



# **Retirement System of Allegheny County**

## **Statement of Investment Policy**

## **Introduction**

This Statement of Investment Policy was adopted by the Retirement Board of Allegheny County (the “Board”) on June 16, 2011 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 The Board retains the right, by its vote, to waive any policy (unless superseded by the governing law) if it deems that such waiver is in the best interest of the Fund and/or its participants.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 man 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 **investment objective** of the Fund as meeting or exceeding the 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 December 2012 Board meeting, are as follows:

<b><u>Asset Class</u></b>	<b><u>Benchmark</u></b>	<b><u>Percentage Contribution to Benchmark</u></b>
Domestic Equity	DJ Wilshire 5000 Index	16%
International Equity	MSCI AC World Index Ex-US IMI Index	19%
Core Fixed Income	Barclays U.S. Aggregate Bond Index	10%
High Yield Fixed Income	CSFB High Yield Index	12%
Inflation Protected Fixed Income	Barclays US TIPS Index	5%
Real Estate	NCREIF Property Index	10%
Private Equity	DJ Wilshire 5000 Index + 3%	20%
Commodities	Dow Jones/AIG Commodities Index	8%
		<u>100%</u>

## 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 domestic and international public equities, fixed income securities, real estate, and private equity.

<b><u>Asset Class</u></b>	<b><u>Target Percentage</u></b>	<b><u>Allowable Range</u></b>
Domestic Equity	16%	13% - 19%
International Equity	19%	16% - 22%
Core Fixed Income	10%	8% - 12%
High Yield Fixed Income	12%	10% - 14%
Inflation Protected Fixed Income	5%	4% - 6%
Real Estate	10%	5% - 12%
Private Equity	20%	15% - 23%
Commodities	8%	7% - 9%
Cash	<u>0%</u>	0% - 2%
	<u>100%</u>	

While approved as permissible investment strategies by the Board, hedge funds are not viewed as an asset class and are therefore not allocated a specific target of the portfolio.

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. The number and type of individual investment manager portfolios required to invest pension 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:

### ***Domestic Equity***

The investment goal of the Domestic 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:

	<u>Large Cap 80%</u>	<u>Small Cap 20%</u>
Large Cap Passive	50%	Small Cap Active 100%
Large Cap Active – Low Tracking Error	25%	
Large Cap Active – Higher Tracking Error	25%	

### ***International Equity***

The investment goal of the International 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-US 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-US market capitalization weights to developed and emerging markets. The following structure has been approved by the Board for the Non-US equity portfolio:

ACWI ex-US Passive:	20%
ACWI ex-US Low Tracking Error:	20%
ACWI ex-US Active:	40%
ACWI ex-US 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 earn 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%

### ***Real Estate***

The investment goal of the Real Estate portfolio is to provide a total return that includes appreciation and current income, to reduce the overall volatility of the Trust's returns, and to provide an inflation hedge. Investments may be in either publicly-traded real estate securities or private real estate. 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, and a 30% weight to value added / opportunistic strategies which focus more on generating returns through property appreciation.

### ***Private Equity***

The investment goal of the Private Equity portfolio is to provide a higher total return than that available from more liquid marketable investments and to reduce the overall volatility of Fund's returns. 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.

### ***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 overweighted asset classes, rebalancing will occur via normal operations. 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 Financial 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.

### **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 Trust. 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.