

## EMPLOYEES' RETIREMENT SYSTEM

### OF THE CITY OF BALTIMORE

#### COMMINGLED ACCOUNT INVESTMENT POLICY

##### I. GENERAL

The Employees' Retirement System of the City of Baltimore ("the System") was established to provide retirement, disability and death benefits to City of Baltimore employees and their designated beneficiaries. To ensure that the assets of the Systems are managed prudently, and consistent with the retirement objectives of the Systems' members, the Board of Trustees of the System ("the Board") periodically reviews the asset management and actuarial characteristics of the System. To the extent that asset management policies developed by the Board result in an improvement of investment performance results, present liabilities will be adequately funded, City contributions may be reduced, and excess interest will form a basis for future benefits.

##### II. THE SYSTEM'S GENERAL INVESTMENT OBJECTIVES

The primary investment objectives of the System are set forth below. It is recognized that maximizing any one objective may compromise the achievement of other objectives. For example, maximizing liquidity may reduce investment return; seeking maximum investment return may subject capital preservation to higher risk. Accordingly, the investment objectives are given in descending order of priority:

1. To preserve the capital value of the System adjusted for inflation.
2. To ensure adequate liquidity to meet benefit liabilities as they fall due.
3. To meet or exceed actuarial interest rate assumptions.
4. Without unduly jeopardizing the above objectives, to exceed the investment return objectives by the astute investment management of funds.

##### III. APPLICATION OF THIS POLICY

This Policy applies to investment by the System in commingled investment accounts, as defined below, regardless of asset class. It supercedes the System's general Statement of Investment Objectives and Policies and the System's policies applicable to investment in specific asset classes.

### III. COMMINGLED ACCOUNT DEFINITION

A commingled account can be defined as investment assets that are pooled together by a common investment strategy. These assets are shared among a group of investors. For the purposes of this policy, investment vehicles that satisfy the definition of a commingled account include mutual funds, commingled funds, limited partnerships, corporations, collective trusts, and any other investment vehicles satisfying the criteria outlined above. Commingled accounts are permitted as an investment vehicle of Plan assets.

### IV. COMMINGLED ACCOUNTS: GENERAL OBJECTIVES AND RESTRICTIONS

In the case of a commingled account, the Board understands that the duties of a manager of a commingled account are to the account and its investors as a group, and those duties may prevent a commingled account manager from assuming conflicting or additional duties with respect to any particular investor. Therefore, adherence by an account manager to the investment guidelines set forth in existing investment guidelines that apply to the System overall or the specific asset class in which a commingled account falls is impractical. Accordingly, the commingled account's investment objectives, policies and restrictions, as set for in its current prospectus, subscription/joinder agreement, limited partnership agreement, articles of incorporation or other organizational documents and/or other applicable disclosure and investment documents (as amended from time to time), shall govern the investment of the Plan's assets.

Investments in commingled accounts by investment managers shall be subject to the following restrictions:

1. The investment manager of the commingled account shall be a Registered Investment Advisor under the Investment Advisors Act of 1940.
2. All persons or entities responsible for the management, control, maintenance and investment of the commingled account and monitoring of the account's custodian[s] shall be legally bound to function in a fiduciary capacity in their relationship to the participants of the commingled account.
3. Funds and assets of the commingled account shall not be subject to claims or attachments made by any creditors of, or governmental regulatory agencies having authority over, all persons or entities responsible for the management, control, custody, maintenance and investment of the commingled account, except to the extent that any such claims or attachments directly and materially relates to the commingled account operations or in the case of a fund of funds vehicles, its underlying manager's operations.
4. Commingled account participants shall not incur fees or expenses in excess of fees outlined in the governing documents of the commingled account or disclosed to investors.

## V. PERFORMANCE OBJECTIVES

It is expected that all System investment accounts, including commingled accounts, will provide net of fee returns in excess of the applicable policy index benchmark over rolling 5 year periods and the Board will evaluate the investment performance of commingled accounts against that expectation.

Due to the inevitability of short-term market fluctuations that may cause variations in the investment performance, it is intended that this performance objective will be achieved by a commingled account over a reasonable investment time horizon specific to the account's specific asset class. However, the Board reserves the right to evaluate an account's interim performance. Annual performance will be evaluated to test progress toward attainment of these longer-term goals. It is understood that there are likely to be short-term periods during which performance deviates from expectations.

Attainment of the above objective does not guarantee continued employment by the Board nor does failure to achieve these guidelines ensure dismissal. Managers serve at the discretion of the Board.

## VI. COMMUNICATIONS AND REPORTING

Reporting requirements will be governed by the commingled account's legal and operational documentation, which at a minimum should provide for quarterly unaudited financial statements and other relevant investment holdings-related exhibits, and annual audited financial statements and relevant investment holdings-related exhibits. The System's staff and legal counsel may negotiate by incorporation in the agreement, by side-letter or otherwise, any System-specific reporting requirements, which may include:

- a listing of assets with historical cost and market valuations by security and in total
- holdings by sector segmentations
- performance results for the month, quarter-to-date, fiscal year-to-date and since inception
- dealings with minority and women -owned businesses
- brokerage firms used
- clients gained or lost
- firm composition specifying majority, minority, and women personnel by management category
- changes in personnel or firm composition (specifying changes in minority/women personnel)

- investor purchases and sales
- major changes in market conditions
- any significant changes in the ownership, organizational structure (including firm layoffs), investment strategy, portfolio design, or configuration of the investment team
- any litigation against the firm or any individuals at the firm, any suspensions of professional licenses, and any investigations by regulatory agencies
- Calculation of estimated net asset value on a monthly basis, with a summary of discrepancies, if any, with the Fund Sponsor's custodian bank outstanding more than 90 days (applicable to hedge fund commingled accounts)
- Disclosure of any positions of financial market leverage, such as cash borrowings or derivatives exposure, created directly by Investment Manager with a notional amount greater than 10% of total fund assets
- In a fund of funds commingled account vehicle, identification of any underlying managers with a market value greater than 3% of total fund assets

Written quarterly reports are to be submitted after the end of each quarter (September 30<sup>th</sup>, December 31<sup>st</sup>, March 31<sup>st</sup>, and June 30<sup>th</sup>) within the deadline required by the commingled fund's legal and operational documents unless the commingled account manager and the System agree to a different deadline. Unless the System's Executive Director or Deputy Director otherwise directs the commingled account, reports will be mailed directly to the members of the Board, the System's Executive Director, Deputy Executive Director, and Accounting Manager. The System will supply each Investment Manager with current mailing lists. When necessary, revised lists will be sent to each Investment Manager.

Commingled fund managers should note that the System operates on a fiscal year basis, from July 1<sup>st</sup> through June 30<sup>th</sup>; therefore, performance reports should include information on a fiscal year basis either from the commingled fund's investment manager or as prepared by the Board's outside investment advisor.

### **C. Annual Most-Favored Nation Fee Compliance Report**

On July 1 of each year, the commingled account manager shall certify, by letter of its legal counselor or compliance officer, compliance with any most-favored nation fee clauses applicable to the System's investment in the account.

### **D. Performance Review Presentation before the Board of Trustees**

It is the Board's intention to formally review a commingled account's performance on a

periodic basis. Commingled account investment managers are expected to personally appear annually, or at the Board's request, at regular monthly or special meetings of the Board to discuss performance results, economic outlook, investment strategy, organizational changes, and other pertinent matters.

In a month when a commingled account investment manager is scheduled to personally appear before the Board, the written quarterly reports are to be mailed directly to the members of the Board of Trustees, the Executive Director, the Deputy Executive Director, and the Accounting Manager at least one week in advance of the appearance date.

Ten additional copies of the reports should also be mailed to the System one week prior to the appearance date. If the additional copies cannot be delivered in this manner, then the reports can be personally delivered on the appearance date. The additional copies are only required for review meetings with the Board and are not required any other time.

## **VII. AMENDMENTS**

If at any time these objectives cannot be met, or these guidelines constrict performance, the Board should be notified in writing. Commingled account managers are encouraged to suggest changes to these guidelines at any time.