

City of Grand Rapids
General Retirement System
Investment Policy Statement

June 12, 2024

City of Grand Rapids General Retirement System

Investment Policy Statement

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City of Grand Rapids General Retirement System

Investment Policy Statement

Introduction and Purpose

The purpose of this Investment Policy Statement is intended to provide general principles for establishing the investment goals and objectives, the allocation of assets, and guidelines for the City of Grand Rapids General Retirement System (the “Plan” or “GRS”).

The purpose of developing an Investment Policy Statement is twofold: First, the document is intended to be a written communication tool between the Board, the investment managers and the investment consultant of the Plan. The development, implementation and execution of investment strategies requires a thorough understanding of the Plan’s investment policies. Therefore, the basic purpose of this document is to clarify these policies and to provide a framework for a continuing dialogue. Second, the document defines market benchmarks and establishes expectations which will be used to measure and evaluate both composite and individual managers’ results on an ongoing basis.

Individual Investment Manager(s) guidelines referenced in this document are separate policies governing specific aspects of managing the Total Portfolio and are not reproduced in this Statement, but are incorporated by reference as governing documents of the Plan.

This Investment Policy Statement is intended to be flexible. The investment goals, objectives and guidelines may be amended to reflect material or sustained changes in the financial condition of the Plan, the economic environment, state regulations or the opportunities available in the financial markets. Suggested changes to this document will be subject to Board approval and will be made on an as needed basis.

City of Grand Rapids General Retirement System

Investment Policy Statement

Total Plan Policies

Delegation of Responsibilities

General

The City of Grand Rapids General Retirement System (the “Plan” or “GRS”) is a tax-exempt retirement plan qualified under Section 401 (a) of the Internal Revenue Service Code (the “Code”). The Plan must be managed and administrated in accordance with the Public Employee Retirement System Investment Act, Michigan Public Act 314 of 1965, as amended (“Act 314”) [MCL 38.1132 et seq.].

City of Grand Rapids General Retirement System Board of Trustees

The Board of Trustees has been appointed to review the investment performance and other matters of the Plan. The Board acknowledges and accepts its responsibility as a fiduciary of the Plan. In this capacity, the appointed representatives must conduct the business of the Plan in a prudent manner and for the exclusive benefit of the participants and beneficiaries of the Plan.

Specifically, the investment responsibilities of the Board include the following:

- Establish the strategic policy (Asset Allocation Policy) for GRS in accordance with the Plan’s goals, and periodically review the Asset Allocation Policy in light of any changes in actuarial variables and/or market conditions.
- Approve the investment structure for applicable asset classes identified in the Asset Allocation Policy.
- Select qualified Investment Consultant(s) and Investment Manager(s) to advise on and manage GRS’ assets recognizing the goals set forth in this document and within guidelines.
- Communicate the Investment Policies of the Plan to the Investment Manager(s). Specific information outside of this Statement, including performance objectives and authorized investments, is included in the Investment Manager(s) approved guidelines.
- Monitor and review the performance of selected Investment Manager(s) to determine achievement of goals and compliance with policy guidelines.

- Take corrective action if the Investment Manager(s) fails to follow investment policy, deviates from the expected role within the investment structure, or fails to perform as expected.
- Review the overall investment performance of the Plan to determine whether it meets established benchmarks.

The Board has determined the appropriate investable asset classes and defined specific target weights within the investment structure of the Plan. Further, the Board has retained a number of qualified Investment Managers to execute a variety of investment strategies. Therefore, it is neither the intention nor the responsibility of the Board to involve itself in the direct investment of individual securities. However, the Board has established specific investment goals, objectives and guidelines to monitor and evaluate the ongoing progress of each investment management organization relative to their role within the overall investment structure of the Plan.

Investment Manager(s)

The Investment Manager(s), in recognition of their role as co-fiduciaries of the Plan, must assume certain responsibilities. Specifically, the Board delegates discretionary authority to the investment managers to invest a specific allocation of the Plan subject to the parameters set forth in the individual manager guidelines.

Therefore, the investment managers are charged with the following responsibilities:

- Comply with all relevant provisions contained in the Public Employee Retirement System Investment Act, Michigan Public Act 314 of 1965, as amended (“Act 314”) [MCL 38.1132 et seq.].
- Manage GRS assets under its care, custody, where applicable, and/or control in accordance with this Statement’s objectives and guidelines set forth herein and its governing agreement with GRS.
- Exercise full investment discretion over the assets in case within the guidelines set forth in this Statement and, where applicable, the specific guidelines established for the Investment Manager(s) in the governing agreement with GRS.
- Construct a portfolio that reflects the execution of a specific investment strategy.
- Promptly inform the Board and/or Staff and/or Investment Consultant(s) in writing regarding all changes of a material nature pertaining to the firm’s organization and professional staff.

Investment Consultant

The Board may retain qualified Investment Consulting Organization(s) (the Investment Consultant(s)) to assist in the overall strategic investment direction of the Plan, or specific asset classes, and its implementation. The Investment Consultant(s), in recognition of its role as co-fiduciary of the Plan, will assume specific duties. These duties shall generally include the following:

- Provide independent and unbiased information.
- Assist in the development of this Statement, and other policies that govern the Plan's investments.
- Assist in monitoring compliance with this Statement.
- Assist in the development and recommendation of strategic asset allocation targets, investment structure, and rebalancing procedures for the Total Plan or for specific asset classes.
- Assist in development of performance measurement standards.
- Assist in the Investment Manager(s) search and selection process.
- Monitor, evaluate and report to the Board on a Total Plan and/or asset class and/or Investment Manager(s) performance on an ongoing basis.
- Recommend corrective action should an investment strategy or Investment Manager(s) fail to meet expectations or a materials change occurs.
- Recommend strategy changes in response to a material change in financial condition and/or capital market environment.

Finally, Investment Manager(s) and the Investment Consultant(s) must request in writing, and receive approval from the Board before adopting an investment strategy that represents a deviation from the policies outlined in this document or Investment Manager(s) guidelines.

General Policies

Meeting Policy

The Board and/or Investment Consultant(s) should meet periodically with the Investment Manager(s) of the Plan. Meetings should occur at both the regular Retirement Board meetings and, if necessary, in the managers' offices. The general policy is that the investment managers are expected to attend at least one Board meeting per year.

Reporting Policy

On a monthly basis, the Executive Director and Investment Consultant(s) are expected to receive statements of investment activity from the investment managers. These statements should include, but are not limited to, the following items:

- **Market Values** -- Month-end market values by individual security and total portfolio.
- **Transaction Statement** -- A statement that captures all activity (purchases, sales and income) generated during a month.

- **Performance** -- A report that captures the total performance of the account during the month and for extended time periods.

On a quarterly basis, the Board and the Executive Director are expected to receive an Executive Summary and Performance Analysis Report from the Investment Consultant(s). These Reports should focus on the following issues:

- **Asset Allocation**
- **Investment Structure**
- **Performance** (Composites and Individual Managers)
- **Performance Attribution**

In addition, on an ongoing basis, the Investment Consultant(s) is expected to provide the Executive Director with market research on investment-related issues.

Communication Policy

The Board and/or Executive Director must be advised within 24 hours if, at any time, any of the following circumstances occur to either the Investment Management or Investment Consulting firms:

- A substantial change in the ownership of the firm or a purchase or affiliation with another entity.
- The departure of key personnel.
- Any conflict of interest.
- A change in the philosophy or approach.
- Any situation that has the potential to impact either the professionalism, financial position or integrity of the Plan or the organizations designated to serve the Plan.

Asset Allocation Policy

Introduction

Asset allocation refers to the strategic, long-term deployment of assets among the major classes of investments such as equity, fixed income and cash equivalents. The allocation will be completed in a manner consistent with commonly recognized financial principles. Application of these principles is expected to lead to a portfolio allocation with the highest level of return consistent with the risk tolerance of GRS.

The procedure for determining the allocation will consider the relevant characteristics of the liabilities and potential assets of GRS. The liability considerations shall include, but not be limited to, current and expected future values of the benefits, and future contributions. These factors are important for identifying the investment horizon and cash flow requirements. The asset characteristics considered shall include, but not limited to, current value, potential return relative to potential risk, and diversification characteristics. The objective of the asset allocation strategy is to defuse the liabilities

of the Plan.

The Board assumes the responsibility for the asset allocation decision and should be reviewed on a periodic basis (no less than every five years) through a comprehensive asset/liability study. The goal of the study shall be to formulate an Asset Allocation Policy which maximizes return while minimizing overall risk through the most efficient combination of acceptable asset classes under the prudent person standard.

Asset Allocation Policy

Based on an asset/liability analysis, which analyzed expected returns, risk and correlations of various asset classes, projected liabilities, liquidity, and the risks associated with alternative asset mix strategies, the Board established the following Asset Allocation Policy.

Asset Class	Policy Target	Allocation Range	
		Minimum	Maximum
Domestic Equity	23.75%	18.75%	28.75%
International Equity	21.75%	16.75%	26.75%
Private Equity	5.00%	0.00%	7.00%
Private Credit	5.00%	0.00%	7.00%
Total Growth-Oriented Assets	55.50%	45.50%	65.50%
Core Fixed Income	28.50%	23.50%	33.50%
Cash & Equivalents	1.00%	0.00%	5.00%
Total Safety-Oriented Assets	29.50%	23.50%	38.50%
U.S. REITs	5.00%	3.00%	7.00%
Midstream Energy Infrastructure	5.00%	3.00%	7.00%
Commodities	5.00%	3.00%	7.00%
Total Inflation-Oriented Assets	15.00%	10.00%	20.00%

Risk Policies

Interest Rate Risk: This portfolio structures its fixed income allocation to be approximately neutral in duration and interest rate risk to that of the benchmark. This should mitigate the relative over- or under-performance of the fixed income composite as a result of changing interest rates.

Credit Risk: The fixed income portfolio invests in both investment grade bonds as well as high yield bonds. However, the overall credit rating for the composite is not to be below an “A” rating.

Concentration of Credit Risk: No single holding will represent more than 5% of the Total Fund.

Foreign Currency Risk: In general, the foreign currency exposure resulting from international investments is not hedged. This exposes the portfolio to foreign currency risk, which is not expected to harm or help the performance of the fund in a significant way over the long term.

Custodial Credit Risk: This portfolio will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to those permitted by the Public Employee Retirement System Investment Act, Michigan Public Act 314 of 1965, as amended (“Act 314”) [MCL 38.1132 et seq.] which include: **a)** United States Treasury and Agency; **b)** Mortgages (Collateral and CMOs); **c)** Corporate Bonds (industrial, finance, asset backed, utilities, telephone and Yankee); **d)** Derivatives (futures, swaps, option contracts on the S&P 500 Index and U.S. Interest Rates and futures and option contracts on U.S. Treasury and Agency securities); **e)** American Depository Receipts; **f)** Non-Dollar Bonds; **g)** Emerging Market Debt; **h)** Cash equivalent investments (including repurchase agreements); **i)** Short-term investment funds; **j)** International Depository Receipts; **k)** Global Depository Receipts; **l)** Convertible Bonds; **m)** Open and closed-end country funds; **n)** Warrants.

In addition, the City of Grand Rapids General Retirement System will only conduct business with Investment Management firm(s) that will: comply with all relevant provisions contained in the Public Employee Retirement System Investment Act, Michigan Public Act 314 of 1965, as amended (“Act 314”) [MCL 38.1132 et seq.]; support the overall investment policies of the Plan; understand and accept their designated “role” within the Plan’s investment structure; construct a portfolio of securities that reflect the execution of their assigned investment strategy; and adhere to the guidelines of this document and/or any additional written instructions that amend this Investment Policy Statement.

Investment Structure

Introduction

Investment structure refers to the diversification of investment strategies (or investment philosophies) and styles (or investment focus) within the broad asset categories.

Investment Structure Policy

As part of the asset/liability analysis and asset allocation recommendation, the Board has also adopted investment structure assignments and target weights to specific asset classes. The following

table highlights these specific target weights both on a total fund and asset class basis. The investment structure(s) targets will remain in effect until there is a change in either the financial condition or the investment goals of the Plan or a change in capital market conditions.

<u>Target</u>		
Investment Structure	Structure Weight	Total Plan Weight
Domestic Equity	100.00%	23.75%
<i>Style Factor</i>		
Passive/Index	65.00%	15.44%
Enhanced Index	20.00%	3.56%
Active Core U.S. Equity	15.00%	4.75%
<i>Size Factor</i>		
Large Capitalization	80.00%	19.00%
Small Capitalization	20.00%	4.75%
International Equity	100.00%	21.75%
<i>Style Factor</i>		
Active - Developed & Emerging Mkts.	100.00%	21.75%
Private Equity	100.00%	5.00%
Buyout/Venture/Other	100.00%	5.00%
Private Credit	100.00%	5.00%
Direct Lending	100.00%	5.00%
Cash	100.00%	1.00%
Cash / Cash Equivalents	100.00%	1.00%
Core Fixed Income	100.00%	28.50%
<i>Style Factor</i>		
Active - Core Fixed Income	50.00%	14.25%
Active - Core (Plus) Fixed Income	50.00%	14.25%
U.S. REITs	100.00%	5.00%
Active - U.S. REITs	100.00%	5.00%
Commodities	100.00%	5.00%
Active - Commodities	100.00%	5.00%
Midstream Energy Infrastructure	100.00%	5.00%
Active - Midstream Energy Infrastructure	100.00%	5.00%

Investment Goals

Introduction

Investment goals are designed to provide a broad or general statement of the long-term purpose of the investment program. Investment goals are provided for the total fund and each of the individual manager assignments.

Total Plan

The GRS' investment goal is to generate sufficient returns to provide for current and future benefit payments to plan participants while simultaneously covering all administrative and investment management costs incurred in its operation. Because the liabilities of the Plan are long-term in nature, the assets will be invested in long-term strategies and be evaluated within the context of a long-term investment horizon.

Investment Objectives

Introduction

Investment objectives are designed to provide quantifiable standards to measure and evaluate the progress of both the total fund and Investment Manager(s). For the purpose of monitoring and evaluating the ongoing investment activity and results, both relative performance standards and investment objectives are defined.

Relative Standards

Relative standards define the benchmarks that will be used to measure and compare the results of the total fund and Investment Manager(s). The relative standard for the total fund is defined as the target policy index that will be constructed from the relative market indices weighted by the target allocation to each asset class. Each individual investment manager will be evaluated relative to an appropriate market benchmark. An appropriate benchmark is defined as an identifiable market index that best represents the universe of securities from which the investment manager makes investment decisions. Benchmarks for each investment manager are identified in the Investment Manager(s)' guidelines.

Investment Objectives

Investment objectives are established to measure the long-term results of the total fund and each investment manager. Long-term is defined as a full market cycle, typically, five-to-ten years; however, a full market cycle can last longer than ten years.

Total Fund Objectives

Effective July 1, 2024, the relative standard for the total fund comparison is based on a Target Policy Index ("TPI"), composed of 19.00% S&P 500, 4.75% Russell 2000, 21.75% MSCI ACWI ex US Index, 5% Dow Jones U.S. REIT Select Index, 5% Actual Net of Fee, Time-weighted Performance of Private Equity Portfolio, 28.5% Bloomberg Barclays U.S. Aggregate Bond Index, 5% S&P LSTA Levered Loan Index 5% Bloomberg Commodity Index, 5% S&P MLP Index, and 1% 90 Day T-Bills.

Effective October 1, 2019, the relative standard for the total fund comparison is based on a Target Policy Index ("TPI"), composed of 17.75% Wilshire 5000 Index, 17.75% MSCI ACWI ex US Index, 10% MSCI ACWI Minimum Volatility Index, 5% Dow Jones U.S. REIT Select Index, 5% Actual Net of Fee, Time-weighted Performance of Private Equity Portfolio, 5% Bloomberg Commodity Index, 5% Bloomberg Barclays U.S. TIPS Index, 5% S&P MLP Index, 24.50% Bloomberg Barclays

U.S. Aggregate Bond Index, and 5% S&P LSTA Levered Loan Index.

The objective(s) for the Total Fund are as follows:

- Generate an annualized total return greater than the TPI with a commensurate level of active risk (tracking error).
- Generate a total return that meets or exceeds the actuarial discount rate.

Domestic Equity Objectives

The relative standard for Domestic Equity Pool is the Russell 3000 Index, which represents the entire United States equity market.

The objective(s) for the Domestic Equity Pool are as follows:

- Generate an annualized total return greater than the Russell 3000 Index with a commensurate level of active risk (tracking error).
- Total return of each Investment Manager'(s') portfolio should rank above median when compared to its respective peer group.

Core Fixed Income Objectives

The relative standard for Core Fixed Income Pool comparison is the Bloomberg Barclays U.S. Aggregate Bond Index, which represents a broad sample of the domestic fixed income market.

The objective(s) for the Core Fixed Income Pool are as follows:

- Generate an annualized total return greater than the Bloomberg Barclays U.S. Aggregate Bond Index with a commensurate level of active risk (tracking error).
- Total return of each Investment Manager'(s') portfolio should rank above the median when compared to its respective peer group.

International Equity Objectives

The relative standard for International Equity Pool is the MSCI ACWI ex US Index, which represents the investment opportunities available in the international stock markets, both developed and emerging countries, outside of the United States.

The objective(s) for the International Equity Pool are as follows:

- Generate an annualized total return greater than the MSCI ACWI ex US Index with a commensurate level of active risk (tracking error).
- Total return of each Investment Manager'(s') portfolio should rank above the median when compared to its respective peer group.

U.S. Real Estate Investment Trust (REIT) Objectives

The relative standard for the U.S. REIT Pool is the Dow Jones U.S. REIT Select Index, which represents the listed real estate companies and REITs in the United States.

The objective(s) for the U.S. REIT Pool are as follows:

- Generate an annualized total return greater than the Dow Jones U.S. REIT Select Index with a commensurate level of active risk (tracking error).
- Total return of each Investment Manager'(s') portfolio should rank above the median when compared to its respective peer group.

Private Equity Objectives

The relative standard for the Private Equity Pool is the Wilshire 5000 Index. The Private Equity Pool will represent a diversified private markets portfolio consisting of US and non-US Buyouts, Venture Capital, Mezzanine Debt and Distressed Debt.

The objective(s) for the Private Equity Pool are as follows:

- Generate an internal rate of return greater than the portfolio’s public market equivalent, the Wilshire 5000 Index.

Private Credit Objectives

The relative standard for the Private Credit Pool is the S&P LSTA Levered Loan Index, which represents a broad set of credit facilities in the levered loan market. The Private Credit Pool will represent a diversified credit portfolio consisting of opportunities that include US and non-US Direct Lending, Asset-Backed Finance, and Liquid Credit Opportunities.

The objective(s) for the Private Credit Pool are as follows:

- Generate an internal rate of return greater than the portfolio’s public market equivalent, the S&P LSTA Levered Loan Index.

Commodities Objective

The relative standard for the Commodities Pool is the Bloomberg Commodities Index, which represents a broadly diversified basket of the commodities market via exchange-traded futures on physical commodities.

The objective(s) for the Commodities Pool are as follows:

- Generate a total return greater than the Bloomberg Commodities Index with a commensurate level of active risk (tracking error).
- Total return of each Investment Manager’(s’) portfolio should rank above the median when compared to its respective peer group.

Investment Guidelines and Restrictions

In recognition of the fiduciary purpose of the City of Grand Rapids General Retirement System, investments will be made for the exclusive benefit of the participants and beneficiaries of the Plan. The assets must be invested with the due care and diligence and in the same manner that a prudent person would act in discharging similar duties. All investments will be made within the guidelines of quality, marketability and diversification mandated by the Public Employee Retirement System Investment Act, Michigan Public Act 314 of 1965, as amended (“Act 314”) [MCL 38.1132 et seq.].

When applicable, GRS has specific written guidelines and investment policy statements for each Investment Manager(s). These investment policy statements describe in detail the Investment Manager(s) philosophy and approach, authorized investments, prohibitions, typical portfolio characteristics, performance objectives and evaluation, and Investment Manager(s) communication. These policies are separate documents and not reproduced within this Statement.

Adopted by the Board of Trustees for the City of Grand Rapids General Retirement System as amended:

Adopted: May 20, 2020

Amended: June 12, 2024 (Asset Allocation, domestic equity index, total fund policy index)

City of Grand Rapids General Retirement System Overview of PA 314

The table below highlights the prior and amended limits of Michigan Public Employee Retirement System Act 314:

Asset Class	Plan Size	Prior Limits	Amended Limits
Real Estate	< \$100,000,000	5%	10%
	> \$100,000,000	10%	20%
	State Treasurer	No Limit	No Limit
Private Equity	\$0 < \$250,000,000	Current law is silent	Silent
	\$250,000,000 < \$1,000,000,000	Current law is silent	5% (Michigan), additional falls in basket
	> \$1,000,000,000	Current law is silent	15% (10% plus 5% Michigan only)
	State Treasurer	30%	30%
Basket Clause	\$0 < \$250,000,000	5%	15%
	\$250,000,000 < \$1,000,000,000	10%	20%
	> \$1,000,000,000	15%	25%
	State Treasurer	20%	30%
Equity Securities	All plans	70% (Domestic)	70% (Global)
Foreign Securities	< \$2,000,000,000	20%	20%
	> \$2,000,000,000	20%	30%