



Retirement System of Allegheny County

Statement of Investment Policy

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Introduction

This Statement of Investment Policy was adopted by the Retirement Board of Allegheny County (the “Board”) to guide the Board in its responsibilities over the assets of The Employees Retirement System of Allegheny County defined benefit plan (the “Fund”). The Board shall administer this Statement of Investment Policy and shall review it periodically to determine if modifications are necessary or desirable. All objectives and policies are in effect until modified by the Board. The Board retains the right, by its vote, to waive any policy (unless superseded by the governing law) if it deems that such waiver is in the best interest of the Fund and/or its participants.

1. Purpose

This statement of investment policy defines the investment objectives and policies for the management and oversight of the Fund. It sets forth the objectives of the Fund, the strategies to achieve these objectives, procedures for monitoring and control, and to define the duties and responsibilities of the various entities responsible for Fund investments.

This Statement of Investment Policy shall:

- A. Memorialize the Fund’s objectives and set forth appropriate and prudent policies and guidelines to assist in the achievement of those objectives, while at the same time allowing sufficient flexibility to permit the Fund to capture attractive investment opportunities.
- B. Provide an investment framework for the Fund that sets parameters to ensure prudence and care in the execution of the investment program.
- C. Establish criteria to evaluate the Fund’s investment performance.

2. Fund Objectives

The Fund was established in 1953 by an Act of the Pennsylvania Legislature. The Fund receives contributions from both Allegheny County and the Fund’s members. The purpose of the Fund is the accumulation of assets exclusively for the benefit of the members and their beneficiaries and for the payment of retirement, disability and death benefits as defined in Article XVII of the Pennsylvania Second Class County Code, Act of July 28, 1953, P.L. 723, Art. XVII, Section 1701, et seq., as amended, 16 P.S. (the “Act”). The Fund’s long-term objectives are to:

- A. Meet present and future benefit obligations to all participants and beneficiaries under the Plans;

- B. Cover reasonable expenses incurred to provide such benefits, including expenses incurred in the administration of the Fund and the Plans;
- C. Provide sufficient liquidity to meet such benefit and expense payment requirements on a timely basis;
- D. Provide a total return that meets or exceeds the return of the Total Fund policy benchmark over a full market cycle, generally measured over three to five years, and that maximizes the ratio of Fund assets to liabilities over the long-term at an appropriate level of risk; and,
- E. Adhere to all applicable laws and statutes relating to Pennsylvania second class counties.

3. Roles and Responsibilities

Retirement Board of Allegheny County

The Fund is administered by a seven member Board pursuant to the Act. The members are the Allegheny County Executive, Treasurer, Controller, one person appointed by the County Executive, one person appointed by County Council, and two persons elected by the participants of the Plan. The Board is responsible for the management and investment of the Fund. The members of the Board stand in a fiduciary relationship to the members of the system regarding the investment and disbursement of any of the monies in the Fund. In exercising this fiduciary responsibility, the Board is governed by the prudent person rule.

Specifically, the responsibilities of the Board include the following:

- Discharge its duties in accordance with the documents and instruments governing the Fund insofar as such documents and instruments are consistent with the Act,
- Develop investment policies and strategies for the Fund,
- Develop appropriate asset allocations for the participating plan(s),
- Approve the selection and retention of Investment Managers whose philosophy and approach supports their intended role in the overall investment strategy of the Fund,
- Monitor and evaluate the results generated by the Investment Managers in the context of their respective investment guidelines, performance objectives, and market environment.

The Board may delegate certain of its responsibility to others, such the Executive Director, and may utilize the services of external advisors, such as actuaries, auditors, consultants and legal counsel, to assist in fulfilling its fiduciary responsibilities. The comments and recommendations of such parties will be considered by the Board in conjunction with other available information for the purpose of making informed and prudent decisions.

Executive Director

The Executive Director will be the primary liaison between the Board and the Investment Consultants, the Investment Managers, and the Custodian. The Executive Director has principal responsibility for implementing the investment decisions approved by the Board as well as and overseeing the day-to-day investment and financial operations of the Fund.

Investment Managers

The investment managers, as fiduciaries of the Fund, assume certain responsibilities. Specifically, the investment managers have discretionary authority to invest a specific allocation of the Fund subject to the parameters set forth in the individual manager guidelines section of this Investment Policy Statement.

The responsibilities of the investment manager are documented in the Investment Management Agreement which is executed upon the appointment of that manager as an Investment Manager of the Fund (see example in Appendix 1). These responsibilities generally consist of the following:

- Comply with the applicable provisions and standards of ERISA and other applicable laws;
- Understand and accept the designated role within the Fund's investment structure;
- Construct a portfolio of securities that reflects the execution of a specific investment strategy; and
- Adhere to the Investment Management Agreement including the investment guidelines.

Investment Consultants

The Board has retained investment consulting organizations (the "Investment Consultant(s)") to assist in the overall strategic investment direction of the Fund. The Board has retained both a General Investment Consultant and Specialist Investment Consultants to assist the Board in carrying out its duties.

The General Investment Consultant is expected to perform the following duties:

- Recommend appropriate investment strategies based on the financial condition (including liquidity needs and future funding obligations) of the Fund;
- Recommend the asset allocation, investment structure and strategy (including the investment objectives, policy and guidelines) and qualified Investment Managers to execute investment strategy;
- Recommend the individual investment objectives, policy and guidelines for each qualified Investment Manager (excluding managers covered by Specialist Consultants);

- Monitor and evaluate the ongoing progress of the Fund toward stated investment goals and objectives, including quarterly reporting of Fund investment performance to the Board;
- Recommend appropriate action should an investment strategy or individual Investment Manager fail to meet expectations; and
- Any additional duties as may be provided in the written agreement between the Board and the General Investment Consultant.

The Board has contracted with Specialist Investment Consultants to focus on Alternative and Private Equity asset classes, and Emerging and Minority Managers. Duties of the Specialist Consultants are outlined in the written agreements between the Board and the Specialist Investment Consultants.

Custodian

The Board will utilize the services of a master custodian bank that will be responsible for holding and safekeeping Fund assets, settling purchases and sales of securities; identifying and collecting income which becomes due and payable on assets held; providing a management information/accounting system and associated reporting; and any other duties specified in the custodial agreement entered into by the Board and the Custodian.

4. Investment Objective

In order to achieve the long-term objectives of the Fund specified in Section 2, above, the Board has identified a specific **performance investment objective** of the Fund as meeting or exceeding the returns of the Total Fund investment policy benchmark over the long-term. The investment policy benchmark is a weighted-average of the allocation targets multiplied by the benchmark performance for each asset class approved for the Fund. The investment policy benchmark permits the Board to compare the Fund's actual performance to a weighted market index, and to measure the contribution of active investment management and policy implementation.

This investment objective is expected to be achieved over the long term (one or more market cycles) and will be measured over rolling five-year periods. For reporting purposes, total return calculations will be time-weighted and will be net of investment-related fees and expenses.

The Asset Allocation Policy (Section 5) may be changed from time to time. In the event of a policy change, changes to asset class contributions to the investment policy benchmark will be phased in over time to reflect the actual implementation of the policy change. The Board may prescribe alternative benchmarks from time to time for the various asset classes.

The appropriate benchmarks and asset class weightings used to calculate the Fund's investment policy benchmark, adopted at the June 2022 Board meeting, are as follows:

Asset Class	Benchmark	Percentage Contribution to Benchmark
U.S. Equity	Russell 3000 Index	18.5%
Non-U.S. Equity	MSCI AC World Index Ex-US	17.5%
Private Equity	S&P 500 Index + 2%	20.0%
Core Fixed Income	Barclays U.S. Aggregate Bond Index	14.5%
High Yield Fixed Income	Citi High Yield Market Capped Index	12.0%
Global Infrastructure	Consumer Price Index (CPI) + 3%	5.0%
Private Real Estate	NCREIF ODCE NOF Index	12.5%

5. Asset Allocation Policy

Over the long-term, asset allocation is expected to be the single greatest determinant of risk and contributor of return to the Fund. The Asset Allocation Policy embodies the Board's decisions about what proportions of the Fund shall be invested in equities, fixed income and real assets.

Asset Class	Target Percentage	Allowable Range
U.S. Equity	18.5%	15% - 22%
Non-U.S. Equity	17.5%	14% - 21%
Private Equity	20.0%	15% - 25%
Core Fixed Income	14.5%	12% - 17%
High Yield Fixed Income	12.0%	10% - 14%
Global Infrastructure*	5.0%	3% - 7%
Private Real Estate	12.5%	10% - 15%
Cash	0.0%	0% - 2%
Total	100.0%	

In addition to being diversified across asset classes, the Fund will be diversified within each asset class. This will provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total fund.

Individual asset class portfolios will be diversified so that they are representative of the investment opportunity set within each asset class. The intent is to build asset class portfolios that are structured without strategic bias for or against specific subcategories within each asset class relative to the broad market investment capitalization and style. The number and type of individual investment manager portfolios required to invest Fund assets within each asset class will be determined with these portfolio structure principles in mind.

These structural considerations within each asset class to which a strategic allocation has been made are as follows:

U.S. Equity

The investment goal of the U.S. Equity portfolio is to provide broad exposure to the return opportunities and investment characteristics associated with the public U.S. equity markets. The portfolio is intended to be diversified by investment style, market capitalization, and Global Industry Classification Standard (“GICS”) sector and to be structured without bias to size or style characteristics, and with perceived market efficiencies in mind. The following structure has been approved by the Board for the U.S. equity portfolio:

Large Cap Passive	50%
Large Cap Active – Low Tracking Error	15%
Large Cap Active – Higher Tracking Error	15%
Small Cap Active	20%

Non-U.S. Equity

The investment goal of the Non-U.S. Equity portfolio is to provide broad exposure to the return opportunities and investment characteristics associated with the public world equity markets excluding the United States. The return opportunities and investment characteristics of these non-U.S. equity markets include the impact of the currency risk associated with such markets in recognition that this currency risk contributes to the overall diversification benefits of an international equity portfolio. The portfolio is intended to be diversified by investment style, market capitalization, geography, and GICS sectors, and to approximate non-U.S. market capitalization weights to developed and emerging markets.

The following structure has been approved by the Board for the Non-U.S. equity portfolio:

ACWI ex-US Passive Style Neutral:	20%
ACWI ex-US Active Style Neutral:	60%
ACWI ex-US Active Style Neutral Small Cap:	20%

Core Fixed Income

The investment goal of the Core Fixed Income portfolio is to provide broad exposure to the return opportunities and investment characteristics associated with the public investment grade U.S. fixed income markets. This portfolio is expected to provide significant diversification benefits and a stable source of income. The purpose of the portfolio's nominal fixed income investments is to produce current income, reduce the volatility of the portfolio, provide a deflation hedge, and reduce the volatility of the funded status. The portfolio is intended to be diversified by issue, issuer, and industry.

High Yield Fixed Income

The investment goal of the High Yield Fixed Income portfolio is to provide broad exposure to the return opportunities and investment characteristics of the high yield (below investment grade) credit markets. Such markets often offer attractive rates of return relative to investment grade fixed income securities and may also provide current income and diversification benefits. This portfolio is intended to be diversified by issue, issuer, industry, and credit quality. The following structure has been approved by the Board for the High Yield portfolio:

Defensive High Yield (generally excludes CCC and below securities)	60%
Opportunistic High Yield (may include CCC and below securities)	40%

Private Real Estate

The investment goal of the Private Real Estate portfolio is to provide a total return that includes appreciation and current income, to reduce the overall volatility of the Fund's returns, and to provide an inflation hedge. Investments will be invested in private real estate funds. This portfolio is intended to be diversified by property type, geographic location, and size. The portfolio is intended to be structured with a 70% weight to core real estate focused on income generation through open ended funds that provide moderate liquidity, and a 30% weight to value added and opportunistic strategies which focus more on generating returns through property appreciation and capital improvements through funds that may offer less liquidity through closed end structures.

Infrastructure Strategies

Investments in Infrastructure shall be made in discretionary commingled vehicles such as open-end or closed-end funds holding either leveraged or unleveraged positions in infrastructure assets. The assets are expected to be long-duration holdings of the portfolio. Primary emphasis is to be placed on relative rates of return over a market cycle (usually 3-5 years). The actively managed portfolio is expected to exceed CPI + 3% over the market cycle. Investments in Infrastructure are expected to generate a significant percentage of the total return as current

yield.

Private Equity

The investment goal of the Private Equity portfolio is to provide a higher total return than that available from more liquid public market equity investments. This portfolio is intended to be diversified by investment strategy, geographic region, sector, stage, and vintage year. The portfolio may include both primary and secondary investments as well as funds-of-funds. The Private Equity portfolio involves greater levels of illiquid investments and therefore is expected to provide higher returns than public equity markets over the long-term. Performance of the Private Equity portfolio will be compared to a Public Market Equivalent (“PME”) benchmark which compares the Internal Rate of Return of the Private Equity portfolio to an Internal Rate of Return measurement of the same cash flows invested in U.S. Equity public markets on the same dates. The goal is for the Private Equity portfolio to provide annualized Internal Rates of Return that exceed the PME by 2-3% annually. This measure shall be considered adequate compensation for the illiquidity risk associated with the Private Equity asset class.

Cash

Cash and short-term investments exist to provide liquidity for benefit payments and to allow for cash holdings between investments. Cash is to be conservatively invested with protection of principal a primary objective and rate of return a secondary consideration.

6. Rebalancing Policy

As markets move over time, the actual asset mix of the Fund’s portfolio may diverge from the target allocations. The Board has adopted targets for each asset class in the Asset Allocation Policy, set forth in Section 5. Recognizing that these targets will rarely be achieved with precision, allowable ranges around each target are also adopted for each asset class.

If Fund assets are allowed to deviate too far from the target allocations, there is a possibility that the Fund will fail to meet its investment objectives. However, continual rebalancing to the asset allocation targets may result in significant transaction costs, which may also impair the Fund’s ability to meet its investment objectives. It is anticipated that, due to a continuing need to raise cash to pay benefits and fund capital calls, and because the necessary cash will be generated by the sale of securities in over weighted asset classes, rebalancing will occur via normal operations. As a general practice, the General Consultant will recommend appropriate cash flows to the Board on a quarterly basis to address the cash flows needed for normal operations. The General Consultant may also recommend cash flows to the Board at other times if necessary. The Executive Director has the authority to direct such flows as necessary to meet the ongoing cash needs of the Fund. However, should those transactions be inadequate to maintain in-range allocations, the General Consultant will recommend appropriate cash flows to rebalance the Fund back into compliance with the policy ranges approved by the Board. Such flows will be communicated to the Board and then implemented by the Executive Director in a timely fashion. Additionally, the anticipated reallocation of assets due to manager termination(s) will be communicated to the Board prior to implementation by the Executive

Director.

From time to time, public equity may serve as a proxy for private equity and private real estate. Imbalances resulting from such proxy positions will not be considered in violation of the policy.

7. Monitoring

By monitoring the investment managers, the Board extends the initial due diligence into a formal process that regularly verifies the managers' compliance with the Fund's objectives and other requirements. In the broadest sense, the monitoring process is intended to confirm that the reasons the Board initially retained a manager still hold true. The process should disclose whether there has been any deviation from the investment philosophy and process, if the personnel responsible for management of the product are still in place, whether the organization continues to be stable, whether performance meets expectations, and confirms that the manager adheres to its investment guidelines. The underlying principle of the monitoring process is to assure that all risks to which the Fund is exposed through the use of Investment Managers have been identified, understood, and, to the extent possible, prudently managed.

A. The monitoring process focuses on four areas:

- 1) Compliance with investment guidelines;
- 2) Continuity of and adherence to investment philosophy and process;
- 3) Stability of personnel and organization; and
- 4) Performance.

B. Performance Aspects of Monitoring:

The Board will review the performance of the Fund's managers at least quarterly. While short-term results will be monitored, it is understood that the objectives for the Fund are long-term in nature and that progress toward these objectives will be evaluated accordingly. Manager performance will be evaluated relative to the manager's specific style, risk profile and the market environment in which the performance was generated, and will be monitored on a both a benchmark relative and peer relative basis.

C. Performance Evaluation: General Guidelines

- a. The Board will monitor the Fund's performance on a quarterly basis and will evaluate the Fund'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.
- b. The Fund's (and Manager's) performance should be reported in terms of rate of return on a quarterly basis. 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.

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.

- c. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this Statement.
- d. The Fund'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 Fund as a whole, the asset allocation of each portfolio shall be assumed to be fully invested in the index to which it is compared.
- e. Risk as measured by volatility, or standard deviation, should be evaluated after twelve quarters of performance history and periodically thereafter. Performance dispersion of each 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.

- f. While the Board intends to fairly evaluate the portfolio performance, they reserve the right to change investment managers, without liability except payment of current charges, for any reason which in the exercise of the Board's discretion is deemed sufficient, including but not limited to those stated below.
 - i. Change of Board's investment philosophy;
 - ii. Unacceptable justification for poor results;
 - iii. Failure to meet stated performance goals;
 - iv. Failure to meet Board's communication and reporting requirements;
 - v. Deviation from the stated investment philosophy or style for which the investment management firm was hired; or
 - vi. Change of decision-making personnel or ownership of the investment management firm.

D. MANAGER PROBATION POLICY

- a. The purpose of this section is to outline how and when the Board will address specific issues and events pertaining to investment manager performance and qualitative firm evaluation. Each manager retained by the Board can be given one of three probationary statuses: "Monitor", "Watch List", or "Comprehensive Review". This section will define the statuses, the criteria by which managers are evaluated, the process for being placed on probation, and the process for coming off probation.
- b. Managers will be evaluated using both qualitative assessments and quantitative metrics.
- c. Qualitative assessments will focus on organizational and staff stability, adherence to investment philosophy and process, asset and/or client turnover, and the quality of client service.

A significant and potentially adverse event related to, but not limited to, any of the following qualitative issues or events will generally lead to an investment manager being given "Watch List" status or the initiation of a Comprehensive Review, depending on the impact of the event or issue:

- i. A significant change in firm ownership and/or structure.
- ii. The loss of one or several key personnel.
- iii. A significant loss of clients and/or assets under management.
- iv. A profound shift in the firm's philosophy or process.
- v. A significant and persistent lack of responsiveness to client requests.
- vi. Consistent failure to meet investment allocation targets.
- vii. Chronic violations of Fund's investment guidelines.
- viii. Legal or regulatory concerns.

Qualitative assessments alone carry more weight than quantitative assessments and can therefore lead to "Watch List" or "Comprehensive Review" status despite outperformance.

- d. Quantitative assessments are utilized to evaluate a manager's skill. Skilled managers often have periods of underperformance, just as unskilled managers often experience periods of outperformance. Over long time periods, however, skilled managers will produce a larger average excess

- return more frequently than their unskilled peers.
- e. For purposes of quantitative assessment, active managers are evaluated on their performance relative to their relevant benchmark, and their performance relative to their relevant peer group. Persistent underperformance relative to the benchmark and to peers will lead to a specific course of action as defined below:
 - i. Performance criteria for active managers and resulting status assignment:
 - 1. If an active manager one- and three-year annualized returns that are below the benchmark and that ranks below median of the peer group, the manager will be given “Monitor” status.
 - 2. If an active manager trailing one-, three- and five-year annualized performance below that of the benchmark that ranks below median of the peer group, that manager will be given “Watch List” status.
 - f. Quantitative assessment of passive managers will be different than that of active managers. Passive managers must track the annualized performance of their benchmark within the ranges outlined in each manager’s investment agreement.
 - g. Manager Status and Course of Action
 - i. Monitor – Managers with this status will be identified in the quarterly report with an explanation as to why the status was given. Additionally, the number of consecutive quarters achieving this status will be shown. A manager can come off “monitor” status with performance that does not violate the quantitative metrics outlined above.
 - ii. Watch List – Managers will be notified they have been given “Watch List” status. The Consultant will review the situation causing the status and report findings, conclusions, and a recommendation to the Board. If the Consultant and the Board determine corrective action must be taken by the manager, the necessary steps needed to be taken in order to remove the “Watch List” status will be communicated to the manager. The manager will be asked to appear before the Board within one year from being placed on watch. The manager will have “Watch List” status for a specified amount of time (variable, but usually 12 months). Within this period, the manager will either be removed from “Watch List” status, have their “Watch List” status extended, or placed on “Comprehensive Review” status.
 - iii. Comprehensive Review – A Comprehensive Review of a manager will be undertaken as a result of serious and sustained underperformance when the manager has been on Watch status for four consecutive quarters, or as the result of a significant and adverse change in the manager’s organization, personnel, or investment process. In undertaking a Comprehensive Review, the Board is ultimately deciding whether the manager should be rehired today

given the current events and prevailing circumstances. The Comprehensive Review is to be completed within 90 days and the outcome is a decision to retain or terminate a manager. As part of the Comprehensive Review, the investment manager may be asked to make a presentation to the Board, describing the particular issue and the course of action to correct it.

- h. The Board reserves the right to put a manager on the “Watch List”, require a “Comprehensive Review,” or to terminate a manager for any reason at the Board’s sole discretion.
- i. Any Manager with a “Watch List” status may not be eligible to receive additional investment funds, including funds from rebalancing of the portfolio.

E. MANAGER REPORTING REQUIREMENTS

- a. As Necessary Managers shall promptly report on the following:
 - i. Discovery of a violation of the investment guidelines contained in this Investment Policy Statement;
 - ii. A significant change in investment strategy, portfolio structure, or market value or liquidity of managed assets;
 - iii. A significant change, in the ownership affiliations, organizational structure, financial condition, professional staffing, or clientele of the Manager; and
 - iv. Sanctions against the firm or its employees by any state or federal governmental or regulatory agency, or by NASD, to the extent permissible by law.

8. Use of Commingled Investment Vehicles

The Board acknowledges that, if it elects to invest in a commingled investment product (e.g. a group trust, mutual fund, limited partnership, etc.), the policies established for each product will govern and may not comply fully with policies established for the Fund. The Board will monitor the performance of commingled funds to the extent appropriate for the particular product in accordance with the principles set forth in Section 7.

9. Exercise of Shareholder Rights

The Board recognizes that publicly-traded securities and other assets of the Fund include certain ancillary rights, such as the right to vote on shareholder resolutions at companies’ annual shareholders’ meetings, and the right to assert claims in securities class action lawsuits or other litigation. As a condition to appointment, investment managers shall agree that they will exercise any shareholder rights with respect to assets under their management solely in the interest of the Fund’s participants and beneficiaries.

The Board may engage the services of outside counsel to assert claims in securities class

action lawsuits or other litigation.

10. Investment Policy Statement Amendment and Coordination

This Investment Policy Statement shall be reviewed periodically by the Board as per the Board's established operating policies and procedures, and, when appropriate, may be amended from time to time. Suggested changes to this document will be subject to Board approval and will be recommended on an as needed basis.