (Duties of officers of the District). As such, the Treasurer has the following responsibilities:

1. Collects all required sums from the salaries of MWRDGC eligible employees, tax levies, and other payments to the Fund and such other functions as the Board may direct;

2. Responsible for transferring the MWRDGC eligible employees' contributions, tax levies and other payments to the Fund's financial institutions, as directed by Fund staff;

3. Has a fiduciary responsibility with regard to Fund responsibilities.

E. Investment Consultant

1. Coordinates and/or assists with a review of each Investment Managers, typically every three to six months, at a Trustees' meeting;

2. Provides accurate, timely quarterly and annual reporting relative to the investment performance (net and gross of fees), trade quality, portfolio characteristics (issue by issue basis), style based benchmarks, and activities of the Fund's Investment Managers;

3. Performs comprehensive formal asset allocation studies every three to five years;

4. Monitors Investment Managers compliance with their investment mandate and the terms of their Investment Management Agreement with the Fund;

5. Coordinates and/or assists with the formal evaluation of the various investment professionals retained by the Fund, including due diligence reports or research on the Fund's current or prospective Investment Managers;

6. Coordinates and/or assists with investment manager searches, including the analysis of the portfolios of prospective investment managers;

7. Coordinates and/or assists in the development of the Fund's Asset Allocation, including recommendations regarding the hiring, retention, reduction and/or dismissal of any of the Fund's investment professionals, including coordinating/consulting relative to transitioning of assets;

8. Advises and educates the Trustees and Investment Staff relative to risk considerations, recent market changes, asset allocation issues, and any other significant issues facing the investment community;

9. Assists with the development and periodic review of the Fund's Investment Policy;

10. Shall not directly nor indirectly receive benefit from recommendations made to the Fund;

11. Works internally and with business partners to insure that viable continuity plans are in place that provide for the resumption of business in the event of an unforeseeable disaster;

12. Has a fiduciary responsibility with regard to its Fund responsibilities.

F. Custodian

1. Maintains possession and insures electronic ownership of the Fund's securities in the Fund's name;

2. Insures minimal, if any, transaction failure, with proper follow-up and notification to all parties, including the Fund administration in all such cases;

3 Provides accurate and timely (monthly and annual) investment transaction accounting (summary and detail), including movement of assets between accounts, to the Fund and its Investment Consultants, as directed by the Fund;

4. Provides audited monthly and annual reporting to the Fund, and monthly reporting to the Investment Managers and the Investment Consultant, which includes all transactions and holdings by manager. When necessary, works with the individual Investment Manager to resolve any valuation differences;

5. Assists the Fund administration and the Investment Consultant with regard to investment compliance by each of the Fund's Investment Managers;

6. Collects income, redeems maturing securities, and effects electronic delivery and receipt of purchases and sales. Coordinates with the respective Investment Managers the filing of appropriate authorization to avoid/minimize the taxation of proceeds of foreign issues by foreign governments;

7. Sweeps cash daily into an interest bearing account or accounts, as designated by the Trustees, featuring a high degree of safety of principal and liquidity;

8. Facilitates efficient voting of proxies by the Fund's Investment Managers or designee;

9. Files class action security claims on behalf of the Fund for any and all claims for which the Fund may be entitled. Periodically, no less than quarterly, reports the status of such claims, and reports on such proceeds as they are distributed;

10. Provides an interactive system that minimally allows access to the Fund's current portfolio and recent investment transactions as of the previous day's close of business;

11. When authorized, serves as a securities-lending agent in compliance with a comprehensive security-lending program specifically authorized by the Board of Trustees. Provides timely accurate periodic reporting to insure that the Fund is continually aware of the risk/return attributes of the program;

12. Works internally and with business partners to insure that viable continuity plans are in place that provide for the resumption of business in the event of an unforeseeable disaster;

13. Has a fiduciary responsibility with regard to its Fund responsibilities.

G. Investment Managers

1. Have discretionary authority including decisions to buy, sell or hold securities and vote proxies on behalf of the Fund;

2. Comply with the terms of their Investment Management Agreement and in compliance with Securities and Exchange Commission (SEC) regulations and federal and state statutes.

3. Make recommendations, when deemed necessary, as to changes in the objectives, guidelines, or standards of the Investment Manager's investment guidelines, based upon material and sustained changes in the capital markets;

4. Have full power and discretion to determine which broker or dealer to use within the guidelines of the Fund's Minority/Women/Disabled/Veteran Owned Broker/Dealer Policy. It is the Investment Manager's responsibility to seek best execution of the Fund's transactions;

5. Provide accurate and timely reporting of investment transactions and investment returns (gross and net of fees) for quarterly and annual accounting purposes;

6. Review the monthly investment transaction reports and detailed list of holdings (portfolio valuation) provided by the Fund's custodian and resolve as soon as possible any and all discrepancies;

7. Work internally and with business partners to insure that viable continuity plans are in place that provide for the resumption of business in the event of an unforeseeable disaster;

8. Have a fiduciary responsibility with regard to their Fund responsibilities.

H. Actuary

1. Works with the Fund's Auditors, Trustees and Administration to provide the annual Actuarial Report which sets forth the financial condition and funding requirements of the Fund;

2. Employs fundamental and historical validation processes to insure that the Actuarial Report's underlying data is complete and accurate;

3. Performs experience analysis every 3 – 5 years to insure that all actuarial assumptions are reasonable;

4. Researches, informs, educates, and recommends to the Trustees prudent actuarial assumptions;

5. Provides accurate and timely legislative impact statements and projections;

6. Works internally and with business partners to insure that viable continuity plans are in place that provide for the resumption of business in the event of an unforeseeable disaster;

7. Has a fiduciary responsibility with regard to its actuarial responsibilities to the Fund.

V. INVESTMENT GUIDELINES

The Fund's benefit liabilities extend many years into the future and, consequently, the investment focus should be on long-term results. The Board recognizes that its investments are subject to short-term volatility; however, it is critical that a long-term investment focus is maintained and that the Board maximizes total return within prudent risk parameters.

In order to minimize the risk associated with a large concentration in limited market segments or investment styles:

1. The Fund's domestic equity investments should be diversified by market capitalization, investment style (i.e., value, core or growth), economic sectors, industries, and investment strategy and 2) the fixed income investments should be diversified across market segments, by credit quality, maturity and investment strategy with an acceptable level of risk. The overall domestic equity composite is expected to earn an annualized net after fees total rate of return that exceeds the Dow Jones Wilshire 5000 Index, over rolling 3-5 year periods, by 50-100 basis points.

2. International equity investments should be diversified by market capitalization, investment style economic sectors, industries, and investment strategies with an acceptable level of risk. The overall international equity composite is expected to earn an annualized net after fees total rate of return that exceeds the MSCI ACWI ex U.S Index, over rolling 3-5 year periods, by 75-125 basis points.

3. Fixed Income investments should be diversified across geography, market segments, by credit quality, maturity and investment strategies. The overall fixed income composite is expected to earn an annualized net after fees total rate of return that exceeds the Barclays Capital U. S Aggregate Bond Index over rolling 3-5 year periods by a minimum of 20-40 basis points. Global Fixed Income should be diversified across a broad range of foreign markets, by credit quality, maturity and investment strategies. The overall global fixed income composite is expected to earn an annualized net total rate of return that exceeds the Barclays Global Aggregate Hedged Index over rolling 3-5 year periods by 75 - 125 basis points.

   Allowable investments – Domestic Core and Core Plus managers may invest in all sectors of the fixed income market included in the Barclays Capital U. S Aggregate Bond Index. They may invest in other investment grade sectors such as municipal bonds, collateralized mortgage obligations (CMOs) and Rule 144A securities. Core Plus managers may invest opportunistically in extended sectors such as foreign bonds, high yield bonds and emerging market bonds, with maximum exposure in these sectors as agreed upon in the investment manager's investment guidelines.

   Global Core Plus manager(s) can invest in U.S & non-U.S dollar Government bonds, Corporate bonds, MBS, EMD, ABS, High Yield, Structured Products, Options, Forwards, Futures and Swaps.

Leverage and the use of borrowed funds, securities, or other financial contracts to increase economic exposure is prohibited. However, securities lending is not prohibited, and may be only allowed as part of a comprehensive securities lending program specifically authorized by the Trustees. Similarly, the prudent use of futures in rebalancing processes and portfolio transitioning is not considered to be leverage.

It is the Fund's policy to maintain a Most Favored Client policy relative to investment management fees.

The Illinois Pension Code prohibits the payment of any placement or "finder's fee" relative to the establishment of investment manager and investment consultant relationships.

It is the Fund's policy to encourage the use of broker/dealers owned by minorities, women, persons with disabilities, and veterans.

VI. INVESTMENT OBJECTIVES

The overall investment objective is to invest Fund assets to insure the accumulation of the funds necessary for payment of current and future benefits. At any point in time, the indicator of that ability is the Fund's funded ratio, which is primarily dependent upon the actuarial value of assets, liabilities and actuarial assumptions that include an investment net rate of return of 7. 50%.

The investment objective is to maximize the rate of return within a prudent level of risk. The Fund is expected to meet or exceed the actuarial return assumption on average over 5-year rolling quarterly periods.

VII. INVESTMENT PHILOSOPHY

Investment Management Structure

1. The Fund utilizes equity-only and fixed income-only investment management products. Investment products are employed in an effort to conform to the current asset allocation targets.

2. For diversification purposes, the Fund attempts to employ a diverse set of investment styles. Allocation to investment products is based upon asset allocation needs. Specific biases relative to core, value and growth investment styles are formalized in the current asset allocation targets.

3. The Board realizes that a large fund sometimes runs the risk of dividing assets among too many active managers that can result in an "index like" allocation at high fees. At the same time the Board will avoid the risk of having too much money with a single manager, thereby imposing a maximum allocation limit for a single manager account based on style and optimization. Although there is no specific number of investment managers that has been determined to be optimum, the goal is to utilize the minimal number that provide an acceptable level of security and style diversification without

exceeding the individual investment product/manager allocation limitations. Refer to Asset Allocation Guidelines within the Asset Allocation Section (IX).

4. In conjunction with the Fund's target asset allocation, which is based on the Fund's most recent asset allocation study, the objective is to rebalance as required to stay within a reasonable range (typically + or – 5%) of the target allocation across the broad asset classes. Refer to the section on Asset Allocation for further discussion.

5. In general, the Fund wants every investment mandate to stand on its own.

Investment Manager Selection

The Fund has established a Procurement Policy for Investment Advisers/Managers in accordance with the requirements of Illinois Public Act 96-0006.

Investment Manager Evaluation

1. The evaluation of Investment Managers is based on a broad range of criteria.
   a. In compliance with their formal Investment Management Agreement with the Fund, Investment Managers are required to provide quarterly reports that include current and historical performance data (gross and net of fees) and portfolio characteristics. The Fund should review any additional correspondence or information provided by the Investment Managers.

   b. Information gathered from professional journals, on-site visits, and concerns/comments expressed by Investment Consultant(s), Trustees or Investment staff.

   c. Rates of return (gross and net of fees) and portfolio characteristics based upon the records of the Custodian are computed and summarized to verify the performance and attributes of the Fund's individual portfolios. Additionally, performance and volatility comparisons are provided relative to style based and broad based benchmark (s).

   d. Peer group performance comparisons utilizing an appropriate asset-class style/capitalization based investment universe.

2. Formal Presentations

   a. Periodically, the Fund's Investment Managers make formal presentations to the Trustees.

   b. Periodically, the Investment Consultant responsible for the independent performance review coordinates/assists with a formal performance review of each one of the Fund's portfolios.

Investment Monitoring Guidelines

The Board has identified quantitative and qualitative areas of concern which should be considered when evaluating an Investment Managers.

Investment Managers performance net of fees is expected to exceed the style specific benchmark on average over multiple rolling periods of 1, 3 and 5 years. Time periods to be reviewed will be quarter end, year to date, trailing one-year, two-year, three-year and five-year periods. Consideration will be given to consistency of performance in the context of rolling three-year periods and for the rolling five-year period. Shorter time periods will be assessed if the Investment Managers has underperformed for 3-4 consecutive quarters.

1. Quantitative Concerns.

Investment Managers performance is evaluated against the following measures:

a. Rates of return, gross and net of fees, against agreed upon style-specific benchmark guideline;

b. Ranking within peer group universe for comparable styles.

2. Qualitative Concerns.

Consideration is also given to any of the following concerns:

a. The firm has changed portfolio managers, or such change appears imminent;

b. The firm has had a significant change in ownership or control;

c. The firm has experienced significant account losses;

d. The firm has changed its investment focus or has experienced style drift, departing from its investment style, philosophy, objectives or parameters;

e. The firm's strategy or portfolio characteristics no longer fit the Fund's desired asset allocation portfolio structure;

f. The portfolio has experienced substantially increased portfolio turnover;

g. The firm has experienced administrative difficulty in transacting trades, fund transfers, or pricing;

h. The firm has experienced other changes or problems in its procedures, operations, investing, or reporting which have or could detract from the objectives of the Fund;

i. The firm manages too significant a portion of the Fund's assets;

j. The Fund’s assets are too significant a portion of the firm’s assets under management;

k. The firm has demonstrated a reduction in quantity or quality of support;

l. The firm’s inability to explain poor performance and identify corrective actions;

m. The firm has not complied with any particular aspect of its Investment Management Agreement, Exhibit A-Investment Guidelines and Objective, or the Fund’s current Investment Policy;

n. The firm has violated an SEC rule or regulation or has been involved in litigation or an investigation by a governmental body for legal or ethical violations.

o. The firm has changed its management fee schedule.

VIII. MANAGER REVIEW AND TERMINATION GUIDELINES

Criteria for the Review and Termination of Investment Managers

The Investment Consultant and Fund Staff will recommend terminating an Investment Manager when confidence is lost in the firm or the management of a strategy; when the characteristics of the portfolio no longer satisfy the desired or expected elements of the mandate, or the current style is no longer deemed appropriate by the Fund.

Listed below are scenarios that would lead to a loss of confidence in an Investment Manager:

1. **Performance:** Continued performance shortfalls versus a peer group of managers with a similar style and market index. An Investment Manager that lags the benchmark indexes over an average of rolling three year periods for three consecutive quarters will be considered for termination.

2. **Changes in strategy:** If the Investment Manager departs from the strategy and/or style it was originally hired to implement, such as a switch from a quantitative process to a fundamental one, and or the strategy deviates from the peer universe and benchmark indexes dramatically and in a manner that would not have been expected given the tracking error expectations of the particular strategy.

3. **Change in organizational structure or personnel:** A significant change in culture through a merger or acquisition that is likely to distort incentives and promote turnover, or if significant members of the investment team leave the firm.

4. **Compliance:** Any negligence, willful misconduct, Investment Policy violation or breach of federal or state laws.

5. **Other:** Any other reason the Fund’s Trustees deem appropriate for a heightened review of the Investment Manager.

The Investment Consultant and Fund Staff's recommendation may fall into one of the following two categories:

- **Retain:** We have confidence in the Investment Manager's ability to add future value. The Investment Manager's investment performance and fit is satisfactory, and it has no significant organizational or strategic issues.

- **Terminate:** We do not have confidence in the Investment Manager's ability to add future value over its benchmark. We may recommend terminating an Investment Manager if significant concerns exist as to the organization or strategy.

The Fund Staff, with assistance from the Investment Consultant, will review Investment Managers and when necessary provide recommendations to terminate relationships. These recommendations will be brought to the entire Board of Trustees for a final decision.

IX. ASSET ALLOCATION

Asset allocation is based on the formal asset allocation study conducted every three to five years. The study is based on the mean-variance optimization encompassing the major assets classes that have been approved by the Trustees. Section V (Investment Guidelines) and the most recent Asset Allocation Plan provides rationale for the adopted approach. The study results in adoption of target allocations for each major asset class. Allowable allocation ranges around the target are then identified for each major asset class. The idea is to rebalance as needed to maintain the allocation to each major asset class within the identified range.

Major Asset Classes, Allocation Targets and Ranges
Based on the most recent formal asset allocation study, the following major asset classes, allocation targets and ranges were adopted:

Major Asset Class	Target	Range (+/-5%)
Domestic Large Cap Equity	21.00%	16% - 26%
Domestic Mid Cap Equity	10.00%	5% - 15%
Domestic Small Cap Equity	11.00%	6% - 16%
International Large Cap Equity	11.00%	6% - 16%
International Small Cap Equity	6.00%	1% - 11%
Emerging Market Equity	6.00%	1% - 11%
Core Fixed Income	8.75%	3.75% - 13.75%
Core Plus Fixed Income	17.50%	12.5% - 22.5%
Global Fixed Income	8.75%	3.75% - 13.75%
	100.00%	

The Fund has adopted an Emerging Manager Utilization Program which may invest initially up to 12% of the Fund's total assets in investment management firms that meet the criteria for inclusion in this program.

The investment policy benchmark index is composed of the following: 21% S&P 500 Index, 10% Russell Midcap Index, 11% Russell 2000 Index, 11% MSCI ACWI ex-US Index, 6% S&P Developed Ex-U.S Index, 6% MSCI Emerging Markets Index, 8.75% Barclays Global Aggregate (Hedged) Index, 26.25% Barclays Aggregate Index.

Active and Passive Asset Allocation
Active and passive strategies will be considered for all investment manager selection projects.

Asset Allocation Guidelines
The Board monitors current allocations and has established the following asset allocation guidelines relative to new or existing investment products managed by individual firms:

	Guideline	%	Example	
A.	Maximum percentage of the Fund's assets across all vehicles, such as commingled funds, separately managed accounts, mutual funds, etc. allocated to any one strategy, such as large cap value.	15%	Fund's assets: Maximum %: Maximum Allocation:	$1,000,000,000 15% $ 150,000,000
B.	Maximum percentage of the Fund's assets allocated to any one firm.	20%	Fund's assets: Maximum %: Maximum Allocation:	$1,000,000,000 20% $ 200,000,000
C.	Maximum percentage of the Fund's assets across all vehicles such as commingled funds, separately managed accounts, mutual funds, etc., managed by any 1 firm represented by the Fund's allocation	15%	Fund's assets: Maximum %: Maximum Allocation:	$1,000,000,000 15% $ 150,000,000
D.	Maximum percentage of a firm's assets under management represented by the Fund's allocation.	20%	Fund's assets: Maximum %: Maximum Allocation:	$1,000,000,000 20% $ 200,000,000

The Fund Staff and Investment Consultant will monitor and report on the status of the allocations listed above and the Trustees will consider the prevailing investment market environment to determine if rebalancing is necessary. Items A and B should be monitored semi-annually and items C and D should be monitored annually.

Rebalancing Guidelines: The asset allocation and rebalancing report which provides the most recent quarter ending allocation to equities and fixed income (major asset classes) will be distributed and reviewed monthly. Rebalancing considerations are:

1. To comply with the current asset allocation policy when the major assets classes are out of range, the Trustees should consider reallocation minimally to be within range on all asset classes. To continually forgo rebalancing when the asset allocation is consistently out of range reduces the impact of the asset allocation plan.

2. When more than one consecutive quarter-end has reflected the similar out of range condition, the Trustees should strongly consider reallocation, preferably adjusting to allocations more consistent with the target, as opposed to just falling within the range. Otherwise, the Trustees should consider revisiting their earlier asset allocation plan to change their overall investment goal.

3. In many cases, such reallocation can be made within existing passive accounts or in combination with other actively managed portfolios, as opposed to hiring a new Investment Manager. To determine an appropriate course of action, the Trustees should minimally review the major subclasses (large/mid/small capitalization and value/growth style equity, fixed income, and active/passive strategy) to more specifically determine the portfolios involved in the reallocation.

X. SECURITIES LENDING POLICY

The Fund participates in a stand-alone securities lending program with its separately managed accounts at its Custodian, and has the discretion to have additional securities lending exposure via its active and passive commingled fund investments. The purpose of the Securities Lending programs is to provide incremental income by lending some invested securities to qualified borrowers. The Securities Lending agent (usually the Fund’s Custodian or commingled fund provider) is responsible for identifying qualified borrowers, prudently investing adequate collateral and returning the securities when needed. The Securities Lending provider is also responsible for reporting on the risk and reward results of the program (usually monthly or quarterly).

XI. PROXY VOTING POLICY

The Fund appoints the Investment Manager as its agent to vote all proxies at the Investment Manager’s discretion solely in the best interests of the beneficiaries of the Fund.

As part of the Fund’s Investment Management Agreement, Investment Managers are required to report their proxy voting on a quarterly basis.

XII. SECURITIES CLASS ACTION LITIGATION POLICY

Securities Litigation Assumptions and Understanding

The Fund monitors pending and potential securities litigation cases and participates as lead plaintiff or as class plaintiff in securities litigation lawsuits when appropriate to protect its members' interests. From time to time, class action lawsuits are brought against companies, their directors, and/or officers, as well as the corporation's accounting firms for alleged violations of federal and state securities laws relating to various disclosure obligations and breaches of fiduciary or other duties.

Monitoring and reporting of potential litigation is carried out by the Fund's outside counsel who may make recommendations to the Fund's administration and to Fund Counsel. Depending on the merits of the recommendation, the administration and staff will refer the matter to the Board of Trustees. Board approval is required before such action can be taken.

The Custodian maintains an electronic historical record of the Fund's investment transactions and portfolio holdings and is in the best position to be aware of pending class action litigation and to file claims on behalf of the Fund.

The Custodian will pursue the Fund's interest through the claim process (Class Action Administrator), and will complete the appropriate forms and provide the proper supporting documents to further the Fund's claim.

Where the period specified within the class action falls outside of the period for which the current Custodian served the Fund in that capacity, the current Custodian will work with the Fund's prior Custodian(s) to determine the Fund's interest in such class action and to compile the required supporting documentation, and similarly pursue the Fund's interest.

The Fund's current Custodian will provide periodic reporting relative to the pending and settled class action litigation in which the Fund has an interest.

It is the Fund's understanding that the Fund's passive commingled investment management firms are pursuing such class action litigation that is relevant to the various commingled funds and crediting the Fund with its share of the litigation proceeds.

XIII. BROKERAGE POLICY

Each Investment Manager is responsible for implementing trading policies that result in best execution in compliance with SEC regulations.

The Fund has adopted a Broker/Dealer Utilization Policy that encourages the use of qualified broker/dealers owned by minorities, women, persons with disabilities and veterans who are capable of providing "best execution".

XIV. TRANSITION MANAGEMENT POLICY

Transition Management is utilized for purposes of portfolio liquidation, benchmark or Investment Manager changes, asset allocation shifts, portfolio rebalancing, and portfolio restructuring. It centralizes the coordination of activities and parties involved with the purpose of eliminating unnecessary transactions, reducing costs, and maintaining the maximum amount of market exposure during the transition period. The Transition Managers is entrusted to prudently manage the process.

The objective is to preserve the value of the legacy portfolio and give the target portfolio, whether an asset class and/or managers, the best possible start.

The selection of a Transition Manager will be through a bid process. Once selected, the Transition Manager will:

1. Act as a fully-discretionary fiduciary to the Fund as dictated in the Fund's Transition Management Agreement, and perform the transition with the utmost care and prudence;

2. Act only in an agency capacity at a firm level for all security transactions, unless otherwise agreed upon;

3. Coordinate the firm's trading activity with the Investment Managers (both legacy and target portfolios) and the Fund's Custodian;

4. Comply with the Fund's Broker/Dealer Utilization Policy;

5. Provide a written detailed pre-trade analysis to the Fund's Investment Staff before beginning the transition including the timeframe required to achieve the desired objective of liquidating the legacy portfolio(s) and developing and/or funding the target portfolio(s). The pre-trade should illustrate expected explicit costs (commissions and fees) and implicit costs (equity bid offer spread, equity market impact, fixed income bid offer spread and opportunity cost.

6. Report to the Fund's Investment Staff during the transition period trade activity from commencement of the process to the completion.

7. Provide Investment Staff with a report on the outcome and results of the transition after the completion of the transition which should include at a minimum the actual explicit, implicit cost and full trading/transaction reports.

The Investment Staff will be responsible for reporting the results of the transition to the Board of Trustees.