



DATE: November 5, 2020
SUBJECT: Proposed Revisions to Investment Policy Statement
TO: Members of the Board
FROM: Joseph W. Sheva, CPA, FRM *JWS*
Senior Risk and Compliance Manager

At the November Board meeting, the Investment Office (IO) will recommend that the Board adopt the Investment Policy Statement (IPS) revisions to sections VI. Asset Allocation and VII. Performance Objectives as presented in greater detail below.

The IO believes that by the Board adopting the recommended new asset allocation (“New AA”), the Board establishes the appropriate direction to the IO in order to achieve its investment objectives as provided within Aon’s Asset Liability Study.

As shown in the IPS, the current asset allocation (“Current AA”) will remain in effect until the completion of the transition to the New AA. The IO has established a goal of no later than April 1, 2021 for the full transition to the New AA high level exposures (Equity, Fixed Income, Real Asset, etc.) to be completed, recognizing that the transition from the Current AA to the New AA should be prudent and deliberate. The transition for private asset classes to the new target allocation is expected to occur over the next three years through revised pacing schedules. Any over (under) weights to private asset classes will result in an under (over) weight to the corresponding public market asset class.

The IO will provide a progress update at the December 2020 and March 2021 Board meetings on the transition. During those meetings, the IO will present which, if any, components of the New AA are not prudently achievable by April 1, 2021.

VI. Asset Allocation:

The IO and Aon recommend the following changes to the Target Asset Allocation. Aon’s Asset Liability Study and presentation at the November Board meeting will cover the changes below in detail, including overarching themes for the recommended changes such as improving the following:

- i) the probability of meeting the actuarial assumed rate of the System,
- ii) the liquidity profile of the Plan by reducing the allocation to illiquid assets by 6% from 44% to 39%.

| ASSET CLASS | TARGET ALLOCATION | | |
|------------------------------|-------------------|----------------|----------------|
| | Current | New | Changes |
| Equity Exposure | 34.00% | 39.00% | 5.00% |
| Public Equity: | 19.00% | 27.00% | 8.00% |
| U.S. Equity | 7.10% | 11.00% | 3.90% |
| Non-U.S. Equity: | 11.90% | 16.00% | 4.10% |
| Private Equity: | 15.00% | 12.00% | -3.00% |
| Fixed Income Exposure | 42.00% | 35.00% | -7.00% |
| Public Fixed Income | 32.00% | 27.00% | -5.00% |
| Investment Grade | 12.00% | 8.00% | -4.00% |
| Credit-Related | 1.00% | 4.00% | 3.00% |
| Inflation Protected | 19.00% | 15.00% | -4.00% |
| Private Fixed Income | 10.00% | 8.00% | -2.00% |
| Private Credit | 10.00% | 8.00% | -2.00% |
| Real Asset Exposure | 26.00% | 28.00% | 2.00% |
| Public Real Assets | 17.00% | 17.00% | 0.00% |
| Infrastructure | 5.00% | 4.00% | -1.00% |
| Commodities | 10.00% | 10.00% | 0.00% |
| Real Estate | 2.00% | 3.00% | 1.00% |
| Private Real Assets | 9.00% | 11.00% | 2.00% |
| Infrastructure | 1.00% | 4.00% | 3.00% |
| Real Estate | 8.00% | 7.00% | -1.00% |
| Risk Parity | 0.00% | 0.00% | 0.00% |
| Absolute Return | 10.00% | 8.00% | -2.00% |
| Net Leverage | -12.00% | -10.00% | 2.00% |
| Cash | 6.00% | 3.00% | -3.00% |
| Explicit Leverage | -18.00% | -13.00% | 5.00% |
| | 100.00% | 100.00% | 100.00% |

VII. Performance Objectives

The Investment Office and Aon recommend the following changes to the Policy Benchmark.

The changes to the Target Asset Allocation noted above are shown at a higher level, useful in establishing tolerance bands for asset classes, while the Policy Benchmark has more granularity to clearly communicate the overarching return expectations, along with a significant amount of the risk appetite, of the Target Asset Allocation. At this more granular level, the IO and Aon recommend the following changes, as determined by Aon's Asset Liability Study:

| | Benchmark Policy Weights | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|---------------|---------------|
| | Current | New | Change |
| Equity Exposure | 34.00% | 39.00% | 5.00% |
| Public Equity: | 19.00% | 27.00% | 8.00% |
| S&P 500 TR Index (75%), S&P MidCap 400 TR Index (12.5%), S&P Small Cap 600 TR Index (12.5%) | 7.10% | 11.00% | 3.90% |
| MSCI ACWI ex USA IMI with Developed Market Currencies (25% Hedged to USD) Net TR Index | 10.40% | 12.50% | 2.10% |
| MSCI Emerging Markets IMI Net TR Index | 1.50% | 3.50% | 2.00% |
| Private Equity: | 15.00% | 12.00% | -3.00% |
| Burgiss TR, one-quarter lagged ² | 15.00% | 12.00% | -3.00% |
| Fixed Income Exposure | 42.00% | 35.00% | -7.00% |
| Public Fixed Income: | 32.00% | 27.00% | -5.00% |
| Investment Grade | | | |
| Bloomberg Barclays US Aggregate Bond TR Index | 4.00% | 1.00% | -3.00% |
| Bloomberg Barclays GDP Global Aggregate Bond Developed Market ex US TR Index (Hedged to USD) | 0.00% | 0.00% | 0.00% |
| Bloomberg Barclays U.S. Long Treasury TR Index | 8.00% | 7.00% | -1.00% |
| Credit-Related | | | |
| J.P. Morgan GBI-EM Broad Diversified Index (34%), J.P. Morgan EMBI Global Diversified Index (33%), ICE BofAML EM Corporate Plus Index (Hedged to USD) (33%) | 1.00% | 2.00% | 1.00% |
| Bloomberg Barclays US Corporate High Yield Bond Index | 0% | 2.00% | 2.00% |
| Inflation Protected | | | |
| Bloomberg Barclays US Government Inflation-Linked Bond All Maturities TR Index | 9.50% | 12.00% | 2.50% |
| Bloomberg Barclays World Government ex US Inflation-Linked Bond All Maturities TR Index (Hedged to USD) | 9.50% | 3.00% | -6.50% |
| Private Fixed Income: | 10.00% | 8.00% | -2.00% |
| Credit-Related | | | |
| S&P LSTA Leveraged Loan TR Index + 200bps | 10.00% | 8.00% | -2.00% |

Continued

| | Benchmark Policy Weights | | |
|-------------------------------------------------------------------------------------------|--------------------------|----------------|---------------|
| | Current | New | Change |
| Real Asset Exposure | 26.00% | 28.00% | 2.00% |
| Public Real Assets: | 17.00% | 17.00% | 0.00% |
| Infrastructure | | | |
| Alerian Midstream Energy TR Index | 1.00% | 0.00% | -1.00% |
| FTSE Developed Core Infrastructure 50/50 Net TR Index (Hedged to USD) | 4.00% | 4.00% | 0.00% |
| Commodities | | | |
| Bloomberg Commodity TR Index | 6.00% | 3.00% | -3.00% |
| Bloomberg Gold TR Subindex | 4.00% | 7.00% | 3.00% |
| Real Estate | | | |
| FTSE EPRA/NAREIT Developed, Net TR Index (Hedged to USD) | 2.00% | 3.00% | 1.00% |
| Private Real Assets: | 9.00% | 11.00% | 2.00% |
| Infrastructure | | | |
| FTSE Developed Core Infrastructure 50/50 Net TR Index (Hedged to USD), one-quarter lagged | 1.00% | 4.00% | 3.00% |
| Real Estate | | | |
| NFI and Burgiss TR, one-quarter lagged ³ | 8.00% | 7.00% | -1.00% |
| Risk Parity | 0.00% | 0.00% | 0.00% |
| Custom Benchmark ⁵ | 0.00% | 0.00% | 0.00% |
| Absolute Return | 10.00% | 8.00% | -2.00% |
| HFRI Fund of Funds Conservative Index + 100bps | 10.00% | 8.00% | -2.00% |
| Net Leverage | -12.00% | -10.00% | 2.00% |
| Cash | | | |
| ICE BofAML 0-3 Month US Treasury Bill Index | 6.00% | 3.00% | -3.00% |
| Financing Cost of Leverage⁶ | | | |
| ICE LIBOR 3 Month Index | -18.00% | -13.00% | 5.00% |
| TOTAL | 100.00% | 100.00% | 0.00% |

A redlined and clean copy of the above recommendations within the IPS, along with Aon's Asset Liability Study, Stress Test and Liquidity presentations and a Bridgewater presentation entitled "Perspectives on Asset Allocation Alternatives" have been included in the Board package for your review.

Please contact me at 717-720-4632 with any questions.