

Metropolitan Water Reclamation District

# Retirement Fund



## Investment Policy

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**METROPOLITAN WATER RECLAMATION DISTRICT  
RETIREMENT FUND**

**INVESTMENT POLICY**

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**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 Fund. In recognition of this responsibility, the Fund adopts the following mission statement:

*At the direction of the Retirement Board, it is the mission of the Fund to provide earned benefits to the Fund membership with excellent customer service and to preserve the fiscal integrity and financial stability of the Fund.*

The purpose of this Investment Policy is to provide broad operational direction for the Board, Staff, and MWRDRF service providers.

**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 parties that have a fiduciary responsibility to the Fund and identifying their accompanying obligations.
- Provide a set of metrics for the Fund’s investment portfolio construction and evaluation of investment performance.
- Formally comply with the Illinois Pension Code’s (“Code”) requirements, (40 ILCS 5/1) and (40 ILCS 5/13).

This Investment Policy will be reviewed as needed, but not to exceed three years.

**III. FUND PURPOSE and SCOPE**

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” or “District”). 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 enumerated in 40 ILCS 5/1-109 (Duties of Fiduciaries).

#### **A. Duties of Fiduciaries**

A fiduciary shall discharge his or her duties with respect to the 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 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 Fund 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 Articles 1 and 13 of the Code.

#### **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 its 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 or discretionary 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 FIDUCIARY 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 senior staff, Investment Managers, and Investment Consultants, hired by the Trustees are 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, 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 appropriate policies necessary for the administration of the affairs of the Fund.

##### **B. Executive Director**

1. Coordinates the efforts of the Fund's Staff and Consultants relating to all investment matters.
2. Works with the Fund's Staff and Investment Consultant to ensure that the Trustees are presented with accurate and the best available information, including oversight related to the Investment Consultant's data agreeing with the Investment Manager's performance data, as reconciled by the Fund's Custodian.
3. Works with the Fund's investment professionals to help ensure compliance with this Investment Policy, the Code and the Fund's Investment Management Agreements.
4. Ensures that proper internal controls are in place to safeguard the assets of the Fund and are managed in accordance with this Policy.

5. Oversees the execution of investment transactions according to Board policies.
6. Works with District officers to ensure that the Fund has accurately and timely received all payments to which it is entitled, including employee contributions, employer contributions, and interest earned on the Fund's assets.
7. Works with Investment Staff, the District, and all business partners to ensure that viable investment continuity plans are in place.
8. Studies, recommends and implements policies and operational procedures to ensure efficient and cost-effective Fund investments.
9. Monitors investment fees on an on-going basis to ensure that they are competitive;

**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, to maintain the asset allocation or to make cash available for benefit payments and report to the Board of Trustees and the Executive Director on a timely basis.
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 with the requirements of the applicable Investment Management Agreement and report to the Board on a timely basis any violations.
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 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 Manager 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. Keep all records, books, files, papers, and documents belonging to the Board, other than those in the possession or under the control of the Master Custodian, Investment Managers, and Investment Consultant to the Fund.

#### **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, employee contributions, and other payments to the Fund and such other functions as the Board may direct.
2. Responsible for transferring on a timely basis the MWRDGC eligible employees' contributions, employer contributions and other payments to the Fund's financial institutions, as directed by Fund staff.

#### **E. Investment Consultant**

1. Provides accurate monthly, and quarterly reporting of investment performance (net fees compared to benchmarks).
2. Performs formal asset allocation studies every, approximately every three to five years.
3. Monitors Investment Managers compliance with their investment mandate and the terms of their Investment Goals and Guidelines with the Fund.



4. Coordinates and/or assists with the evaluation of investment managers retained by the Fund, 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.
5. Coordinates and/or assists with investment manager searches.
6. 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.
7. Assists with the development and periodic review of the Fund's Investment Policy.
8. Shall comply with the Fund's Ethics Policy.
9. Works internally and with business partners to ensure that viable continuity plans are in place that provide for the resumption of business in the event of an unforeseeable disaster.

**F. Custodian**

1. Maintains possession and ensures electronic ownership of the Fund's securities in the Fund's name.
2. Ensures 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, the Investment Consultants, and Investment Managers 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 Staff and the Investment Consultant regarding 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 Fund.

8. Processes voting of proxies by the Fund's Investment Managers or designee.
9. Files class action security claims on behalf of the Fund for 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 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. Provides timely accurate periodic reporting to ensure that the Fund is continually aware of the risk/return attributes of the program.
12. Works internally and with business partners to ensure that viable continuity plans are in place that provide for the resumption of business in the event of an unforeseeable disaster.

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

## V. INVESTMENT GUIDELINES

Fund liabilities extend many years into the future and, consequently, the investment focus should be on long-term results. The Board recognizes that 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.

The Fund sets investment objectives and guidelines per mandate and any deviation from these guidelines or investment objectives, must immediately (within 5 days) be brought to the attention of the Investment Staff and Investment Consultant.

To minimize the risk associated with a large concentration in with a specific market segment, the Fund diversifies assets accordingly:

1. Domestic equity investments should be diversified by market capitalization, investment style (i.e., value, core, or growth), economic sectors, industries, and investment strategies within an acceptable level of risk.
2. International equity investments should be diversified by market capitalization, investment style, economic sectors, industries, and investment strategies with an acceptable level of risk.
3. Global equity investments should be diversified by market capitalization, investment style, economic sectors, industries, and investment strategies with an acceptable level of risk.
4. Fixed income investments should be diversified across geography, market segments, by credit quality, maturity and investment strategies within an acceptable level of risk.
5. Core real estate investments should be diversified by geography and sector predominately and reside within the lower leverage end of the real estate risk spectrum. The real estate investments should be high-quality, stabilized, income-producing assets with an emphasis on the office, industrial, multi-family and/or retail sectors located in major metropolitan markets.
6. The Fund invests in private debt to enhance the investment portfolio return through long-term capital appreciation while mitigating drawdown risk where possible. Private Debt investments are highly illiquid, and the Fund seeks to be compensated for such illiquidity by earning returns substantially greater than those available from publicly-traded securities.

Most investment mandates are consummated within a separate account by an Investment Management Agreement. Commingled funds, mutual funds, collective funds, pooled funds, limited partnerships or other similarly structured vehicles may be used when prudent. Such investment vehicles must also adhere to the written objectives and guidelines established by the Fund within separate accounts.

The use of leverage at the Fund level to increase economic exposure is prohibited. The use of leverage at the manager level is allowed, at agreed upon levels, for certain asset classes.

Securities lending is allowed based on a securities lending program specifically authorized by the Board of Trustees.

It is the Fund's policy to require a Most Favored Client distinction relative to investment management fees if it is most favorable to the Fund.

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 Investment Managers to consider broker/dealers owned by minorities, women, persons with disabilities, and veterans when searching for best execution.

## **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, an indicator of that ability is the Fund's funded ratio, which is primarily dependent upon the actuarial value of assets and liabilities. The actuarial assumed rate of return is 7.25%.

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 assumed rate of return over time.

## **VII. INVESTMENT PHILOSOPHY**

### **Investment Management Structure**

1. 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 asset allocation targets.
2. 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.
3. In conjunction with the Fund's target asset allocation, which is based on an 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.

4. Sustainability or ESG (environment, social and governance) factors are used, within the bounds of financial and fiduciary prudence, by managers to achieve stated performance objectives.

### **Investment Manager Selection**

The Fund has established a Procurement Policy for Investment Managers in accordance with the requirements of the Illinois Pension Code.

### **Investment Manager Evaluation**

1. The evaluation of Investment Managers is based on a broad range of criteria.
  - a. In compliance with their 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 (net of fees) and portfolio characteristics are computed by the Consultant utilizing the records of the Custodian 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 Investment Managers.

Investment Managers performance, net of fees, is expected to exceed the style specific benchmark on average over 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 periods. Shorter time periods will be assessed if the Investment Manager has reflected significant underperformance over multiple quarters.

Continued underperformance by an Investment Manager may result in the Board placing the manager on a watch list. While “on watch”, managers may be subjected to increased portfolio monitoring and requested to provide additional information for the Board’s consideration. There is no set length of time for an Investment Manager to be on the watch list. Removal from the Fund’s watch list for performance reasons usually occurs with the manager reporting improved returns or the Board voting to terminate the manager due to continued underperformance while “on watch”.

Investment Managers may be placed on the Fund’s watch list for other reasons such as: The loss of key investment personnel, significant decline in firm assets under management, sale or merger of the firm, material changes in the firm’s process, or non-compliance with the Investment Management Agreement or Fund policies.

## **1. Quantitative Concerns**

Investment Manager performance is evaluated against the following measures:

- a. Net rates of return against agreed upon benchmarks.
- b. Ranking within peer group universe for comparable mandates.

## **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, Investment Guidelines and Objectives, or the Fund's 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 in 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 examples of scenarios that would lead to a loss of confidence in an Investment Manager:

1. **Performance:** Continued underperformance versus a peer group of managers with a similar style and market index.
2. **Changes in strategy:** If the Investment Manager deviates from the strategy and/or style it was originally hired to implement.
3. **Change in organizational structure or personnel:** A change in culture through a merger or acquisition that is likely to trigger key investment team members to leave the firm.
4. **Compliance:** Any non-compliance with the Investment Management Agreement, Investment Policy or a 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 recommendations may fall into one of the following 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 for Board consideration.

## IX. ASSET ALLOCATION

Asset allocation is based on a formal asset allocation study conducted every three to five years. The study should result in the 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:

<u>Major Asset Class</u>	<u>Target</u>	<u>Range (+/-5%)</u>
Domestic Large Cap Equity	20.00%	15% - 25%
Domestic Mid Cap Equity	4.00%	0% - 9%
Domestic SMID Cap Equity	5.00%	0% - 10%
Domestic Small Cap Equity	9.00%	4% - 14%
International Large Cap Equity	9.00%	4% - 14%
International Small Cap Equity	5.00%	0% - 10%
Global Low Volatility Equity	5.00%	0% - 10%
Emerging Market Equity	3.00%	0% - 8%
Core Real Estate	10.00%	5% - 15%
Core Fixed Income	13.00%	8% - 18%
Core Plus Fixed Income	12.00%	7% - 17%
Private Credit	5.00%	0%-10%
	<u>100.00%</u>	



The investment performance benchmark will be composed of the portfolio’s allocations to the approved asset classes, as represented by the S&P 500 Index, Russell 1000 Growth Index, S&P 400 Mid Cap Index, Russell 2500 Value Index, Russell 2000 Value Index, MSCI ACWI ex-US Index, MSCI EAFE, MSCI Emerging Markets Index, Bloomberg U.S. Aggregate Index, NFI-ODCE Index, MSCI World, and Burgiss Private Credit Index.

**Active and Passive Asset Allocation**

Active or passive strategies will be determined for all investment mandates.

**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	%
A.	Maximum percentage of the Fund’s active 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%
B.	Maximum percentage of the Fund’s active assets allocated to any one firm.	20%
C.	Maximum percentage of a firm’s assets under management represented by the Fund’s allocation.	20%

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. All items will be monitored periodically, at least annually.

**Rebalancing Guidelines:** The target asset allocation report which provides the most recent allocation to equities, core real estate and fixed income (major asset classes) will be distributed to the Board and reviewed monthly.

The investment portfolio will be rebalanced, as need, to meet the Fund’s liquidity requirements. Examples of liquidity requirements include: Benefit payments to membership, capital calls for open-end investments, and funding of new investment mandates.

The investment portfolio may also be rebalanced to bring the portfolio closer to the approved target allocations. Fluctuations in market values may require the need to adjust asset class allocations to be more consistent with the preferred ranges highlighted above.

## X. SUSTAINABILITY INVESTMENT POLICY

The Board of Trustees (“Board”) shall invest the reserves of the Metropolitan Water Reclamation District Retirement Fund (“Fund”) in accordance with ILCS 40 5/13-706(d), Board powers and duties. The Board allocates the management of reserves to one or more investment managers acting as fiduciaries on behalf of the Fund participants. Each investment manager shall discharge their duties with respect to the Fund solely in the interest of the participants and beneficiaries and shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.

Each investment manager appointed by the Board is done through a contractual agreement (“Agreement”) between the Board and the investment manager. The Agreement includes the mutually agreed upon investment mandate, performance objectives, and guidelines to minimize risk.

To achieve the performance objectives, the Investment Manager should, within the bounds of financial and fiduciary prudence, recognize and evaluate sustainability factors that may have a material and relevant financial impact on the safety and/or performance of the Fund’s reserves under their management.

**Sustainability factors** may include:

- a) **Corporate governance and leadership factors**, such as the independence of boards and auditors, the expertise and competence of corporate boards and executives, systemic risk management practices, executive compensation structures, transparency and reporting, leadership diversity, regulatory and legal compliance, shareholder rights, and ethical conduct.
- b) **Environmental factors** that may have an adverse or positive financial impact on investment performance, such as greenhouse gas emissions, air quality, energy management, water sustainability and wastewater management, water quality, waste and hazardous materials management, and ecological impacts.
- c) **Social capital factors** that impact relationships with key outside parties, such as customers, local communities, the public, and the government, which may impact investment performance. Social capital factors include human rights, customer welfare, customer privacy, data security, access and affordability, selling practices and product labeling, community reinvestment, and community relations.
- d) **Human capital factors** that recognize that the workforce is an important asset to delivering long-term value, including factors such as labor practices, responsible contractor and responsible

bidder policies, ethics and workplace harassment policies, employee health and safety, employee engagement, diversity and inclusion, and incentives and compensation.

e) **Business model and innovation factors** that reflect an ability to plan and forecast opportunities and risks, and whether a company can create long-term shareholder value, including factors such as supply chain management, materials sourcing and efficiency, business model resilience, product design and life cycle management, and physical impacts of climate change.

The Investment Manager will report to the Board the following:

- 1) Prior to the effective date of this section, a comprehensive report on how the Investment Manager utilizes sustainability factors in:
  - a. Analyzing investment opportunities on behalf of the Fund
  - b. Monitoring investments made on behalf of the Fund
  - c. Procedures for engagement with the management of investment holdings
  - d. Procedures in voting proxies utilizing sustainability factors
- 2) Investment Manager shall report annually to the Board the following:
  - a. All sustainability factors procedures in place
  - b. Any changes to procedures since the previous year
  - c. Any engagements with management of investment holdings
  - d. Prior year proxy voting report; highlighting matters regarding sustainability factors
  - e. Financial impact, to the best of their ability, of the utilization of sustainability factors procedures.

In addition, the Board will develop a Sustainability Investing Questionnaire that will be utilized as part of required documentation to any Request for Proposal for Investment Management Services conducted by the Board.

The Board opposes any policy or strategy that would direct the Board to sell an individual or group of securities in order to achieve a goal that is not primarily investment related.

This section of the Investment Policy Statement will go into effect January 1, 2020 and will be reviewed every two (2) years or on a as needed basis to ensure relevancy to investment guidelines.

*Adopted by the Retirement Board of Trustees of the Metropolitan Water Reclamation District Retirement Fund – December 18, 2019*

## **XI. 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).

## **XII. 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 members and beneficiaries of the Fund.

The Board of Trustees reserve the right, directly or through policy, to direct the Investment Manager in regard to the voting of a proxy, if they notify the Investment Manager in a timely fashion prior to the voting of such proxy.

As part of the Fund's Investment Management Agreement, Investment Managers are required to report their proxy voting on an annual basis.

## **XIII. SECURITIES CLASS ACTION LITIGATION POLICY**

### **Securities Litigation Assumptions and Understanding**

The Fund utilizes firms to monitor pending and potential securities litigation or derivative litigation cases and may consider participation as a lead plaintiff when appropriate. 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 focus on securities litigation. Depending on their recommendation, the Executive Director and Fund Counsel will review the merits of the recommendation. 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.

#### **XIV. 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 can provide “best execution”.

#### **XV. TRANSITION MANAGEMENT POLICY**

Transition Management can be 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 are 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 manager, the best possible start.

If selected, a 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. Depending on the scope of the transition, coordinate the 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.