Investment Policy Statement
For
The City of Pontiac
General Employees' Retirement
System

Revised November 29, 2017

OVERVIEW AND BACKGROUND

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM

- **SYSTEM OVERVIEW:**

    - Address: City of Pontiac, Michigan
      General Employees' Retirement System
      2201 Auburn Rd. Suite B
      Auburn Hills, MI 48326
      Tel. (248) 456-0523
      Facsimile: (248) 456-0504

    - Primary Contact: Retirement System's Executive Director

    - Plan Sponsor: City of Pontiac

    - Actuary: Gabriel, Roeder, Smith & Company

    - Consultant: Dahab Associates, Inc.

    - Attorney: Sullivan, Ward, Asher & Patton, P.C.

    - Custodian: Northern Trust

    - Auditor Plante & Moran

    - Tax ID Number: 38-6058737

    - System Year End: December 31st

    - The City of Pontiac, Michigan sponsors this defined benefit pension plan in order to provide participants with a source of retirement income. The System was first established in 1946 and has been amended since then from time to time.

- **SYSTEM PROVISIONS AND BENEFITS ELIGIBILITY REQUIREMENTS**

    - Full-time general employees of the City of Pontiac are eligible to participate in the System. Age and service requirements for normal retirement benefits vary for different employment groups that are covered by the System; the earliest retirement age is 50. Reduced retirement benefits are available for most participants for service less than 30 years.

    - Participants are vested in accrued benefits with at least 10 years of service. Participants, or their beneficiaries, may also be eligible for System benefits as a result of death or disability. Retired participants may be eligible for postretirement benefit adjustments after retirement based upon Ordinance provisions or collective bargaining agreements.

- **CASH FLOW AND LIQUIDITY REQUIREMENTS**

    - The funding policy for the System is for the City, as plan sponsor, to assure an amount sufficient to cover both (1) the on-going normal cost of the System and (2) to finance any unfunded accrued liability as actuarially determined. The financial objective of such a policy is to maintain a stable contribution rate as a percent of payroll from year-to-year and to meet the Retirement System's benefit payment obligations over the long term. Disbursements from the System are for the payment of System benefits to members and expenses of the System.

INVESTMENT POLICY GUIDELINES
OUTLINE

**STATEMENT OF INVESTMENT OBJECTIVES,
POLICY AND GUIDELINES**

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM

I. INTRODUCTION

A. Purpose of this Policy Statement

1. This policy statement outlines the goals and investment objectives for the City of Pontiac General Employees' Retirement System (the "System"). This document is intended to provide guidelines for managing the System's assets. The policy will define guidelines and limitations for each asset class and for portfolios within each class.

   a. Discusses appropriate risk/return parameters for the investment of the System's assets;
   b. Establishes investment guidelines regarding the selection of Managers, permissible investments and diversification of assets;
   c. Specifies the criteria for evaluating the performance of the Managers and of the System as a whole; and,
   d. Defines the responsibilities of the Board of Trustees (the "Board") and other parties responsible for the management of the System's assets.

2. All objectives are based on a five to ten year investment horizon, so interim fluctuations should be viewed with the appropriate perspective. The Board of Trustees may make changes at any time they deem appropriate.

3. The Board of Trustees believes that the Investment Policy Statement ("IPS") should be dynamic. This IPS reflects the System's funding status and the Board's philosophy regarding the investment of assets. This IPS will be reviewed annually and revised as required.

II. REGULATORY ENVIRONMENT

A. The System operates in accordance with all applicable state and federal statutes, specifically State of Michigan Public Act 314 of 1965, as amended, the ordinances of the City of Pontiac and collective bargaining agreements.

B. The State of Michigan Public Employees' Retirement System Investment Act of 1965 (PA 314) limits investments in stocks or global securities, as defined by Section 12b (4) (b), to no more than 70% of total asset market value.

III. ROLES AND RESPONSIBILITIES

A. Board of Trustees

The Board is responsible for defining and implementing the investment objectives and policies for the System. It is expected that the objectives and policies described herein will be used as the criteria for selecting and evaluating the appropriate Managers for the management of the System's assets. The Board has the responsibility to make changes in the IPS and to implement approved policy, guidelines and objectives. These responsibilities shall include:

1. Establishing a long-term strategic and asset allocation policy for the System;
2. Monitoring and evaluating Manager performance and adherence to policy guidelines, and the performance of the System as a whole;
3. Selecting or terminating Managers, consultants and the custodian for the System's assets;
4. Monitoring and controlling the costs of administering and managing the portfolio; and
5. Establishing a due diligence process and conducting site visits as necessary.

B. Executive Director

The Executive Director has been delegated the following responsibilities for the oversight of the System's assets:

1. Keeping the Board informed of any significant events that impact the System and recommending changes in approved policy, guidelines and objectives as necessary;
2. The day-to-day oversight of the office operations;
3. Acting as the primary contact between the Board, the members, the Managers, investment consultants, auditors, custodian, and any other parties involved in the management of the System's assets; and
4. Such other duties as may be described in this policy, applicable State and Federal laws, or as delegated by the Board of Trustees or the Finance Director of the City of Pontiac.

C. Investment Consultant

The investment consultant shall act solely in the best interest of the System. The investment consultant retained by the Board is a fiduciary with all the attendant duties and responsibilities and shall have the following responsibilities to the System:

1. To assist the Board in strategic planning for the System. This includes providing assistance in developing an IPS, asset allocation strategy, and investment manager structure;
2. To provide to the Board quarterly performance measurement reports on each of the Managers and on the System as a whole and to assist the Board in interpreting the results;
3. To act as a liaison between Managers and the System, and thereby facilitate the communication of important information in the management of the System;
4. Shall acknowledge in writing that they are a fiduciary for the System with all attendant duties and responsibilities;
5. Shall provide complete written disclosure of all fees or other compensation associated with its relationship with the System;
6. Maintain all appropriate Federal and State regulatory registrations required to conduct business as a registered investment fiduciary;
7. Ensure that all reporting for separately managed equity and fixed income accounts of publicly traded securities is Global Investment Standards ("GIPS")-compliant. For all other accounts, ensure that reporting is within industry standard guidelines; and,
8. Such other duties as may be mutually agreed upon.

D. Custodian

The custodian of the System shall have the following responsibilities:

1. To hold securities and other investments in the name of the System or in the name of the nominee custodian or in bearer form;
2. To collect and receive income, interest, proceeds of sale, maturities, investments, deposit of all receipts in a custodial or checking account and reinvest these receipts as directed by the Board;
3. To make disbursements and transfers as directed by the Board;
4. To maintain accounting records and assist in preparation of reports required by the Board;
5. To settle purchases and sales and engage in other transactions, including free receipts and deliveries, exchanges and other voluntary corporate actions, with respect to securities or other property received by the Custodian;
6. To manage the securities lending program, if applicable; and,
7. To perform other services for the Board as are customary and appropriate for custodians.

E. Actuary

The actuary for the System shall have the following responsibilities:

1. To perform annual and supplemental actuarial valuations to determine liability and funding requirements for the System;
2. To monitor the funding progress of the System;
3. To make appropriate recommendations to the Board regarding actuarial assumptions on a periodic basis; and,
4. To perform special projects as mutually agreed.

F. Investment Managers

It is the intention of the Board to utilize separately managed accounts to implement the investment strategy of the System, where practical. Mutual funds or other commingled investment vehicles may also be used from time-to-time to implement the investment strategy of the System. The following guidelines apply to the Managers:

1. Fiduciary Responsibilities

a. Each Manager is expected to manage the System's assets in a manner consistent with the investment objectives, guidelines, and constraints outlined in this statement and in accordance with applicable State and Federal laws, including Michigan Public Act 314 of 1965, as amended. This would include discharging responsibilities with respect to the System consistent with fiduciary standards, and all other fiduciary responsibility provisions and regulations.

b. Each Manager shall at all times be registered as an investment advisor under the Investment Advisers Act of 1940 (where applicable), and shall acknowledge in writing that they are a fiduciary of the System with respect to the assets they manage.

c. Each Manager of a separately managed equity or fixed income account shall conduct business on behalf of the System in compliance with GIPS.

d. Ensure that all portfolio transactions are made on a "best execution" basis.

e. Exercise ownership rights, where applicable, through proxy solicitations, doing so strictly for the economic benefit of the System. Managers shall provide documentation regarding the disposition of proxy solicitations to the Board upon request.

f. Meet with the Board as needed upon request of the Board. Quarterly reports are to be submitted in writing within 30 days after the end of each quarter (See Section IX).
    i. Promptly inform the Board regarding all significant matters pertaining to the management of the Manager's firm [See Section IX (A)].
    ii. Initiate written communication with the Board when the Manager believes that this IPS is inhibiting performance and/or should be altered for any valid reason. No deviation from the guidelines and/or objectives established in the Policy is permitted until after such communication has occurred and the Board has approved such deviation in writing.
    iii. Reconcile performance, holdings and security pricing data with the System's custodian bank. In the event of a dispute, the custodian's values will be used.

2. **Security Selection/Asset Allocation**
    a. Except where expressly prohibited in **Section VII Investment Manager Guidelines,** Managers shall have the discretion to determine their portfolios' individual security selections. Such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the manager's current investment strategy and compatible with the investment objectives.
    b. Occasionally, the Board may request the Manager hold a nominal number of shares of a particular security with regards to a litigation matter. The Manager will acknowledge and hold said security until such time that the Board releases the Manager from the request.
    c. The System is expected to operate within the asset allocation strategy as defined by the Board. This strategy, described in Section V, sets a long-term percentage target for the amount of the System's market value that is to be invested in any one asset class. The allocation strategy also defines the allowable variances among the asset classes, above and below the target allocations.
    d. The Board is responsible for monitoring the aggregate asset allocation, and shall rebalance to the target allocation on a periodic basis.

3. **Placement Agents Policy**

    The System adopts this policy to require broad, timely, and updated disclosure of all placement agent relationships, compensation and fees. The goal of this policy is to help ensure the System's investment decisions are made solely on the merits of the investment opportunity by individuals who owe a fiduciary duty to the System.

    The policy will be effective as of the adoption date indicated on the cover and applies to any new agreements after that date and to existing contracts for investment vehicles for which (1) the term of the agreement is extended, (2) funding is increased, or (3) there are changes to the substantive terms of the agreement.

    a. **Disclosure**

All external Managers must provide extensive disclosure regarding their use of placement agents to the consultant when investment discussions are initiated. The disclosure should include, but is not limited to:

i. A statement as to whether the external Manager or anyone affiliated with it has agreed to compensate any placement agent in connection with a System investment.
ii. A resume for each officer, partner or principal of the placement agent, with specific note made of any affiliation of such persons or members of their immediate families with the System. For the purpose of this Policy Statement, immediate family is to include any of the following: spouse, common law spouse, domestic partner, civil union partner, offspring, sibling, parent, grandparent, parent-in-law, and siblings-in-law.
iii. A description of any agreed compensation to placement agents, and any agreed compensation to employees of the external Manager retained to solicit an investment from the System and paid based on investment commitments secured.
iv. A description of the services to be performed by the placement agent and a statement as to whether the placement agent is used by the external Manager for all prospective clients or only for a subset.
v. A copy of any agreement with the placement agent.
vi. The names of any persons currently or formerly affiliated with the System who suggested the retention of the placement agent.
vii. The names of any persons formerly affiliated with the System who are engaged in securing the placement of the investment with the System.
viii. All disclosures must be affirmed at closing.

b. **Registration**

The policy requires that placement agents used in connection with System investments be registered with the SEC or FINRA.

c. **Sanctions for Violations**

The Policy requires that external Managers agree, in the event of a material omission or inaccuracy in placement agent disclosure or other violation of the Policy to reimburse the System for the greater of (1) any management or advisory fees for two years or (2) the amounts paid or promised to the placement agent.

External Managers must also agree to allow the System to terminate investment management contracts immediately in the event of a violation of the policy without penalty to the System.

i. Public equity Managers: termination of the investment management agreement. If the investments are not held by the System's custodian, the System will have the option of (1) receiving a distribution of securities; or (2) instruct the external investment manager to transfer custody of the securities to the System's Custodian; or (3) requiring that the Manager make payment to the System in cash.
ii. Private equity managers: where possible, termination of the System's obligation to make future capital contributions.
iii. Real estate opportunity funds: where possible, termination of the

System's obligations to make future capital contributions.

iv. Other real estate investments: where possible, removal of the General Partner, forfeiture of its carried interest and termination of the System's obligation to make future capital contributions.

v. Other private sole investor investments: where possible, removal of the Board of Directors, removal of key officers, forfeiture of its carried interest and termination of the System's obligation to make future capital contributions.

In each case, where possible, termination of the relationship shall occur either immediately or on such date as the System shall, in its sole discretion, specify. All contracts entered into by the System will contain language providing for such termination.

IV. INVESTMENT GOALS AND OBJECTIVES

A. The funding obligations of the System are long-term in nature; consequently the investment of the System's assets should have a long-term focus. The System's assets shall be invested in accordance with sound investment practices that emphasize long-term fundamentals. The investment objectives for the System's assets are:

1. To protect the System's assets in real terms such that the assets are preserved for providing benefits to participants and their beneficiaries;
2. To achieve returns that meet the actuarial assumptions and improve the future soundness of the System;
3. To meet the System's obligations, including actuarial interest assumptions, expenses and benefit payment obligations;
4. To prudently diversify the System's assets in order to reduce risk;
5. To establish policies based on total return rather than current income, thus providing flexibility and the greatest opportunity for asset growth;
6. To achieve investment results over the long-term that compare favorably with those of other public pension plans, other professional Managers and of appropriate market indexes as determined by the Board.

It is expected that these objectives can be obtained through a well-diversified portfolio structure in a manner consistent with this IPS.

B. The Board has adopted an overall investment objective for the System's assets. The objective is to earn long-term returns comprised of capital appreciation and current income sufficient to fund current benefit payments and other disbursements and maximize the assets.

C. The Board will monitor the System's performance on a quarterly basis with the goal of achieving returns higher than the Policy Index and ranking in the top half of the appropriate public funds universe. The policy or primary benchmark index will be a weighted average of the name indices by asset class defined below. A secondary performance target is inflation (U.S. All Urban Consumer Price Index, "CPI") plus 4%. The Board, with the assistance of the consultant, will evaluate each Manager's contribution toward meeting the investment objectives outlined below on a quarterly basis.

V. ASSET ALLOCATION

A. Target Asset Mix

The Board has adopted an asset allocation as outlined below. Consistent with the System's return objectives and risk parameters, the mix of assets for the System should be maintained as follows (percentages are of the market value of the System):

Asset Class	Benchmark	Target	Permissible Range
Equity		55%	50 – 60%
Large Cap	Russell 1000	20%	15 – 25%
Mid Cap	Russell Mid-Cap	15%	10 – 20%
Small Cap	Russell 2000	10%	8 – 12%
International	MSCI ACWI ex-US	5%	3 – 7%
Emerging Markets	MSCI Emerging Mkts	5%	3 – 7%
Fixed Income		25%	20 – 30%
Core Fixed Income	Barclays Aggregate	25%	20 - 30%
Real Estate	NCREIF ODCE	10%	7 – 10%
Private Equity	Cambridge Private Equity	10%	7 – 10%
Cash		0%	0 – 5%

*Adopted November 30, 2016

1. Small temporary variations may occur. The maximum percentage designated for the "Cash and Cash Equivalents" category is intended to apply after the initial start-up of any one portfolio within the System. The Board recognizes that this initial start-up period to become fully invested could be as long as three months after the initiation of a portfolio.
2. Managers shall be as fully invested as is possible, realizing that there will be residual cash in portfolios from time to time subject to limits as described in Section VII.
3. To reduce business risk, no single investment firm shall comprise more than 20% of the total portfolio across all asset classes.

B. Rebalancing Procedures

1. The allocation to each asset class and to investment styles within asset classes is expected to remain stable over most market cycles. Since capital appreciation (depreciation) and trading activity in each individually managed portfolio can result in a deviation from the System's overall asset allocation, the aggregate asset allocation will be monitored and the Board will rebalance periodically. It is expected that rebalancing will occur when needed. The Executive Director will notify Managers well in advance of withdrawals to allow sufficient time to provide liquidity.
2. The Board must be advised of any pending rebalancing activity and must approve the action. To achieve the rebalancing of the System's assets, the Executive Director, in consultation with the System's investment consultant, may re-direct contributions and disbursements from individual Managers as

appropriate, in addition to shifting assets from one Manager to another.

VI. MANAGER SELECTION CRITERIA

A. Managers retained by the Board shall be chosen based on, but not limited to, the following criteria:

1. The investment style and discipline of the Manager and/or fund and how well the Manager's investment style or approach complements other assets in the System,
2. Past performance, considered relative to other Managers having similar investment styles including both consistency of performance and the level of risk taken to achieve results,
3. Level of experience, financial resources, and staffing levels of the Manager
4. An assessment of the likelihood of future investment success, relative to other opportunities.

VII. INVESTMENT MANAGER GUIDELINES

A. General

1. Full discretion shall be granted to the Managers regarding the selection of securities, and the timing of transactions, within the parameters of the objectives and guidelines described herein.

2. While the Board is sensitive to excessive turnover, there shall be no specific limitation in this regard, recognizing the importance of providing flexibility to the Manager(s) to adjust the asset mix in changing market conditions.

3. The flexible management of the portfolio is permitted, and while the Board is appropriately sensitive to book losses, there is no justification to hold a particular security, or to manage the collective assets, for the principal purpose of avoiding the recognition of a book loss.

4. Compliance with all guidelines must be monitored by the Managers on a regular basis (monthly or more frequently when unusual market conditions warrant) and based on then current market values. In the event that the portfolio moves out of compliance with these guidelines (as identified in the Manager's regular review of the portfolio), through market conditions or other changes outside the control of the Manager, the Manager must

   a. bring the portfolio composition into compliance within 45 days from the first date that the portfolio moved out of compliance, or
   b. make a written request to the Board for a compliance waiver.

5. Managers shall make all portfolio transactions on a "best execution" basis. Arrangements to directed brokerage shall only be implemented by specific authorization of the Board and authorized in the System's Directed Brokerage and Commission Recapture Policy.

6. The manager is to calculate investment fees based on the custodian's market value of assets and the other terms agreed upon within the investment management contract. In the event of an unreconciled difference in asset value at the end of a billing period, the custodial value will be used for the calculation of fees.

Requests by Managers to execute transactions that are not currently authorized in this IPS must be made in writing to the Board for approval prior to executing such transactions.

B. Commingled Funds

1. Commingled funds and/or institutional mutual funds may be used as investment vehicles. The Board recognizes that it cannot give specific policy directives to a fund (whose policies are already established). Therefore, the Board understands that investments in commingled or mutual funds shall be managed in accordance with the objectives, policies, and restrictions set forth in the commingled fund's guidelines or mutual fund's prospectus. For mutual and other commingled funds, the prospectus or Trust documents of the fund(s) will govern the investment policies of the fund investments. Managers, however, shall be guided by the general principles and constraints outlined in this IPS.

C. Derivative Policy

1. Where appropriate and explicitly permitted by the Board, Managers may use derivative contracts for the following reasons:
   a. Hedging: To the extent that the portfolio is exposed to clearly defined risks and there are derivative contracts that can be used to reduce those risks, the Managers are permitted to use such derivatives for hedging purposes, including cross hedging of currency exposures.
   b. Creation of Market Exposures: Managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class provided that the guidelines for the Manager allow for such exposures to be created with the underlying assets themselves

2. By way of amplification, it is noted that the following two uses of derivatives contracts and securities are prohibited:
   a. Leverage: Derivatives shall not be used to magnify overall portfolio exposure to an asset, asset class, interest rate, or any other financial variable beyond that which would be allowed by a portfolio's investment guidelines if derivatives were not used.
   b. Unrelated Speculation: Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable unless such exposures would be allowed by a portfolio's investment guidelines if created with non-derivative securities.

D. Domestic Equity Managers

1. **Investment Objective**. Active equity Managers are expected to outperform a benchmark appropriate to their style (value, core or growth) and market capitalization (large, mid and small) net of fees. In addition, active equity Managers should be ranked in the upper half of a universe of similar portfolios over a full market cycle. Passive equity Managers are expected to track their appropriate benchmark gross of fees.

Permissible Securities	Prohibited Securities* (but not limited to)

• Domestic common stock	• Fixed income securities
• Convertible securities	• Commodities
• Foreign common stocks in ADR or GDR form, or foreign securities listed on a major domestic exchange (see notification requirement in #5 below)	• Unregistered letter stock
	• Warrants
Listed securities on major domestic exchanges are those traded on the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX) and the National Association of Securities Dealers (NASDAQ exchanges. Any investment in convertible debentures must carry an investment grade rating of A or better.	• Options, futures, forwards, and swaps
	• Real or personal property
	• Oil and gas property
	• Loans of portfolio securities
	• Venture capital issues
	• Private placements
	• Stocks traded on international exchanges
	• Foreign common stock not represented by American Depository Receipts (ADR's) or listed on a major domestic exchange as defined
	• Investments by the Managers in their own securities, their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Board)

*Unless explicitly waived by the Board

2. **Prohibited transactions**
    a. Except with the written consent of the Board, equity Managers may not purchase securities on margin or sell short;
    b. Transactions prohibited or limited by Michigan Public Act 314 of 1965, as amended;
    c. Leveraged transactions.

3. **Cash balances**. Equity Managers may invest up to 10% of their portfolio holdings in reserve and cash equivalent investments. However, these investments should be made on the basis of safety and liquidity and only secondarily by yield available. Such securities shall reasonably carry the equivalent of S&P A1 or Moody P-1.

4. **Diversification**. No individual portfolio shall hold more than 5% of its assets or 1.25 times the index's weight, whichever is greater, in the securities of any single entity. No purchase shall be made which would cause a holding to exceed 5% of the market value of the issue outstanding.

5. **Foreign securities**. International equity securities that are issued by non-U.S. corporations and traded are domestic stock exchanges are allowed provided that such investments are consistent with attainment of the portfolio's investment objective. No individual portfolio shall hold more than 10% of its assets in such foreign securities. Non-U.S. securities that are traded on an

international exchange are not allowed unless explicitly permitted by the Board

E. Non-U.S. Equity Manager

1. **Investment Objective**. Active equity Managers are expected to outperform a benchmark appropriate to their style (value, core or growth) and market capitalization (large, mid and small) net of fees. In addition, active equity Managers should be ranked in the upper half of a universe of similar portfolios over a full market cycle. Passive equity Managers are expected to track their appropriate benchmark gross of fees.

Permissible Securities	**Prohibited Securities* (but not limited to)**
• Non-U.S. common stock traded on any major stock exchange	• Fixed income securities
• ADR's traded in the United States	• Commodities
• Global Depository Receipts (GDR's)	• Unregistered letter stock
• preferred stocks traded on any major exchange	• Warrants
	• Options, futures, forwards, and swaps
	• Real estate mortgages
	• Real or personal property
	• Oil and gas property
	• Loans of portfolio securities
	• Venture capital issues
	• Private placements
	• Investments by the Managers in their own securities, their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Board)

*Unless explicitly waived by the Board

2. **Prohibited transactions**.
   a. Except with the written consent of the Board, equity Managers may not purchase securities on margin or sell short;
   b. Transactions prohibited or limited by Michigan Public Act 314 of 1965, as amended;
   c. Leveraged transactions.

3. **Cash balances**. Equity Managers may invest up to 10% of their portfolio holdings in reserve and cash equivalent investments. However, these investments should be made on the basis of safety and liquidity, and only secondarily by yield available. Such securities shall be held in U.S. dollar denominated securities and carry the equivalent of S&P A1 or Moody P-1.

4. **Diversification**. No individual portfolio shall hold more than 5% of its assets or 1.25 times the index's weight, whichever is greater, in the securities of any

single entity. No purchase shall be made, which would cause a holding to exceed 5% of the market value of the issue outstanding.

5. **Domestic securities**. The manager has latitude to hold U.S. securities provided that such investments are consistent with attainment of the portfolio's investment objective and are limited to 10% of the portfolio.

6. **Currency**. If explicitly permitted by the Board, Managers may employ an active currency management program and deal in futures and options within the disciplines of that currency management program subject to the derivatives guidelines set forth in Section VII (C) Derivatives Policy.

F. Domestic Fixed Income Managers

The Income Portfolio shall be comprised solely of fixed income securities.

1. **Investment objective**. Active fixed income Managers are expected to beat a benchmark appropriate to their style net of fees, and to perform in the top half of a universe of similar portfolios, gross of fees, over a full market cycle. The benchmark used for comparison will be assigned to the manager as part of the selection process.

2. **Ratings methodology**. Fixed income securities must be investment grade and rated at least Baa3 by Moody's or BBB- by Standard & Poor's or Fitch. If a security is split-rated, it will be governed by the lower quality rating. Should a security already in the portfolio fall below the prescribed level, the Manager has 45 days to bring the portfolio back into compliance, or make a written request to the Board for a compliance waiver, see section VII (A)(4).

Permissible Securities	**Prohibited Securities* (but not limited to)**
• U.S. Government and agency bonds	• Equity securities (except for term trusts)
• U.S. domestic corporate bonds	• Securities rated below #2 Ratings Methodology
• Asset Backed Securities (ABS)	• Commodities
• Commercial Mortgage-Backed Securities	• Unregistered letter stock
• Supranational	• Non-U.S. Dollar securities
• Convertible bonds	• Warrants
• Municipal bonds	• Loans of portfolio securities
	• Venture capital issues
	• Private placements
	• Options, futures, forwards, and swaps
	• Securities of a contributing employer

	• Currency swaps
	• Other specialized investment activities
	• Interest-only and principal-only strips other than those derived from Treasuries
	• Derivatives (including collateralized mortgage obligations and other sequential pay preferred issues)
	• Principal only mortgage securities
	• Interest only mortgage securities
	• Inverse floaters
	• Investments by the Managers in their own securities, their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Board)

*Unless explicitly waived by the Board

3. **Prohibited transactions**.
   a. Transactions prohibited or limited by Michigan Public Act 314 of 1965, as amended;
   b. Leveraged transactions.

4. **Cash balances**. Managers may invest up to 10% of their portfolio holdings in reserve and cash equivalent investments. However, these investments should be made on the basis of safety and liquidity, and only secondarily by yield available. Such securities shall be held in U.S. dollar denominated securities and carry the equivalent of S&P A1 or Moody P-1.

5. **Diversification**. No security, excepting issues of the US Government or its agencies or mutual funds, shall comprise more than 5% of the Manager's total portfolio of assets, measured at market. Further, no individual portfolio shall purchase more than 5% of its assets in the securities of any single issuer, except issues of the US Government or its agencies. (For mortgage-backed securities, an issuer is defined as a separate trust.)

6. **CMBS**. CMBS may be held in the portfolio and should have a Moody's and Standard and Poor's quality rating of no less than BBB from each of these rating organizations. For an issue, which is split-rated, the lowest quality designation will govern. The weighting to CMBS securities of an actively managed portfolio shall not exceed 10%.

7. **Derivatives**. If explicitly permitted by the Board the Manager may use interest rate futures for the purpose of hedging or the creation of market exposure, subject to the derivatives guidelines set forth in Section VII (C) Derivatives Policy. There shall be no other use of options, financial futures, or other specialized investment activity without the prior written approval of the Board.

8. The overall average quality rating of each high-grade portfolio shall be at least AA or equivalent rating. If an issue is split-rated, it will be governed by the lower quality rating.

G. Private Equity Managers

1. **Investment objective**. An investment in private equity should be made with a primary goal of increasing diversification and return and a secondary goal of preserving capital over an intermediate- to long-term period, assumed to be five years or longer. The benchmark used for comparison will be assigned to the manager as part of the selection process.

2. The System may invest in closed-end limited partnerships. These types of partnerships may include:
   a. Private equity funds: funds which provide equity capital to professional investment teams with the ability to take control of companies, add value to the companies, and after several years realize that value;
   b. Private equity fund-of-funds: funds that invest in other types of funds, also referred to as multi-manager funds;
   c. Mezzanine funds which provide subordinated debt capital with high coupons and equity warrants or options, and realize both the interest from the coupons and a portion of the growth of the equity;
   d. Pooled funds (fund-of-funds) of the foregoing.

The funding of individual investments in the Alternative Investments Portfolio will occur over an extended period and may take up to five years before the total commitment to a fund is fully drawn, and during this time individual investments will return capital to the investors prior to the full funding of the commitment. As a result it is expected that the ratio of funding to commitments will not exceed 60% to 70% of the total commitment.

H. Real Estate

1. **Investment objective**. Real estate investments made through a commingled fund or other vehicle should be made with a primary goal of preserving capital and a secondary goal of generating income and capital appreciation. A real estate investment is expected to perform at or above the return of a benchmark assigned by the Board at the time the investment is made. The time period for making this valuation is a market cycle.

Real estate investments are permitted and may include both debt and equity investments. The Fund may invest in real estate by appointing a registered investment Manager or by utilizing pooled accounts, limited liability companies, partnerships or group trusts. Investments may include Real Estate Investment Trusts (REITs), Real Estate Operating Companies (REOCs), and mutual funds composed of REITs and REOCs.

VIII. PERFORMANCE EVALUATION

A. General Guidelines

1. The Board will monitor the System's performance on a quarterly basis

and will evaluate the System's success in achieving the investment objectives outlined in this document over an appropriate time horizon. The Board realizes that most investments go through cycles; therefore, interim fluctuations should be viewed within the long-term perspective.

2. The System's (and Manager's) performance should be reported in terms of rate of return and changes in dollar value. The returns should be compared to market indices and peer group universes pre-determined by the Board, for the most recent quarter and for annual and cumulative prior time periods. Managers will also be compared to a universe of peers that manage the same asset class and style where possible. Managers are expected to perform in the top half of their peers over a market cycle. In addition, the Board will compare the annual returns for the total fund to the long-term returns projected by the aggregate asset allocation model.
3. The System's asset allocation in separately managed accounts and the allocation to each commingled fund should also be reported on a quarterly basis. For the purposes of calculating the asset allocation of the System as a whole, the asset allocation of each portfolio shall be assumed to be fully invested in the policy index to which it is compared.
4. Risk as measured by volatility or standard deviation shall be evaluated periodically. Performance dispersion of each individual manager relative to other managed accounts of a similar style will be assessed from time-to-time. Such assessments will take into account the nature of the Manager's style, portfolio constraints, and the market environment.

B. Manager Performance Standards

Asset Category	Market Index	Peer Group
	Cash Equivalents	
Cash	91-Day U.S. Treasury Bills	Cash
	Fixed Income	
Intermediate Core	Barclays Int. Govt/Credit Barclays U.S. Aggregate	Int. Fixed Income Core Fixed Income
	Large Cap	
Core Growth Value	Russell 1000 Russell 1000 Growth Russell 1000 Value	Large Cap Core Large Cap Growth Large Cap Value
	Mid Cap	
Core Growth Value	Russell Mid Cap Russell Mid Cap Growth Russell Mid Cap Value	Mid Cap Core Mid Cap Growth Mid Cap Value
	Small Cap	
Core Growth Value	Russell 2000 Russell 2000 Growth Russell 2000 Value	Small Cap Core Small Cap Growth Small Cap Value
	International Equity	
Core International	MSCI ACWI ex. US	International Equity
	Emerging Markets	

Core Emerging Markets	MSCI Emerging Markets (net)	Emerging Markets
	Private Equity	
Private Equity	Based on Strategy	Based on Strategy
	Real Estate	
Real Estate	NCREIF ODCE	Real Estate

C. Termination

1. The Board recognizes the importance of a long-term focus when evaluating the performance of Managers. The Board understands the potential for short-term periods when the performance of individual Managers may deviate from the performance of representative market indices. The Board, has determined however, that the following events or circumstances shall place the manager on probationary status (watch list):

a. Any material event that affects the ownership or capital structure of the investment management firm, or the management of this account;

b. Any material client servicing deficiencies, including a failure to communicate in a timely fashion significant changes as outlined in Section IX of this IPS:

c. Performance of the Manager's portfolio is less than the Manager's prescribed market index over a rolling three-, five- year or longer period;

d. Performance of the Manager ranks in the bottom quartile of representative peer group universes for two consecutive quarters. The Board shall determine peer group universes with input from the consultant and the Manager.

When Manager has been placed on Probationary Status, the Board shall notify them in writing. In consultation with its consultant, the Board shall review the circumstances of Probationary Status to determine what further action – if any – is required. The Board reserves the right to take action at any time, with or without cause.

IX. MANAGER REPORTING REQUIREMENTS

A. As Necessary (based on occurrence)

Managers are expected to promptly notify the Board and consultant in writing regarding all significant matters pertaining to the investment of the System's assets. These include, but are not limited to the following:

1. Changes in investment strategy or portfolio structure or any other material changes including, but not limited to, decreases in assets under management and market value of assets managed.

2. Any regulatory actions or legal proceedings, including investigations, litigations and disciplinary actions brought about by the Securities and Exchange Commission (SEC), any securities regulatory body, any securities exchange or any relevant governmental body or agency.

3. Changes in ownership affiliations, organizational structure, financial condition, professional staffing and clients.

4. Material changes in the liquidity of the securities held in the portfolio.

B. Monthly

Each manager is required to provide the Board with an Accounting Statement. This report should include the market value of the assets held on behalf of the System and all transactions that occurred during the period.

C. Quarterly

Each Manager may be required to provide the Board with quarterly investment reports that include the following information:

1. Quarterly reports will include investment performance returns (both gross and net of fees) for the current quarter (including portfolio performance commentary for the quarter), as well as over annualized periods, where applicable, of 1yr, 3yr, 5yr, 7yr, 10yr, and since inception. Quarterly submissions should also include book and market portfolio value, list of holdings, list of purchases and sales during the quarter, summary of brokerage commissions, and proxy voting details. Additionally, quarterly report submissions should include written verification that the portfolio remains in compliance with the Board's Investment Policy and Michigan Public Act 314 of 1965 as amended
2. Summary of Investment Guidelines
3. Investment strategy used over the past year and underlying rationale.
   a. Evaluation of strategy's success/disappointment.
4. Comment on the current liquidity of the portfolio and the market(s) in which the portfolio is invested.
   a. For Managers holding mortgage-backed securities, results of current 'stress' tests on the portfolio, indicating how the Manager believes it would respond to interest rate movements up or down. For Managers holding securities with forward delivery dates, an accounting of the cash needed to retire such securities.
5. Performance Review
   The following quarterly reporting requirement shall apply to all managers
   a. Present total fund and asset class returns for last month, calendar quarter, year-to-date, last year, last three years, last five years and since inception versus designated benchmarks. All performance data shall be in compliance with GIPS (Global Investment Performance Standards).
   b. Discuss performance relative to benchmarks.
   c. Provide portfolio characteristics relative to benchmarks.
6. Portfolio Holdings
   a. Present book value and current market value
   b. List individual securities by sector, asset class, or country, as appropriate.
7. Derivatives Review
   Each Manager that invests System assets in derivatives contracts or securities shall also prepare a quarterly report on the following information:
   a. All derivatives positions as of quarter-end.
   b. An assessment of how the derivatives positions affect the risk exposure of the total portfolio.
   c. An explanation of any significant pricing discrepancies between the Manager and the custodian bank.
8. Reporting Requirements as stated in the Directed Brokerage and Commission Recapture Program Policy

D. Annually

1. Compliance

a. A statement certifying compliance with the IPS guidelines throughout the year; or - if the portfolio has been out of compliance - an explanation.

2. Proxy Voting

a. The Board shall delegate responsibility for the exercise of ownership rights through proxy voting to the Managers, who shall exercise this responsibility strictly for the economic benefit of the System and its participants and in accordance with Michigan PA 314. Managers shall be required to report to the Board standing policies with respect to proxy voting, including any changes that have occurred in those policies. Additionally, Managers shall be required to provide a written annual report of the proxy votes for all shares of stock in companies held on the System's behalf. These reports shall specifically note any instances where proxies were not voted in accordance with standing policy.

3. Commissions & Trading Costs

a. The annual commission report is required to be delivered to the Board, staff, and consultant within forty-five (45) days of the end of each calendar year. The report should cover all trades executed during the prior calendar year.

b. Each annual commission report should include the following*:*

i. *C*ommission Expense: Provide a review of the portfolio's actual commission expense over the prior year. At a minimum, this should be broken down by broker and include average commission per share, total shares traded, total commission expense, and total trading volume*.*

ii. Transaction Cost Analysis: If the Manager has a system for monitoring total transaction cost, commissions plus market impact, a copy of this analysis should be provided.

4. Complete Written Disclosure of all Direct and Indirect Compensation. Before any investment services are provided, an investment service provider (as defined in MCL 38.1133(7)) shall provide the Board of Trustees with a complete written disclosure of all fees or other compensation associated with its relationship with the System. After investment services are provided to the Retirement System, an investment service provider shall provide the Board of Trustees, on an annual basis, written disclosure of all fees including, but not limited to, commissions, 12b-1 and related fees, compensation paid or to be paid to third parties, and any other compensation by the Retirement System

5. Political/Campaign Contribution Disclosure.

Political/campaign contributions to an official of the City of Pontiac may not exceed that which is permitted under the Michigan Public Act 314 of 1965, as amended; MCL 38.1133e. Service providers will be required to report all political/campaign contributions to the Board of Trustees on an annual basis. Pursuant to PA 314, violating this provision will result in the Board of Trustees being prohibited from paying the fees of the service provider out of retirement system assets for 24 months from the date of the contribution.

X. IMPLEMENTATION

All monies invested for the System by its Managers after the adoption of this statement shall conform to this Statement of Investment Objectives, Policy and Guidelines.

XI. APPROVAL

It is understood that this Investment Policy Statement is to be reviewed periodically by the Board to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, changes in the System or changes involving the Managers.

Adopted at the 29 November 2017 Regular Board meeting

REVISED: 2009; 2011; 2012; 2013; 2015; 2016; February 2017; November 29, 2017

Investment Policy Statement for the
City of Pontiac General Employees' Retirement System

Investment Manager Acceptance

I, ____, hereby acknowledge receipt of the Investment Policy Statement of the City of Pontiac General Employees' Retirement System as of November 29, 2017. The Investment Policy Statement has been reviewed and is hereby accepted on behalf of ___________________________________, a fiduciary of the City of Pontiac General Employees' Retirement System.

____

Name (please print or type)

____

Signature

____

Title

____

Firm

____

Date

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM

Directed Brokerage and Commission Recapture Policy **Adopted: June 21, 2017**

In an effort to demonstrate its commitment to the success of brokerage firms owned by Minorities, Women, Persons with Disabilities, Veterans and those that are Michigan-based (MWDVM), The Board of Trustees (the "Board") of the City of Pontiac General Employees' Retirement System (the "System") hereby establishes this Directed Brokerage and Commission Recapture Program (DB/CRP).

The purpose of the Directed Brokerage and Commission Recapture Policy is to establish a framework for the implementation of a DB/CRP to 1.) minimize total transaction costs while seeking "Best Execution" for all transactions and 2.) to encourage MWDVM firms' participation through the use of an open correspondent network.

The Board recognizes that investment manager trading style, transaction order flow and broker selection decisions should not be adversely affected by this program. The Board recognizes that commission costs are only one component of execution costs and that managers should follow a best execution strategy. Nothing in this policy is intended to impede the investment manager in the pursuit of that strategy.

A. Brokerage transactions may be placed with any registered brokerage firm desired by the adviser on a competitive, "best execution" basis. Notwithstanding the foregoing, the Trustees reserve the right to direct any or all of the brokerage commissions associated with the portfolio with the overall goal of requiring that its investment managers achieve best execution in their trading of the System's assets. Brokerage transactions should not be directed to any firm if in doing so, taking all factors into consideration, the System will incur a disadvantage with respect to the market price of the security. Further, irrespective of any obligations to pay for services engaged by either the adviser or the Trustees, only transactions which would normally be made for the System in the absence of such obligations should be executed.

B. The Board encourages the use of registered broker/dealer firms owned by Minority, Women, Persons with Disabilities and Veterans or that are based in Michigan (MWDVM). Subject to best execution, and where funds are not commingled, all separately managed domestic equity managers shall participate in the System's Directed Brokerage and Commission Recapture Program.

C. For the purposes of the System's DB/CRP, a minority-, women, disabled or veteran-owned brokerage firm is defined as a sole proprietorship, partnership, or corporation owned, operated and controlled by a minority, a women, a person with a disability or a veteran who has at least 51% ownership. Michigan-based shall mean that the brokerage firms' primary or principal office is located in the state of Michigan. The brokerage firms and their operating members utilized by the System's investment managers must be registered with the federal and state agencies and must have an established record of performance with a history of providing best execution and reporting.

D. Each separate domestic equity manager must submit a compliance report summarizing its brokers' trades and specifying the number and corresponding percentage of trades by MWDVM brokers to the System and its consultant within 20 business days of the end of each calendar quarter.

E. The Consultant shall provide a quarterly summary by manager specifying the number and corresponding percentage of trades and total and recaptured commissions by broker.

F. The Board shall periodically – but not less than annually – review this DB/CRP and list of participating MWDVM brokerage firms.

G. The Board of Trustees is vested with the general administration, management and responsibility for the proper operation of the System and for making effective and interpreting the provisions of this policy. Any changes to this DB/CRP or list of participating brokerage firms shall be done by resolution of the Board of Trustees.

CITY OF PONTIAC GENERAL EMPLOYEES' RETIREMENT SYSTEM
DIRECTED BROKERAGE AND COMMISSION RECAPTURE POLICY
MWDVM BROKER-DEALER LIST
ADOPTED JUNE 21, 2017

Capital Institutional Services (f)
Castle Oak (m)
Guzman & Co (m)
Loop Capital (m)
Mischler Financial (dv)
Penserra (m)
Williams Capital (m)