

Public Agenda Item #13

Consideration of the Investment Policy Statement – (Action)

August 24, 2022

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Annual IPS Review

Process for Developing Recommendations



- Board requires review of IPS by staff at least annually
- Review conducted by Investments, Investment Compliance, Office of General Counsel, Executive Office, and General Investment Consultant
- Fresh eyes from CIO, General Counsel, and Compliance Officer
- Draft redline version circulated in July/August for feedback

Annual IPS Review

Highlights of Staff Recommendations



- Most significant proposed updates:
 - Update SAA parameters to balance liquidity & returns
 - Address recommendations of NEPC governance report
 - Improve upon Code of Ethics/Standards of Conduct
- Better policies for Scrutinized Investments, GBP Funds
- Priorities of General Counsel and Investment Compliance

Annual IPS Review

Strategic Asset Allocation Parameters

- Mix B increases liquidity, reduces risk and maintains expected return
- Moving closer to current positioning reduces risk of disruption

	Lower Risk	Mix A	Current Policy	Mix B	Mix C	Higher Risk
Return	x	x	✓	✓	✓	✓
Risk	✓	✓	✓	✓	✓	x
Efficiency	✓	✓	✓	✓	✓	✓
Liquidity	✓	✓	✓	✓	x	✓
Adjacency	x	x	x	✓	✓	x

Annual IPS Review

Investment Policies, Procedures and Practices



- Address recommendations in 2020 governance report from NEPC
 - ✓ Comprehensive approach to funding policy
 - ✓ Assumed Rate of Return as an explicit goal
 - ✓ Clearly define A/L Study and A/A Study
 - ✓ Fully document rebalancing process
 - ✓ Regular reports on transaction costs, liquidity
 - ✓ Valuation Committee referenced in policy
 - ✓ Define role of CIO more explicitly
 - ✓ Reporting regarding fees and expenses
 - Move the Allocations & Ranges Table to appendix
 - Adopt a “watch list” policy and process

2023 Governance Review by NEPC

- *Kicks off in late 2022/early 2023*
- *Focus on best-in-class integration of IPS, IIP and SOPs*
- *Report likely due to Pension Review Board on June 1, 2024*

Annual IPS Review

Code of Ethics & Standards of Conduct



- Currently a chapter in the IPS that also references CFA Institute policy
- Many of the CFAI standards are irrelevant to or even confusing for ERS
- Incorporate all relevant CFAI standards into ERS policy
- Add principles from CFA Trustee Code of Conduct into ERS policy
- Create a set of Standards of Conduct for Investments Division

Annual IPS Review



Key Recommendations from Investments Division

- Public and Private Credit separated into distinct asset classes
- Public and Private Real Estate separated into distinct asset classes
- Update ticker for public real estate benchmark index to net of tax withholding for international stocks
- Revised policy for management of GBP funds
- Require ACIC approval for material extensions and redemptions

Annual IPS Review



Key Recommendations from Office of General Counsel

- Significant improvements to Code of Ethics
- Streamline policies for Scrutinized Investments
- Expand ability to pursue securities actions
- Updates to statutory references
- Align placement agent disclosures with current contracting practices
- Add language necessary to invest in collective investment trusts

Annual IPS Review



Key Recommendations from Investment Compliance

- Restricted Persons required to disclose brokerage accounts
- Policy violations can result in exclusion from Incentive Compensation Plan
- Adds \$500 de minimus threshold for trade preclearance
- Updates to Personal Trading guidelines
 - Exemptions for CDs, muni bonds, etc.
 - Carve-outs for employee stock, fully managed accounts

Questions?
Action Item