

**City of Ann Arbor**  
**Employees' Retirement System**  
**&**  
**Retiree Health Care**  
**Benefit Plan & Trust**

**REQUEST FOR PROPOSAL**

**INVESTMENT CONSULTANT SERVICES**

<b>RFP Issue Date:</b>	<b>June 18, 2025</b>
<b>Questions Due to Retirement System:</b>	<b>July 7, 2025</b>
<b>Proposals Due to Retirement System:</b>	<b>July 31, 2025</b>
<b>Anticipated Date for Finalist Interviews:</b>	<b>October 16, 2025</b>

**– REQUEST FOR PROPOSAL –**

**City of Ann Arbor Employees' Retirement System  
&  
Retiree Health Care Benefit Plan & Trust**

The Board of Trustees of the City of Ann Arbor Employees' Retirement System and the Board of Trustees of the City of Ann Arbor Retiree Health Care Benefit Plan & Trust (collectively the "Board") intend to secure a contract for investment consultant services. The purpose of this Request for Proposal (RFP) is to define the Board's minimum requirements, solicit proposals and to gain adequate information from which the Board may evaluate such services.

Requests for Proposal will be received by the City of Ann Arbor Employees' Retirement System, at 532 S. Maple Rd., Ann Arbor, MI 48103 until 5:00 p.m. (Eastern Standard Time) on July 31, 2025. The sealed proposal must be marked "Investment Consultant Services – Employees' Retirement System".

All inquiries must be submitted in writing to:

Wendy Orcutt, Executive Director   worcutt@a2gov.org   (734) 794-6710

The RFP for the Retirement System and Retiree Health Care Benefit Plan & Trust are available on the CAAERS' website at

<http://www.a2gov.org/departments/retirement-system/Pages/default.aspx>

The System reserves the right to reject any and all submittals and to waive irregularities and informalities in the submittal and evaluation process. This RFP does not obligate the System to pay any costs incurred by respondents in the preparation and submission of a RFP. Furthermore, the RFP does not obligate the System to accept or contract for any expressed or implied services.

Wendy Orcutt  
Executive Director

**City of Ann Arbor Employees' Retirement System**

**Investment Consultant Services**

**Request for Proposal**

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# SECTION 1

## General Information

### A. PLAN PROFILE

The City of Ann Arbor Employees' Retirement System ("Retirement System") is a hybrid type retirement plan consisting of both a defined benefit component and defined contribution (401a) component. Retirement System membership consists of approximately 740 active and 1300 retired members and has total assets of over \$638,770,094 as of 04/30/2025. The Retirement System's defined benefit portfolio consists of approximately 12% fixed income, 43% common stock, 22% foreign stock, 21 % real estate/alternatives, and 2% cash.

The City of Ann Arbor Retiree Health Care Benefit Plan & Trust consists of approximately 740 active and 1100 retired members and has assets of over \$288,155,685 as of 04/30/2025. The Retiree Health Care Plan's portfolio consists of approximately 18% fixed income, 41% common stock, 19% foreign stock, 19% real estate/alternatives, and 3% cash.

The Retirement System and Retiree Health Care Benefit Plan & Trust are collectively referred to as the "System."

The Board of Trustees of the System are also responsible for investment oversight of the City of Ann Arbor 457 Deferred Compensation Plan and 401a Dual Plan which has total assets of approximately \$ 110,900,000 and \$9,200,000 respectively, as of 3/31/2025.

Please note: this RFP is for services related to the Defined Benefit Portfolio and Retiree Health Care assets ONLY.

### B. ADMINISTRATION OF SYSTEMS

The general administration, management and responsibility for the proper operation of the Retirement and Healthcare System for making effective and construing the provisions of the Systems' Ordinances adopted pursuant to the City Charter is vested in the Board of Trustees. The Board consists of nine Trustees as follows:

One Trustee is elected by the police members from their own number (including retirees);

One Trustee is elected by the fire members from their own number (including retirees).

One Trustee is elected by the general city members from their own membership (general City members being members other than uniform police and fire members) including retirees;

Five Trustees are appointed by the City Council and serve at the pleasure of the Council;

The Chief Finance Officer serves by virtue of their office.

### C. ADMINISTRATIVE STAFF TO THE BOARD

The Board's administrative staff consists of an Executive Director, Pension Analyst, Office Manager and Accountant.



### **RFP Coordinator**

Upon release of this RFP, all communications concerning this information request should be directed to Wendy Orcutt (Executive Director). Any oral communications will be considered unofficial and non-binding on the System. Interested firms (the term "firm" as used throughout this RFP includes sole practitioners) should rely only on written statements issued by the RFP Coordinator. Interested firms or persons who wish to ask questions regarding this RFP must submit written questions to the RFP Coordinator by July 7, 2025.

Name: Wendy Orcutt, Executive Director

Address: City of Ann Arbor  
Employees' Retirement System  
532 S. Maple Rd.  
Ann Arbor, MI 48103

Telephone: (734) 794-6710 Fax: (734) 994-9205

E-mail: worcutt@a2gov.org

## **SECTION 2**

## Requirements

### A. MINIMUM QUALIFICATIONS

The Investment Consultant must have a minimum of twenty (20) years' experience in providing investment consulting services. The Investment Consultant must be a registered investment advisor under the Investment Advisors Act of 1940. The Investment Consultant will be required to acknowledge its responsibilities as a fiduciary under Michigan Public Act 314 of 1965, as amended. If you are affiliating or partnering with a national firm, or are a local office of a national firm, the minimum qualification requirements herein must be satisfied by the individual or entity submitting this response. The Investment Consultant must attend monthly meetings of the Board's Investment Policy Committee, as well as special meetings upon request by the Board, at no additional cost to the System.

### B. SCOPE OF SERVICES

The primary role of the Board's Investment Consultant is to provide objectives, third-party advice and counsel that will enable the Board to make well-informed and well-educated decisions regarding the investment of the System's assets.

Contractual services for investment consulting will include, but not be limited, to the following:

1. Development of Investment Policy, Objectives and Guidelines. Assist the Board in the development and periodic review of a policy statement that properly reflects the Board's tolerance for risk and that best helps the Board meet its rate-of-return goals, funded status and administrative expense objectives. \*Please see Attachment C the current IPS.
2. Asset Allocation Studies. Conduct an asset allocation study to determine whether the current asset allocation falls within the Board's investment objectives and guidelines.
3. Investment Manager Search. When deemed necessary, assist the Board in its due diligence and search for new investment manager(s) utilizing an appropriate data base.
4. Development of Investment Manager Performance Standards/Guidelines. Assist the Board in the development and review of performance standards and guidelines with which the Board can measure each investment manager's performance.
5. General Consulting Services. Provide general consulting services as requested by the Board. These might include custodial search and selection, etc.
6. Performance Measurement & Monitoring. Monitoring the performance of the investment manager(s) to provide the Board with the ability to determine the progress toward the investment objectives.
7. Monitor Compliance with Act 314. Monitoring the investment of System's assets with regards to Michigan Public Act 314 of 1965, as amended, with written quarterly reports submitted to the Retirement Board.
8. Assist in Fund Diversification. Assist the Board in the development of an investment manager structure that provides adequate diversification with respect to the number and types of investment managers to be retained by the Board.

9. Meeting Attendance. Attend monthly Investment Policy Committee (IPC) meetings and special meetings as requested by the Board or IPC.

10. Education. Provide educational information for Board members and Staff to keep up-to-date on issues/trends, and attend appropriate Board planning sessions for more in depth discussions.

11. Provide all required services within reasonable fee levels. When responding to the attached Request for Proposal, the Board encourages you to describe the ways in which you believe your service capability is special or distinctive.

12. Staff Assistance/Miscellaneous Services: Assist System Staff as needed and coordinate with service providers such as the System's actuary, legal counsel, auditor and custodial bank. Be available to address Board questions from time to time.

13. Conversion Services/Experience: When responding to the attached Request for Proposal, the Board encourages you to describe the ways in which you believe your service capability is special or distinctive.

### **C. ORGANIZATION BACKGROUND**

1. How long has your company been in existence?

2. Is your organization a subsidiary, parent, or affiliate of any other firm? If so, please describe in detail. Also, do any of these affiliates provide any other retirement fund services such as investment management, actuarial work, etc.? If you provide more than one service, how do you protect against conflicts of interest? Have you ever included your own firm, affiliate or sponsored investment vehicle in a manager search you are conducting?

3. What is the number of full time employees in your firm? What is the location of your office in relation to Ann Arbor, Michigan? Provide a breakdown by classification (consultant, managerial, clerical, etc.) for both your national and local operation. If more than one office, how are consultants apprised of developments in the investment arena?

4. Please submit biographical profiles on the individual(s) who will be assigned to our account. Also, where are these individuals located? Who will attend review meetings?

5. How many investment professionals have left your company in the last three (3) years? How many support staff have left your company in the last three (3) years? Be specific as to experience, performance measurement, manager search, investment policy consulting.

6. How many accounts/clients have you gained in the last 3 years? How many accounts have you lost in the last three (3) years and why?

7. Please explain size, composition, and source of your performance measurement data base. What indices are used for relative comparisons? Were your software systems developed entirely in-house or purchased from outside sources? If you do not maintain databases, whose database do you use?

8. What public funds experience do you have? Provide a list of all public pension fund and retiree health care fund clients under contract to date. Please provide a minimum of 3 references by name of client, type of client, contact person, address and telephone number.

9. Why is your firm uniquely qualified to service our account?

10. Please describe your record retention policy and your systems backup process.
11. Please disclose formal or informal business relationships with investment managers or other service providers to pension trust funds.
12. Please describe the transition process when taking on a new client. Please discuss computer systems and data issues.

**D. INVESTMENT POLICY/ASSET ALLOCATION GUIDELINES**

1. Provide an outline of the principle steps you would follow when developing a statement of Investment Policy and Objectives. Does your investment policy and asset allocation analysis fully integrate liabilities with assets? How do you interface with the System's actuary?
2. How many meetings would be required with the Retirement Board? Who would attend from your firm and who else would be involved?
3. Provide an outline of the issues and items that would be covered in a typical policy statement.
4. What is your approach to development of asset allocation guidelines? Please describe this process in detail, including application of major variables (e.g. – risk tolerance, emerging liabilities, etc.).
5. What asset classes are included in your work? What asset classes are not included and why?
6. What geographic areas of the world do you consider appropriate for pension asset investments?
7. Does your approach include passive strategies such as indexation? If so, please describe.
8. Please describe your firm's Asset Liability Modeling (ALM) capabilities and related experience. Describe your interaction with client's actuary in this regard.

**E. INVESTMENT MANAGER SELECTION**

1. What is the procedure and criteria you will follow in the selection of new investment managers? And how long might the process take from start to finish?
2. How many firms do you track for manager search purposes? How many managers are typically included in final presentations from the total search data base?
3. Do the consultants assigned to our account actually interface with prospective managers? Is due diligence performed for all managers offices? If so, please explain your due diligence process. How are consultants apprised with respect to developments about managers?
4. What computer systems do you utilize to help in your manager screening? Which are purchased and which are proprietary?
5. Do you monitor your success in selecting managers? Explain how you measure the level of success of existing managers. Please be specific.
6. What criteria is used to recommend termination of a manager?
7. Do you believe that when a manager is not performing that the consultant who presented this manager also be held accountable? If so, how?

## **F. PERFORMANCE EVALUATION**

1. Specifically describe your performance evaluation system and the philosophy behind it. Is your system proprietary or did you obtain it from another supplier? Can you report gross of fees and net of fees?
2. How soon following the end of a reporting period can you have copies of evaluation reports to us? How frequently do you recommend performance evaluation reviews?
3. Provide samples of your standard reports. How much variation is available from your standard report?
4. Please explain size, composition, and source of your performance measurement data base. What indices are used for relative comparisons? If you do not maintain databases, whose database do you use? Describe and illustrate any special indices constructed by your firm.
5. Please describe, in detail, the optimal role that your firm would like to take in manager presentations to the Board. What other services are provided, such as custodian search.
6. Please provide 1 year, 3 year, 5 year and 10 year performance results on an annualized basis for a minimum of 5 public employee retirement system clients. If possible, these clients should include Michigan public employee plans. The performance results should be based upon the period in which you served as the investment consultant and include, at a minimum, total fund performance on an annualized basis as of December 31, 2024, with a comparison against the appropriate policy index. Said performance results may also include a breakdown of fund performance by asset class with the appropriate benchmark index and peer group rankings. Please identify each client by the size of its total plan assets, its asset allocation and the state in which it is located. You may also provide any appropriate commentary explaining over/under performance and your role in the investment process.
7. How does your firm report on a portfolio's risk position?

## **G. OTHER SERVICES**

1. Does your firm provide consulting services for Defined Contribution/Deferred Compensation Plans?

## **H. INSURANCE**

1. Describe the various types of insurance and indemnification provided to protect clients of service(s) proposed, including (Be sure to include specific dollar coverages):

- Errors and Omissions Coverage
- Risk Coverage
- Carriers
- Levels
- Limits
- Deductibles

## **I. OTHER ISSUES/MISCELLANEOUS**

1. Is your company a member of MAPERS? What other affiliations does your company maintain to keep apprised of unique issues and developments affecting public employee retirement systems?
2. Please provide all complaints against your firm received by the Securities and Exchange Commission and the National Association of Securities Dealers. Has your firm been involved in litigation within the last five years or is there any pending litigation arising out of your performance? If your answer is yes, explain fully.
3. Has your firm been investigated by any state or federal regulatory or law enforcement agency in the last ten years? If yes, please describe in detail the substance and results of each such investigation.
4. Has your organization been a party to any lawsuit, including suits involving misfeasance or professional negligence, within the last ten years? If so, please describe the substance and results of each suit.
5. Are you registered with the SEC or a state securities regulator as an investment adviser? If so, have you provided all the disclosures required under those laws?
6. Do you or a related company have relationships with money managers that you recommend, consider for recommendation, or otherwise mention to the plan for our consideration? If so, describe those relationships?
7. Do you or a related company receive any payments from money managers you recommend, consider for recommendation, or otherwise mention to the plan for our consideration? If so, what is the extent of these payments in relation to your other income (revenue)?
8. Do you have any policies or procedures to address conflicts of interest or to prevent these payments or relationships from being considered when you provide advice to your clients?
9. If you allow plans to pay your consulting fees using the plan's brokerage commissions, do you monitor the amount of commissions paid and alert plans when consulting fees have been paid in full? If not, how can a plan make sure it does not over-pay its consulting fees?
10. If you allow plans to pay your consulting fees using the plan's brokerage commissions, what steps do you take to ensure that the plan receives best execution for its securities trades?
11. Do you have any arrangements with broker-dealers under which you or a related company will benefit if money managers place trades for their clients with such broker-dealers?
12. Will you acknowledge in writing that you have a fiduciary obligation as an investment adviser to the plan while providing the consulting services we are seeking?
13. Do you consider yourself a fiduciary under ERISA with respect to the recommendations you provide the plan?
14. What percentage of your plan clients utilize money managers, investment funds, brokerage services or other service providers from whom you receive fees?

## **J. OTHER REQUIREMENTS**

Pre-Qualification: Inviting a proposal does not assume a "pre-qualification" of any proposer.

Proposal Preparation Cost: The Board will not be liable for any costs incurred in preparation of proposals.

Certification as to "Request for Proposal" Content: By submitting a proposal, the proposer certifies that he/she has fully read and understands the "Request for Proposal" and has full knowledge of the scope, nature, quantity, and quality of work to be performed. Unless specified to the contrary, submitting a proposal will be interpreted as agreement to all provisions in and requirements of the RFP.

Additional Information and Instruction: The Proposer shall furnish such additional information as the Board may reasonably require. The Board reserves the right to investigate the qualifications of all proposers as it deems appropriate.

Negotiations: The Board reserves the right to conduct pre-contract negotiations with any or all proposers.

Proposal Rejection: The Board reserves the right to reject any or all proposals, the right in its sole discretion to accept the proposal which it considers most favorable to the Board's interest, and the right to waive minor irregularities in the procedures. The Board further reserves the right to seek new proposals when such a procedure is in the System's best interest.

Proposals Binding for 6 Months: All proposals submitted shall be binding for 6 months following the above due date for receipt of proposals to allow for evaluation and award of contract.

Late Proposals: Proposals received by the Board after the time specified may be subject to disqualification in the Board's sole discretion.

Completeness: All information required by the Request for Proposal must be supplied. Failure to submit a complete proposal may result in the disqualification of your proposal.

Public Information: Please note that by participating in the RFP process, the proposer acknowledges and agrees that materials and information submitted are not confidential and may be available to the public.

The Board appreciates the time and effort you will have expended in responding to this RFP. Regardless of the outcome, the Board will be pleased to share with you its specific comments regarding the competitiveness of your RFP response.

# **ATTACHMENT A**

## **Submission Requirements**

To achieve a uniform review process and obtain the maximum degree of comparability, it is required that the proposal be organized in the following manner:

**1. Title Page:**

Please indicate the RFP subject, the name of your organization, address, telephone number, name of contact person and date.

**2. Table of Contents:**

Clearly identify the material by section and page number.

**3. Letter of Transmittal:**

Limit to one or two pages.

- a. Briefly state your organization's understanding of the nature of the work.
- b. Give the names of the persons who will be authorized to make presentations for your organization, their titles, addresses, and telephone numbers.

**4. Submission:**

- a. Please organize your responses in the same order as the questions are outlined in the RFP.
- b. The Board requests that a total number of two (2) complete sets of your proposal be submitted. Proposals must be presented in a sealed envelope clearly marked as follows:

RFP: Investment Consultant  
City of Ann Arbor Employees' Retirement System  
532 W. Maple Road  
Ann Arbor, MI 48103

An additional electronic PDF copy of your response on USB drive should be submitted to the Board as well.

Your response to this RFP must be received at the above address by 5:00 p.m. eastern time on July 31, 2025.

All inquiries about the RFP should be in writing and brought to the attention of the Executive Director, Wendy Orcutt at the address above.



## **ATTACHMENT B**

### **Fees**

1. Please indicate your fee schedule for investment performance analysis services, asset allocation, investment policy, manager search, custodial search, custodial services, etc. If your fee schedule is based on soft dollars, please also quote each service by type on a hard dollar basis. How often do your fees increase and what is the average percentage of the increase? Would your firm agree to a multi-year fee terms and if so, for how many years?
2. Would you charge separately for travel expenses? If so, explain in detail your policy.
3. What other costs or expenses might we incur with your firm?
4. Do you offer payment by cash on a pro rata quarterly basis billed in arrears?
5. If services are also quoted on a soft dollar basis, what is the cost in cents per share? What is the commission to cash conversion ratio? Also, how do you report to us on commissions received?
6. What percentage of typical equity managers trades do you feel should be used for client directed brokerage purposes?
7. Do you give credit for commissions received above services? What type of recapture is used for those excess commissions?

**ATTACHMENT C**  
**Investment Policy Statement (IPS)**

**CITY OF ANN ARBOR  
EMPLOYEES' RETIREMENT SYSTEM**

**INVESTMENT POLICY STATEMENT**

Effective  
May 31, 2025

The purpose of this document is to set forth the goals and objectives of the City of Ann Arbor Employees' Retirement System ("Retirement System"), and to establish guidelines for the implementation of investment strategy.

Any revisions to this document may be made only with the approval of the Board of Trustees of the Retirement System.

The Trustees of the Retirement System recognize that a stable, well-articulated investment policy is crucial to the long-term success of the Retirement System. As such, the Trustees have developed this Investment Policy Statement with the following goals in mind:

- To clearly and explicitly establish the objectives and constraints that govern the investment of the Retirement System's assets,
- To establish a long-term target asset allocation with a high likelihood of meeting the Retirement System's objectives given the explicit constraints, and
- To protect the financial health of the Retirement System through the implementation of this stable long-term investment policy.

## **I. Retirement System Goals**

The overall goal of the Retirement System is to provide retirement, survivor, and disability benefits to its members through the investment of contributions and other Retirement System assets, in accordance with the authorization and limitations prescribed by the State of Michigan Public Employee Retirement System Investment Act (Act 314 of 1965, as amended).

## **II. Investment Objectives**

The primary investment objective is to earn, over the long run, the approved actuarial rate of return of 6.7% on the total investment portfolio. In targeting such a return, the Retirement System will seek to:

- operate with a high degree of prudence,
- sufficiently diversify assets to reduce risk to the overall portfolio,
- consider fees appropriate to the various investment structures, and
- cultivate a motivated team of dedicated professionals.

It is understood that to meet the return objective of the fund, equity risk must be assumed.

## **III Roles and Responsibilities**

### **A: Responsibilities of the Board**

1. As the “named fiduciary” of the Retirement System, the Board has full discretion and authority in the management of the Retirement System’s assets.
2. The Board authorizes the creation of committees, including the Investment Policy Committee (IPC), to oversee the investments of the Retirement System.
3. The responsibilities include:
  - a. Establishment and development of an Investment Policy Statement, including the overall asset allocation policy, and the periodic review of the Investment Policy Statement and recommendation of modifications when necessary
  - b. Monitoring of overall investment performance and assessment of portfolio risk.
  - c. Selection, retention, monitoring, and termination of Investment Managers.

## **B: Responsibilities of the Investment Policy Committee**

1. The IPC will, in consultation with the Investment Consultant, monitor and review the investment performance of the Retirement System and the Investment Managers to determine the achievement of the performance objectives and adherence to the Investment Policy and Manager Guidelines
2. The IPC will, in consultation with the Investment Consultant, recommend asset allocation target changes and IPS changes to the Board.
3. The IPC will, in consultation with the Investment Consultant, provide recommendations to the Board for selection, retention, and termination of Investment Managers and other service providers such as transition managers, commission recapture brokers, and proxy voting services.
4. The IPC will, in consultation with the Investment Consultant, evaluate and perform periodic due diligence on the Investment Managers in the Retirement System.
5. The IPC may make transfers and rebalances among asset classes and Investment Managers, as long as such transfers do not result in violation of the asset allocation policy.

### **a. Rebalancing When an Asset Class is Outside of its Target Range**

The IPC, after consultation with the Investment Consultant, may instruct the Executive Director to rebalance allocations within the specified target ranges. The Executive Director will work with the Investment Consultant to implement the rebalancing, while taking into consideration both risks and transaction costs.

### **b. Rebalancing When an Asset Class is Within its Target Range**

Rebalancing within target ranges may introduce an element of tactical asset allocation. The IPC, after consultation with the Investment Consultant, may instruct the Executive Director to rebalance allocations within the specified target ranges. The Executive Director will work with the Investment Consultant to implement the rebalancing, while taking into consideration both risks and transaction costs.

### **C: Responsibilities of the Executive Director**

The Executive Director has been delegated the responsibility for the oversight of the Retirement System. The Executive Director's responsibilities include:

1. To keep the Board informed of any significant events that impact the Retirement System and recommend changes in approved policy, guidelines and objectives, as appropriate.
2. To provide the day-to-day oversight of the office operations.
3. To act as the primary contact between the Board, the members, the Managers, the Consultant, the Actuary, the Auditors, the Attorney and legal representation, the Custodian, and any other parties involved in the management of the Retirement System's assets.
4. To perform any other duties as may be described in this policy, applicable State and Federal laws, or as delegated by the Board.
5. The Board delegates the Executive Director the authority to rebalance under the scenario below.

**Liquidity Need** (i.e., for payment of the ongoing administrative expenses of the Retirement System and/or payment of benefits).

The schedule of the cash flows will be reviewed quarterly at IPC meetings. As necessary, the Executive Director will work with the Investment Consultant to identify appropriate sources of cash, within each asset class's target allocation and liquidity. The Executive Director shall have the authority to act upon recommendations from the Investment Consultant.

### **D: Responsibilities of the Investment Consultant**

- The Board is advised by an independent third-party investment consulting and advisory firm. The Investment Consultant acknowledges its responsibilities as a "fiduciary" of the Retirement System and assists the Retirement System under Act 314 of 1965, as amended ("Act 314"). The Investment Consultant acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act. The Investment Consultant shall assist The Retirement System in striving to achieve the goals and objectives as stated in sections I and II and shall offer investment advice consistent with the investment objectives, policies, guidelines and constraints as established in this Investment Policy Statement.

- The Investment Consultant will provide advice and recommendations that will serve as a primary basis for the Board's decisions with respect to the investment of Fund assets, including the development of an investment policy, statement asset allocation strategy and investment manager structure.
- The Investment Consultant will monitor, on an ongoing basis, the performance of the Retirement System and its investment managers and assist the Board in interpreting the results. The Investment Consultant shall provide the Board with performance reports and ongoing quality control to assure that the Board's standards and investment objectives are maintained. Performance reports generated by the Investment consultant shall be compiled at least quarterly and communicated to the Board for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks.
- The Board's Investment Consultant shall monitor the investment of the Retirement System's assets with regards to the asset limitations under Act 314 and compliance with the Asset Allocation Targets and guidelines as established in Appendix C.
- The Investment Consultant will identify, evaluate and recommend the selection and termination of Investment Managers, as appropriate.

#### **E: Responsibilities of Investment Manager**

- Each Investment Manager acknowledges its responsibility as an investment fiduciary under Act 314. Each Investment Manager acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act. Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its control, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement.



- Each Investment Manager is expected to manage the Retirement System's assets in a manner consistent with the investment objectives, guidelines, and constraints in accordance with applicable State and Federal laws, including Michigan Public Act 314 of 1965, as amended.
- Each Investment Manager will manage the assets consistent with the investment objectives, guidelines, and constraints outlined in this Investment Policy Statement and the Manager Guidelines, which will be provided at the time of hire.
- The Investment Manager is responsible for communicating with the Board regarding all significant matters pertaining to the investment of the Retirement System's assets. The Board shall be kept apprised of substantive changes in investment strategy, asset mix, portfolio structure, and market value of the Retirement System's assets.

#### **F: Responsibilities of the Crisis Response Team**

The Board recognizes that, in rare instances, investment exigencies or another type of Crisis (as defined in the Crisis Response Document attached in appendix D) may arise, which may require urgent action between regularly scheduled meetings of the Board. To properly address and react to such instances in a timely manner, the Board hereby delegates crisis-related decision making to a "Crisis Response Team" (CRT), which will determine the appropriate course of action.

The Crisis Response Team will have the authority to take any necessary action as shall be recommended by the Investment Consultant between regular meetings of the Board at any time that a Crisis occurs. All decisions of the Crisis Response Team must be agreed to by all members of the Crisis Response Team (or their alternates), and will be deemed to be final and binding on all parties (without any further action of the Board).

### **IV. Investment Constraints**

#### **A. Legal and Regulatory**

The Trustees intend that the assets of the Retirement System at all times are invested in accordance with the provisions of Michigan State laws and, specifically, the State of Michigan Public Employee Retirement System Investment Act (Act 314 of 1965, as amended). The Trustees will retain legal counsel when appropriate to review contracts and provide advice with respect to applicable statutes and regulations.

## **B. Time Horizon**

The Retirement System will be managed on an on-going concern basis. The assets of the Retirement System will be invested with a long-term time horizon (twenty years or more), consistent with the participant demographics and the purpose of the Retirement System.

## **C. Liquidity**

The Trustees intend to maintain sufficient liquidity to meet at least three years of anticipated beneficiary payments. Additionally, the Investment Consultant will periodically conduct analyses to ensure sufficient liquidity to meet all financial obligations of the Retirement System and to minimize the potential of distressed selling.

## **D. Tax Considerations**

The Retirement System is a tax-exempt entity. Therefore, investments and strategies will be evaluated on a basis that is indifferent to taxable status, except where the prospect of Unrelated Business Taxable Income (UBTI) is a concern.

## **V. Risk and Return Considerations**

The Trustees accept the risks associated with investing in the capital markets (market risks), but will minimize wherever possible those risks for which the Retirement System is unlikely to be compensated (non-market or diversifiable risks).

## **VI. Diversification**

The Trustees of the Retirement System recognize that an important element of risk control is diversification. Therefore, investments will be allocated across multiple classes of assets, chosen in part for the expected correlation of their returns. Within each asset type, the Trustees will seek to distribute investments across many individual holdings, thus expecting to further reduce volatility. In addition, each investment manager's guidelines will specify the largest permissible investment in any one asset, and will set other diversification requirements.

## **VII. Asset Allocation**

The Trustees recognize that the allocation of monies to various asset classes will be the major determinant of the Retirement System's return and risk experience over time. Therefore, the Trustees will allocate investments across those asset classes that, based on historical and expected returns and risks, provide the highest likelihood of meeting the Retirement System's investment objectives.

### **A. Permissible Asset Classes**

Because investment in any particular asset class may or may not be consistent with the objectives of the Retirement System, the Trustees have specifically indicated in Appendix A those asset classes that may be utilized when investing the Retirement System's assets.

### **B. Expected Returns, Risks, and Correlations for Permissible Asset Classes**

The risk and return behavior of the Retirement System will be driven primarily by the allocation of investments across asset classes. In determining the appropriate allocation, the expected return and risk behavior of each asset class and the likely interaction of various asset classes in a portfolio are to be considered. Appendix B lists the expected return, volatility, and correlations for each permissible asset class.

### **C. Long-Term Target Allocations**

Based on the investment objectives and constraints of the Retirement System, and on the expected behavior of the permissible asset classes, the Trustees will specify a long-term target allocation for each class of permissible assets. These targets will be expressed as a percentage of the Retirement System's overall market value, surrounded by a band of permissible variation resulting from market forces.

The long-term target allocations are intended as strategic goals, not short-term imperatives. Thus, it is permissible for the overall Retirement System's asset allocation to deviate from the long-term target, as would likely occur during manager transitions, asset class restructurings, and other temporary changes in the Retirement System. Deviations from targets that occur due to capital market changes are discussed below.

The Retirement System's target allocations and ranges for all permissible asset classes are shown in Appendix C.

#### **D. Rebalancing**

In general, cash flows to and from the Retirement System will be allocated in such a manner as to move each asset class toward its target allocation.

The Trustees recognize that, periodically, market forces may move the Retirement System's allocations outside the target ranges. The Trustees also recognize that failing to rebalance the allocations would unintentionally change the Retirement System's structure and risk posture. Consequently, the Trustees have established the following process to rebalance the allocations periodically.

Periodically, if any strategic allocation is outside the specified target range, assets will be shifted to return the strategy to within the target range. The specific plan for rebalancing will identify those assets that can be shifted at the lowest possible risk and cost, if the rebalancing cannot be accomplished solely by allocating contributions and withdrawals.

#### **VIII. Review of Investment Policy, Asset Allocation, and Performance**

The Investment Policy Statement will be reviewed periodically to ensure that the objectives and constraints remain relevant. However, the Trustees recognize the need for a stable long-term policy for the Retirement System, and major changes to this policy statement will be made only when significant developments in the circumstances, objectives, or constraints of the Retirement System occur.

The asset allocation of the Retirement System will be reviewed on an on-going basis, and at least annually. When necessary, such reviews may result in a rebalancing of asset allocations. In general, the Trustees intend that the Retirement System will adhere to its long-term target allocations, and that major changes to these targets will be made only in response to significant developments in the circumstances, objectives, or constraints of the Retirement System or in the capital market opportunities.

The Trustees will specifically evaluate the performance of the Retirement System relative to its objectives and to the returns available from the capital markets during the period under review. In general, the Trustees will utilize relative, rather than absolute, returns in evaluating performance. The total performance of the Retirement System will be evaluated relative to the investment objectives and constraints identified in this investment policy statement. Specifically, the total Fund performance will be evaluated relative to a "custom benchmark" that weights the returns of available market indices on the basis of the Retirement System's target investment structure, to assess the implementation of the Retirement System's investment strategy.

## **IX. Investment Costs**

The Trustees intend to monitor and control investment costs at every level of the Retirement System.

- Professional fees will be negotiated whenever possible.
- Where appropriate, passive portfolios will be used to minimize management fees and portfolio turnover.
- If possible, assets will be transferred in-kind during manager transitions and Retirement System restructurings to eliminate unnecessary turnover expenses.
- Managers will be instructed to minimize brokerage and execution costs.

## **X. Voting of Proxies**

The Trustees recognize that the voting of proxies is important to the overall performance of the Retirement System. The Trustees have delegated the responsibility of voting all investment proxies to the investment managers. The Trustees expect that managers will execute all proxies in a timely fashion. Also, the Trustees expect the managers to provide a full accounting of all proxy votes, and upon request, a written explanation of individual voting decisions.

For all proxies that could not otherwise be voted by an investment manager, such as those related to governance of the manager's investment vehicle, the Trustees delegate the responsibility to the Investment Policy Committee.

## **XI. Investment Manager Guidelines**

The Investment Consultant and the IPC will provide specific Manager Guidelines for each investment manager in the Retirement System. The Board acknowledges that commingled investment vehicles and mutual funds will be managed in accordance to the policies outlined in the funds' prospectus or similar governing documents.

This Investment Policy Statement is hereby found acceptable to the Trustees, and the Trustees hereby adopt this Investment Policy Statement effective as of May 31, 2025.

TRUSTEE



Name: Jeremy Flack

TRUSTEE



Name: Anthony DiGiovanni

This Investment Policy Statement is hereby acknowledged and accepted by the Investment Consultant, effective as of May 31, 2025.

MEKETA INVESTMENT GROUP



Name: Keith Beaudoin

Title: Consultant & Managing Principal

**APPENDIX A**  
**PERMISSIBLE ASSET CLASSES**

Asset Class
Public Domestic Equity
Public Developed Foreign Equity
Emerging Market Equity
Private Equity
Investment Grade Bonds
TIPS
High Yield Bonds
Bank Loans
Emerging Market Debt
Real Estate
Real Estate Debt
Natural Resources
Infrastructure
Private Debt
Hedge Funds

**APPENDIX B**  
**Meketa Investment Group 2025 Annual Asset Study**  
**Twenty-Year Annualized Return and Volatility Expectations for Major Asset Classes**

Asset Class	Expected Return (%)	Expected Standard Deviation (%)
Public Domestic Equity	8.4	17.0
<b>Public Developed Foreign Equity</b>	8.7	18.0
Emerging Market Equity	8.7	22.0
<b>Private Equity</b>	11.2	25.0
Investment Grade Bonds	5.3	4.0
<b>TIPS</b>	5.0	7.0
High Yield Bonds	7.1	11.0
<b>Bank Loans</b>	6.8	10.0
Emerging Market Debt	7.1	12.0
<b>Real Estate</b>	8.5	15.0
Real Estate Debt	5.8	10.0
<b>Natural Resources</b>	9.2	24.0
Infrastructure	9.2	18.0
<b>Private Debt</b>	9.1	15.0
Hedge Funds	6.0	7.0



## APPENDIX B

### CORRELATION EXPECTATIONS FOR MAJOR ASSET CLASSES<sup>1</sup>

	Investment Grade Bonds	TIPS	Public Domestic Equity	Public Foreign Equity	Emerging Market Equity	Private Equity	Real Estate	Private Debt	Infrastructure	Natural Resources
<b>Investment Grade Bonds</b>	1.00									
<b>TIPS</b>	0.77	1.00								
<b>Public Domestic Equity</b>	0.18	0.25	1.00							
<b>Public Foreign Equity</b>	0.28	0.34	0.87	1.00						
<b>Emerging Market Equity</b>	0.26	0.35	0.71	0.85	1.00					
<b>Private Equity</b>	0.00	0.03	0.90	0.83	0.79	1.00				
<b>Real Estate</b>	0.26	0.16	0.53	0.49	0.42	0.48	1.00			
<b>Private Debt</b>	0.07	0.16	0.71	0.69	0.64	0.72	0.53	1.00		
<b>Infrastructure</b>	0.31	0.32	0.64	0.68	0.59	0.51	0.61	0.52	1.00	
<b>Natural Resources</b>	0.10	0.12	0.66	0.62	0.62	0.56	0.51	0.43	0.65	1.00

<sup>1</sup> Based on Meketa Investment Group's 2025 Asset Allocation Study.

**APPENDIX C**  
**ASSET ALLOCATION TARGETS**  
Adopted in May 2025

	<b>Target</b>	<b>Range</b>	<b>Policy Benchmark</b>
Domestic Equity	33%	28% to 38%	Russell 3000
Developed Foreign Equity	12.5%	7% to 15%	MSCI EAFE
Emerging Markets Equity	6.5%	0% to 10%	MSCI EM
Private Equity	7%	0% to 10%	Russell 3000 + 3% <sup>1</sup>
Investment Grade Bonds	12%	8% to 24%	Barclays Aggregate
Private Debt	7%	0% to 10%	Credit Suisse Leveraged Loans +1.5%
Real Estate	8%	2% to 12%	NCREIF ODCE EW
Real Estate Debt	1%	0% to 3%	Cambridge Associates Non-Core Real Estate
Natural Resources	3%	0% to 5%	DJ-UBS Commodity
Infrastructure	7%	0% to 10%	DJ Brookfield Global Infrastructure
High Yield Bonds	0%	0% to 5%	Barclays High Yield
Bank Loans	0%	0% to 4%	CSFB Leveraged Loan
Hedge Funds	0%	0% to 5%	HFRI Fund Weighted
TIPS	3%	0% to 10%	Barclays U.S. TIPS
Emerging Market Debt	0%	0% to 4%	JPM GBI-EM Global Div.
Cash	0%	< 5%	NA

<sup>1</sup> Lagged one quarter

The Board recognizes that, in rare instances, investment exigencies or another type of Crisis (as defined below) may arise, which may require urgent action in between regularly scheduled meetings of the Board. To properly address and react to such instances in a timely manner, the Board hereby delegates crisis-related decision making to a “Crisis Response Team” (CRT), which will determine the appropriate course of action. Upon notification to the CRT from the Investment Consultant regarding a Crisis and the need for an appropriate response, the CRT will determine if a Board Meeting is appropriate given the nature and circumstances of the crisis. It is understood that the CRT will utilize reasonable efforts to contact the individual Board members and convene a full Board meeting in accordance with the Open Meetings Act to manage the Crisis. However, the Board recognizes that it may not be feasible to arrange for a special meeting of the Board in light of the nature of the Crisis, the notice requirements of the Open Meetings Act and/or the availability of Board Trustees. In the event the CRT determines that a Board Meeting is not prudent under the circumstances, the Board by the adoption of this policy authorizes the CRT to take any and all actions necessary to manage and address the Crisis.

The Crisis Response Team shall consist of three (3) members: the Chairperson and Vice-Chairperson of the Investment Policy Committee (IPC) and the Retirement Board Chairperson. In the event one (1) or more of the Crisis Response Team members are unavailable to participate in any decision necessary in response to a Crisis, the following alternates (in order of preference) shall serve on the Crisis Response Team (unless already serving by virtue of serving as the Chair or Vice-Chair of the IPC): the Board Vice-Chair; the APC Chairperson; the Audit Committee Chairperson; or any other Board member. The Executive Director has an important role in supporting the Crisis Response Team and facilitating any required actions.

In the event that the Investment Consultant is of the opinion that a Crisis exists, the Investment Consultant will (i) identify and describe the precise nature of the crisis or emergency; and (ii) notify all Board members, the Executive Director and the Crisis Response Team, including the alternate members, via email and telephone if necessary, regarding the situation and provide a written recommendation for action.

A “Crisis” is an event that warrants immediate action to ensure that Retirement System’s assets are protected as determined by the Investment Consultant with the unanimous concurrence of the Crisis Response Team. Examples of a Crisis include, but are not limited to, the following:

- (a) The departure of one or more critical members of an Investment Manager’s, Commingled Fund’s, Alternative Investment Fund’s, Custodian’s, or Investment Consultant’s professional service team.
- (b) A lawsuit, government investigation or audit, or other major event involving an Investment Manager, Commingled Fund, Alternative Investment Fund, the Custodian or the Investment Consultant.
- (c) The occurrence of war, terrorism, a natural disaster, or other event materially affecting Retirement System’s assets or the investment thereof.

The Crisis Response Team will have the authority to take any necessary action as shall be recommended by the Investment Consultant between regular meetings of the Board at any time that a Crisis occurs. All decisions of the Crisis Response Team must be agreed to by all members of the Crisis Response Team (or their alternates), and will be deemed to be final and binding on all parties (without any further action of the Board).

Following any such decision(s), prompt notice, including the initial written recommendation from the Investment Consultant, shall be given by the Executive Director to the Board concerning:

- (a) the nature and scope of the crisis;
- (b) its potential economic impact on the Retirement System's portfolio;
- (c) the method of resolution; and
- (d) the specific rationale(s) supporting the decision.

Approved by the Board of Trustees: November 19, 2020

**CITY OF ANN ARBOR  
EMPLOYEES' RETIREMENT SYSTEM**

**INVESTMENT POLICY STATEMENT  
ADDENDUM**

July 1, 2023

## I. Rebalancing Plan

Rebalancing the portfolio to the desired asset allocation during periods of heightened volatility is an important part of managing the overall asset allocation of the portfolio. The IPC has adopted a process that addresses the steps to be taken during such events.

### Rebalancing Process During a Market Drawdown

Market Drawdown	Step 1 Action to be Taken	Step 2 The Conference Call	Proposed Rebalancing Plan
Approaching 15%	<ul style="list-style-type: none"> <li>As the drawdown approaches 15%, the Investment Consultant will initiate a call with IPC members or a sub-set of designated members.</li> <li>The Executive Director will post the call on the website to ensure adherence to the Open Meeting Notice Policy.</li> </ul>	<ul style="list-style-type: none"> <li>Call with IPC members or designated subset of the IPC</li> <li>The conference call will review the recent events and the impact to the asset allocation.</li> <li>The Investment Consultant will review the market sentiments and market valuation with the IPC.</li> <li>The IPC will examine the next course of action: rebalance or no action.</li> </ul>	<ul style="list-style-type: none"> <li>The IPC and the Consultant together will determine which equity sleeve(s) will be brought to target weight(s)</li> <li>Funding sources will be determined by the IPC members</li> </ul>
Additional 10% (25% total drawdown)	<ul style="list-style-type: none"> <li>As the drawdown approaches additional 10%, the Investment Consultant will initiate a call with IPC members or a sub-set of designated members.</li> <li>The Executive Director will post the call on the website to ensure adherence to the Open Meeting Notice Policy.</li> </ul>	<ul style="list-style-type: none"> <li>Call with IPC members or designated subset of the IPC</li> <li>The conference call will review the recent events and the impact to the asset allocation.</li> <li>The Investment Consultant will review the market sentiments and market valuation with the IPC.</li> <li>The IPC will examine the next course of action: rebalance or no action.</li> </ul>	<ul style="list-style-type: none"> <li>The IPC and the Consultant together will determine which equity sleeve(s) will be brought to target weight(s) plus 2%</li> <li>Funding sources will be determined by the IPC members</li> </ul>

## Rebalancing Process During a Market Drawdown (continued)

Market Drawdown	Step 1 Action to be Taken	Step 2 The Conference Call	Proposed Rebalancing Plan
Additional 10% (35% total drawdown)	<ul style="list-style-type: none"> <li>As the drawdown approaches additional 10%, the Investment Consultant will initiate a call with IPC members or a sub-set of designated members.</li> <li>The Executive Director will post the call on the website to ensure adherence to the Open Meeting Notice Policy.</li> </ul>	<ul style="list-style-type: none"> <li>Call with IPC members or designated subset of the IPC</li> <li>The conference call will review the recent events and the impact to the asset allocation.</li> <li>The Investment Consultant will review the market sentiments and market valuation with the IPC.</li> <li>The IPC will examine the next course of action: rebalance or no action.</li> </ul>	<ul style="list-style-type: none"> <li>The IPC and the Consultant together will determine which equity sleeve(s) will be brought to target weight(s) plus 5% Funding sources will be determined by the IPC members</li> </ul>

*A market drawdown is measured by the Russell 3000 Index for U.S. equities and the MSCI ACWI ex-U.S. Index for Non-U.S. equities.*

*The U.S. equity and Non-U.S. equity exposures will be viewed independently of each other.*

*The Investment Consultant will initiate the conference calls as the market conditions change.*

**CITY OF ANN ARBOR**  
**RETIREE HEALTH CARE BENEFIT PLAN & TRUST**

**INVESTMENT POLICY STATEMENT**

Updated  
October 7, 2021



The purpose of this document is to set forth the goals and objectives of the City of Ann Arbor Retiree Health Care Benefit Plan & Trust (“VEBA”), and to establish guidelines for the implementation of investment strategy.

Any revisions to this document may be made only with the approval of the Board of Trustees of the VEBA.

The Trustees of the VEBA recognize that a stable, well-articulated investment policy is crucial to the long-term success of the VEBA. As such, the Trustees have developed this Investment Policy Statement with the following goals in mind:

- To clearly and explicitly establish the objectives and constraints that govern the investment of the VEBA’s assets,
- To establish a long-term target asset allocation with a high likelihood of meeting the VEBA’s objectives given the explicit constraints, and
- To protect the financial health of the VEBA through the implementation of this stable investment policy.

## **I. VEBA Goals**

The goal of the VEBA is to provide health and life insurance benefits or such other benefits approved by the City or approved by collective bargaining agreements for the welfare of certain Retirees of the City who are eligible to receive a retirement benefit from the City of Ann Arbor Employees' Retirement System (the "Retirement Plan") and the eligible Dependents of such Retirees.

## **II. Investment Objectives**

The primary investment objective is to earn, over the long run, the approved actuarial rate of return on the total investment portfolio (currently 7.0%). In targeting such a return, the VEBA will seek to:

- operate with a high degree of prudence,
- sufficiently diversify assets to reduce risk to the overall portfolio,
- consider fees appropriate to the various investment structures, and
- cultivate a motivated team of dedicated professionals.

It is understood that to meet the return objective of the fund, equity risk must be assumed.

## **III Roles and Responsibilities**

### **A. Responsibilities of the Board**

1. As the "named fiduciary" of the VEBA, the Board has full discretion and authority in the management of the VEBA's assets.
2. The Board authorizes the creation of committees, including the Investment Policy Committee (IPC), to oversee the investments of the VEBA.
3. The responsibilities include:
  - a. Establishment and development of an Investment Policy Statement, including the overall asset allocation policy, and the periodic review of the Investment Policy Statement and recommendation of modifications when necessary
  - b. Monitoring of overall investment performance and assessment of portfolio risk.
  - c. Selection, retention, monitoring, and termination of Investment Managers.

## **B. Responsibilities of the Investment Policy Committee**

1. The IPC will, in consultation with the Investment Consultant, monitor and review the investment performance of the VEBA and the Investment Managers to determine the achievement of the performance objectives and adherence to the Investment Policy and Manager Guidelines.
2. The IPC will, in consultation with the Investment Consultant, recommend asset allocation target changes and IPS changes to the Board.
3. The IPC will, in consultation with the Investment Consultant, provide recommendations to the Board for selection, retention, and termination of Investment Managers and other service providers, such as transition managers, commission recapture brokers, and proxy voting services.
4. The IPC will, in consultation with the Investment Consultant, evaluate and perform periodic due diligence on the Investment Managers in the VEBA.
5. The IPC may make transfers and rebalances among asset classes and Investment Managers, as long as such transfers do not result in violation of the asset allocation policy.

### **a. Rebalancing When an Asset Class is Outside of its Target Range**

The IPC, after consultation with the Investment Consultant, may instruct the Executive Director to rebalance allocations within the specified target ranges. The Executive Director will work with the Investment Consultant to implement the rebalancing, while taking into consideration both risks and transaction costs.

### **b. Rebalancing When an Asset Class is Within its Target Range**

Rebalancing within target ranges may introduce an element of tactical asset allocation. The IPC, after consultation with the Investment Consultant, may instruct the Executive Director to rebalance allocations within the specified target ranges. The Executive Director will work with the Investment Consultant to implement the rebalancing, while taking into consideration both risks and transaction costs.

### C. Responsibilities of the Executive Director

The Executive Director has been delegated the responsibility for the oversight of the VEBA. The Executive Director's responsibilities include:

1. To keep the Board informed of any significant events that impact the VEBA and recommend changes in approved policy, guidelines and objectives, as appropriate.
2. To provide the day-to-day oversight of the office operations.
3. To act as the primary contact between the Board, the members, the Managers, the Consultant, the Actuary, the Auditors, the Custodian, and any other parties involved in the management of the VEBA's assets.
4. To perform any other duties as may be described in this policy, applicable State and Federal laws, or as delegated by the Board.
5. The Board delegates the Executive Director the authority to rebalance under the scenario below.

**Liquidity Need** (i.e., for payment of the ongoing administrative expenses of the VEBA and/or payment of benefits).

The schedule of the cash flows will be reviewed quarterly at IPC meetings. As necessary, the Executive Director will work with the Investment Consultant to identify appropriate sources of cash, within each asset class's target allocation and liquidity. The Executive Director shall have the authority to act upon recommendations from the Investment Consultant.

### D. Responsibilities of the Investment Consultant

- The Board is advised by an independent third-party investment consulting and advisory firm. The Investment Consultant acknowledges its responsibilities as a "fiduciary" of the VEBA and assists the VEBA under Act 314 of 1965, as amended ("Act 314"). The Investment Consultant acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act. The Investment Consultant shall assist The VEBA in striving to achieve the goals and objectives as stated in sections I and II and shall offer investment advice consistent with the investment objectives, policies, guidelines and constraints as established in this Investment Policy Statement.
- The Investment Consultant will provide advice and recommendations that will serve as a primary basis for the

Board's decisions with respect to Fund assets, including the development of an investment policy, asset allocation strategy and investment manager structure.

- The Investment Consultant will monitor, on an ongoing basis, the performance of the VEBA and its investment managers and assist the Board in interpreting the results. The Investment Consultant shall provide the Board with performance reports and ongoing quality control to assure that the Board's standards and investment objectives are maintained. Performance reports generated by the Investment consultant shall be compiled at least quarterly and communicated to the Board for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks.
- The Board's Investment Consultant shall monitor the investment of the Retirement System's assets with regards to the asset limitations under Act 314 and compliance with the Asset Allocation Targets and guidelines as established in Appendix C.
- The Investment Consultant will identify, evaluate and recommend the selection and termination of Investment Managers, as appropriate.

#### **E. Responsibilities of Investment Manager**

- Each Investment Manager acknowledges its responsibility as an investment fiduciary under Act 314. Each Investment Manager acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act. Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its control, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement.
- Each Investment Manager is expected to manage the VEBA's assets in a manner consistent with the investment objectives, guidelines, and constraints in accordance with applicable State and Federal laws, including Michigan Public Act 314 of 1965, as amended.

- Each Investment Manager will manage the assets consistent with the investment objectives, guidelines, and constraints outlined in this Investment Policy Statement and the Manager Guidelines, which will be provided at the time of hire.
- The Investment Manager is responsible for communicating with the Board regarding all significant matters pertaining to the investment of the VEBA's assets. The Board shall be kept apprised of substantive changes in investment strategy, asset mix, portfolio structure, and market value of the VEBA's assets.

#### **F. Responsibilities of the Crisis Management Team**

The Board recognizes that, in rare instances, investment exigencies or another type of Crisis (as defined in the Crisis Response Document attached in appendix D) may arise, which may require urgent action between regularly scheduled meetings of the Board. To properly address and react to such instances in a timely manner, the Board hereby delegates crisis-related decision making to a "Crisis Response Team" (CRT), which will determine the appropriate course of action.

The Crisis Response Team will have the authority to take any necessary action as shall be recommended by the Investment Consultant between regular meetings of the Board at any time that a Crisis occurs. All decisions of the Crisis Response Team must be agreed to by all members of the Crisis Response Team (or their alternates), and will be deemed to be final and binding on all parties (without any further action of the Board).

### **IV. Investment Constraints**

#### **A. Legal and Regulatory**

The Trustees intend that the assets of the VEBA at all times are invested in accordance with the provisions of Michigan State laws and, specifically, the State of Michigan Public Employee Retirement System Investment Act (Act 314 of 1965, as amended). The Trustees will retain legal counsel when appropriate to review contracts and provide advice with respect to applicable statutes and regulations.

#### **B. Time Horizon**

The VEBA operates on a going-concern basis. The assets of the VEBA will be invested with an intermediate- to long-term time horizon, consistent with the goal of meeting benefit payments.

### **C. Liquidity**

The VEBA may experience significant cash inflows and outflows. The VEBA could be vulnerable if large withdrawals were to coincide with sharp market declines. Therefore, stability and liquidity are significant concerns, and the VEBA will maintain significant allocations to low-volatility, liquid assets.<sup>1</sup>

### **D. Tax Considerations**

The VEBA is a tax-exempt entity. Therefore, investments and strategies will be evaluated only on a basis that is indifferent to taxable status, except where the prospect of Unrelated Business Taxable Income (UBTI) is a concern.

## **V. Risk and Return Considerations**

The Trustees accept the risks associated with investing in the capital markets (market risks), but will minimize wherever possible those risks for which the VEBA is unlikely to be compensated (non-market or diversifiable risks).

## **VI. Diversification**

The Trustees of the VEBA recognize that an important element of risk control is diversification. Therefore, investments will be allocated across multiple classes of assets, chosen in part for the expected correlation of their returns. Within each asset type, the Trustees will seek to distribute investments across many individual holdings, thus expecting to further reduce volatility. In addition, each investment manager's guidelines will specify the largest permissible investment in any one asset, and will set other diversification requirements.

## **VII. Asset Allocation**

The Trustees recognize that the allocation of monies to various asset classes will be the major determinant of the VEBA's return and risk experience over time. Therefore, the Trustees will allocate investments across those asset classes that, based on historical and expected returns and risks, provide the highest likelihood of meeting the VEBA's investment objectives.

### **A. Permissible Asset Classes**

Not all asset types will be appropriate for the VEBA. In Appendix A, the Trustees have listed the asset classes that may be utilized for the VEBA's investments.

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<sup>1</sup> Liquid assets are defined as those vehicles that provide for at least monthly withdrawals.

## **B. Expected Returns, Risks, and Correlations for Permissible Asset Classes**

The risk and return behavior of the VEBA will be driven primarily by the allocation of investments across asset classes. In determining the appropriate allocation, the expected return and risk behavior of each asset class and the likely interaction of various asset classes in a portfolio are to be considered. Appendix B lists the expected return, volatility, and correlations for the major asset classes.

## **C. Long-Term Target Allocations**

Based on the investment objectives and constraints of the VEBA, and on the expected behavior of the permissible asset classes, the Trustees will specify a long-term target allocation for each class of permissible assets. These targets will be expressed as a percentage of the VEBA's overall market value, surrounded by a band of permissible variation resulting from market forces.

The long-term target allocations are intended as strategic goals, not short-term imperatives. Thus, it is permissible for the overall VEBA's asset allocation to deviate from the long-term target, as would likely occur during manager transitions, asset class restructurings, and other temporary changes in the VEBA. Deviations from targets that occur due to capital market changes are discussed below.

The VEBA's target allocations and ranges for all permissible asset classes are shown in Appendix C.

## **D. Rebalancing**

In general, cash flows to and from the VEBA will be allocated in such a manner as to move each asset class toward its target allocation.

The Trustees recognize that, periodically, market forces may move the VEBA's allocations outside the target ranges. The Trustees recognize that failing to rebalance the allocations would unintentionally change the VEBA's structure and risk posture. Consequently, the Trustees have established a process to rebalance the allocations periodically.

On at least an annual basis, if any strategic allocation is outside the specified target range, assets will be shifted to return the strategy to within target range. The specific plan for rebalancing will identify those assets that can be shifted at the lowest possible risk and cost, if the rebalancing cannot be accomplished solely by allocating contributions, withdrawals, and other cash flows.



## **VIII. Review of Investment Policy, Asset Allocation, and Performance**

The Investment Policy Statement will be reviewed at least annually to ensure that the objectives and constraints remain relevant. However, the Trustees recognize the need for a stable long-term policy for the VEBA, and major changes to this policy statement will be made only when significant developments in the circumstances, objectives, or constraints of the VEBA occur.

The asset allocation of the VEBA will be reviewed on an on-going basis, and at least annually. When necessary, such reviews may result in a rebalancing of asset allocations. In general, the Trustees intend that the VEBA will adhere to its long-term target allocations, and that major changes to these targets will be made only in response to significant developments in the circumstances, objectives, or constraints of the VEBA or in the capital market opportunities.

The Trustees will specifically evaluate the performance of the VEBA relative to its objectives and to the returns available from the capital markets during the period under review. In general, the Trustees will utilize relative, rather than absolute, returns in evaluating performance. The total performance of the VEBA will be evaluated relative to the investment objectives and constraints identified in this investment policy statement. Specifically, the total Fund performance will be evaluated relative to a “custom benchmark” that weights the returns of available market indices on the basis of the VEBA’s target investment structure, to assess the implementation of the VEBA’s investment strategy.

## **IX. Investment Costs**

The Trustees intend to monitor and control investment costs at every level of the VEBA.

- Professional fees will be negotiated whenever possible.
- Where appropriate, passive portfolios will be used to minimize management fees and portfolio turnover.
- If possible, assets will be transferred in-kind during manager transitions and VEBA restructurings to eliminate unnecessary turnover expenses.
- Managers will be instructed to minimize brokerage and execution costs.

## **X. Voting of Proxies**

The Trustees recognize that the voting of proxies is important to the overall performance of the VEBA. The Trustees have delegated the responsibility of voting all investment proxies to the investment managers. The Trustees expect that managers will execute all proxies in a timely fashion. Also, the Trustees

expect the managers to provide a full accounting of all proxy votes, and upon request, a written explanation of individual voting decisions.

For all proxies that could not otherwise be voted by an investment manager, such as those related to governance of the manager's investment vehicle, the Trustees delegate the responsibility to the Investment Policy Committee.

#### **XI. Investment Manager Guidelines**

The Investment Consultant and the IPC will provide specific Manager Guidelines for each investment manager in the VEBA. The Board acknowledges that commingled investment vehicles and mutual funds will be managed in accordance to the policies outlined in the funds' prospectus or similar governing documents.

This Investment Policy Statement is hereby found acceptable to the Trustees, and the Trustees hereby adopt this Investment Policy Statement effective as of October 7, 2021.

TRUSTEE

*Brock Hastie*

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Name: Brock Hastie

TRUSTEE

*Tony DiGiovanni*

Tony DiGiovanni (Jan 28, 2022 09:05 EST)

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Name: Tony DiGiovanni

This Investment Policy Statement is hereby acknowledged and accepted by the Investment Consultant, effective as of October 7, 2021.

MEKETA INVESTMENT GROUP

*Henry Jaung*

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Name: Henry Jaung

Title: Consultant & Principal

**APPENDIX A**  
**PERMISSIBLE ASSET CLASSES**

Asset Class
Public Domestic Equity
Public Foreign Equity
Emerging Market Equity
Private Equity
Investment Grade Bonds
TIPS
High Yield Bonds
Bank Loans
Emerging Market Debt
Real Estate
Real Estate Debt
Natural Resources
Infrastructure
Private Debt



**APPENDIX B**  
**Meketa Investment Group 2021 Annual Asset Study**  
**Twenty-Year Annualized Return and Volatility Expectations for Major Asset Classes**

Asset Class	Annualized Compounded Return (%)	Annualized Average Return (%)	Annualized Standard Deviation (%)
<b>Rate Sensitive</b>			
Cash Equivalents	1.1	1.1	1.0
Investment Grade Bonds	1.8	1.9	4.0
Long-term Government Bonds	2.5	3.2	12.0
TIPS	1.8	2.0	7.0
<b>Credit</b>			
High Yield Bonds	4.2	4.8	11.0
Bank Loans	4.0	4.4	9.0
Emerging Market Bonds (major; unhedged)	3.7	4.3	11.0
Emerging Market Bonds (local; unhedged)	3.9	4.9	14.0
Direct Lending	6.7	7.7	14.0
Mezzanine Debt	6.9	8.2	16.0
Distressed Debt	7.0	9.2	21.0
<b>Equities</b>			
Public US Equity	6.8	8.4	18.0
Public Developed Market Equity	7.1	8.9	19.0
Public Emerging Market Equity	8.1	11.0	24.0
Private Equity Composite	9.1	13.0	28.0
<b>Real Assets</b>			
REITs	7.2	10.6	26.0
Core Private Real Estate	5.5	6.2	12.0
Value Added Real Estate	7.2	9.7	20.0
Opportunistic Real Estate	9.2	12.6	26.0
High Yield Real Estate Debt	6.0	7.6	18.0
Natural Resources (Private)	8.3	11.0	23.0
Commodities	3.7	5.1	17.0
Infrastructure (Core)	7.0	8.0	14.0
Infrastructure (Non-Core)	9.0	11.4	22.0
<b>Other</b>			
Hedge Funds	4.3	4.5	7.0

## APPENDIX B

### CORRELATION EXPECTATIONS FOR MAJOR ASSET CLASSES<sup>1</sup>

	Investment Grade Bonds	TIPS	High Yield Bonds	US Equity	Developed Market Equity	Emerging Market Equity	Private Equity	Real Estate	Natural Resources (private)	Commodities	Core Infrastructure (private)	Hedge Funds
Investment Grade Bonds	1.00											
TIPS	0.77	1.00										
High Yield Bonds	0.23	0.41	1.00									
US Equity	0.02	0.19	0.75	1.00								
Developed Market Equity	0.10	0.24	0.76	0.89	1.00							
Emerging Market Equity	0.15	0.33	0.75	0.78	0.87	1.00						
Private Equity	0.00	0.05	0.70	0.85	0.80	0.75	1.00					
Real Estate	0.20	0.10	0.50	0.50	0.45	0.40	0.45	1.00				
Natural Resources (private)	0.10	0.10	0.45	0.65	0.60	0.60	0.60	0.45	1.00			
Commodities	0.02	0.31	0.54	0.53	0.60	0.65	0.30	0.15	0.65	1.00		
Core Infrastructure (private)	0.30	0.30	0.60	0.55	0.55	0.50	0.45	0.60	0.60	0.35	1.00	
Hedge Funds	0.05	0.26	0.78	0.86	0.88	0.86	0.60	0.45	0.65	0.67	0.60	1.00

<sup>1</sup> Based on Meketa Investment Group's 2021 Asset Allocation Study.

**APPENDIX C**  
**ASSET ALLOCATION TARGETS**  
Adopted in October 2021

	Target	Range	Policy Benchmark
Domestic Equity	33%	27% to 39%	Russell 3000
Developed Foreign Equity	12%	9% to 15%	MSCI EAFE
Emerging Markets Equity	7%	0% to 10%	MSCI EM
Private Equity	5%	0% to 8%	Russell 3000 + 3% <sup>1</sup>
Investment Grade Bonds	10%	5% to 20%	Barclays Aggregate
TIPS	2%	0% to 5%	Barclays U.S. TIPS
High Yield Bonds	4%	0% to 6%	Barclays High Yield
Bank Loans	0%	0% to 5%	CSFB Leveraged Loan
Emerging Markets Debt	0%	0% to 5%	JPM GBI-EM Global Div.
Private Debt	7%	0% to 10%	Credit Suisse Leveraged Loans +1.5%
Real Estate	9%	2% to 12%	NCREIF ODCE EW
Real Estate Debt	1%	0% to 3%	Cambridge Associates Non-Core Real Estate
Natural Resources	3%	0% to 5%	DJ-UBS Commodity
Infrastructure (	7%	0% to 10%	DJ Brookfield Global Infrastructure
Cash	0%	< 5%	NA

<sup>1</sup> Lagged one quarter



**APPENDIX D**  
Approved October 7, 2021

**CITY OF ANN ARBOR RETIREE HEALTH  
CARE BENEFIT PLAN & TRUST**

**CRISIS RESPONSE PLAN**

The Board recognizes that, in rare instances, investment exigencies or another type of Crisis (as defined below) may arise, which may require urgent action in between regularly scheduled meetings of the Board. To properly address and react to such instances in a timely manner, the Board hereby delegates crisis-related decision making to a “Crisis Response Team” (CRT), which will determine the appropriate course of action. Upon notification to the CRT from the Investment Consultant regarding a Crisis and the need for an appropriate response, the CRT will determine if a Board Meeting is appropriate given the nature and circumstances of the crisis. It is understood that the CRT will utilize reasonable efforts to contact the individual Board members and convene a full Board meeting in accordance with the Open Meetings Act to manage the Crisis. However, the Board recognizes that it may not be feasible to arrange for a special meeting of the Board in light of the nature of the Crisis, the notice requirements of the Open Meetings Act and/or the availability of Board Trustees. In the event the CRT determines that a Board Meeting is not prudent under the circumstances, the Board by the adoption of this policy authorizes the CRT to take any and all actions necessary to manage and address the Crisis.

The Crisis Response Team shall consist of three (3) members: the Chairperson and Vice-Chairperson of the Investment Policy Committee (IPC) and the Retirement Board Chairperson. In the event one (1) or more of the Crisis Response Team members are unavailable to participate in any decision necessary in response to a Crisis, the following alternates (in order of preference) shall serve on the Crisis Response Team (unless already serving by virtue of serving as the Chair or Vice-Chair of the IPC): the Board Vice-Chair; the APC Chairperson; the Audit Committee Chairperson; or any other Board member. The Executive Director has an important role in supporting the Crisis Response Team and facilitating any required actions.

In the event that the Investment Consultant is of the opinion that a Crisis exists, the Investment Consultant will (i) identify and describe the precise nature of the crisis or emergency; and (ii) notify all Board members, the Executive Director and the Crisis Response Team, including the alternate members, via email and telephone if necessary, regarding the situation and provide a written recommendation for action.

A “Crisis” is an event that warrants immediate action to ensure that VEBA’s assets are protected as determined by the Investment Consultant with the unanimous concurrence of the Crisis Response Team. Examples of a Crisis include, but are not limited to, the following:

- (a) The departure of one or more critical members of an Investment Manager’s, Commingled Fund’s, Alternative Investment Fund’s, Custodian’s, or Investment Consultant’s professional service team.
- (b) A lawsuit, government investigation or audit, or other major event involving an Investment Manager, Commingled Fund, Alternative Investment Fund, the Custodian or the Investment Consultant.
- (c) The occurrence of war, terrorism, a natural disaster, or other event materially affecting VEBA’s assets or the investment thereof.

The Crisis Response Team will have the authority to take any necessary action as shall be recommended by the Investment Consultant between regular meetings of the Board at any time that a Crisis occurs. All decisions of the Crisis Response Team must be agreed to by all members of the Crisis Response Team (or their alternates), and will be deemed to be final and binding on all parties (without any further action of the Board).

**APPENDIX D**  
Approved October 7, 2021

**CITY OF ANN ARBOR RETIREE HEALTH  
CARE BENEFIT PLAN & TRUST**

**CRISIS RESPONSE PLAN**

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Following any such decision(s), prompt notice, including the initial written recommendation from the Investment Consultant, shall be given by the Executive Director to the Board concerning:

- (a) the nature and scope of the crisis;
- (b) its potential economic impact on the VEBA's portfolio;
- (c) the method of resolution; and
- (d) the specific rationale(s) supporting the decision.

Approved by the Board of Trustees: October 7, 2021

Created:	2022-01-25
By:	Laura Hollabaugh (lhollabaugh@a2gov.org)
Status:	Signed
Transaction ID:	CBJCHBCAABAApti9aHJeilpzW7j_4YwwtWkYFr258n_K

## "VEBA IPS" History

-  Document created by Laura Hollabaugh (lhollabaugh@a2gov.org)  
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-  Document emailed to Brock Hastie (brockhastie@risadvisory.com) for signature  
2022-01-25 - 1:49:30 PM GMT
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2022-01-28 - 4:52:56 AM GMT- IP address: 208.81.183.104
-  Document e-signed by Brock Hastie (brockhastie@risadvisory.com)  
Signature Date: 2022-01-28 - 4:53:11 AM GMT - Time Source: server- IP address: 208.81.183.104
-  Document emailed to Tony DiGiovanni (tonyd@wpinv.com) for signature  
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Signature Date: 2022-01-28 - 2:05:34 PM GMT - Time Source: server- IP address: 65.31.73.206
-  Agreement completed.  
2022-01-28 - 2:05:34 PM GMT

**CITY OF ANN ARBOR**  
**RETIREE HEALTH CARE BENEFIT & TRUST**

**INVESTMENT POLICY STATEMENT**  
**ADDENDUM**

July 20, 2023

## I. Rebalancing Plan

Rebalancing the portfolio to the desired asset allocation during periods of heightened volatility is an important part of managing the overall asset allocation of the portfolio. Accordingly, when time is of the essence due to heightened volatility, the Board has delegated its authority to rebalance the portfolio to the IPC. The IPC has adopted a process that addresses the steps to be taken during such events.

### Rebalancing Process During a Market Drawdown

Market Drawdown	Step 1 Action to be Taken	Step 2 The Meeting	Proposed Rebalancing Plan
Approaching 15%	<ul style="list-style-type: none"><li>As the drawdown approaches 15%, the Investment Consultant will initiate a special meeting with IPC members or a sub-set of designated members.</li><li>The Executive Director will post the special meeting on the website and at the Retirement System office to ensure adherence to the Open Meetings Act.</li></ul>	<ul style="list-style-type: none"><li>Meet with IPC members or designated subset of the IPC</li><li>The meeting will review the recent events and the impact to the asset allocation.</li><li>The Investment Consultant will review the market sentiments and market valuation with the IPC.</li><li>The IPC will examine the next course of action: rebalance or no action.</li></ul>	<ul style="list-style-type: none"><li>The IPC and the Consultant together will determine which equity sleeve(s) will be brought to target weight(s)</li><li>Funding sources will be determined by the IPC members in consultation with the Consultant.</li><li>Approval of the proposed rebalancing must be made by a majority of the IPC members.</li></ul>
Additional 10% (25% total drawdown)	<ul style="list-style-type: none"><li>As the drawdown approaches an additional 10%, the Investment Consultant will initiate a special meeting with IPC members or a sub-set of designated members.</li><li>The Executive Director will post the special meeting on the website and at the Retirement System office to ensure adherence to the Open Meetings Act.</li></ul>	<ul style="list-style-type: none"><li>Meet with IPC members or designated subset of the IPC</li><li>The meeting will review the recent events and the impact to the asset allocation.</li><li>The Investment Consultant will review the market sentiments and market valuation with the IPC.</li><li>The IPC will examine the next course of action: rebalance or no action.</li></ul>	<ul style="list-style-type: none"><li>The IPC and the Consultant together will determine which equity sleeve(s) will be brought to target weight(s) plus up to an additional 2%</li><li>Funding sources will be determined by the IPC members in consultation with the Consultant.</li><li>Approval of the proposed rebalancing must be made by a majority of the IPC members.</li></ul>

## Rebalancing Process During a Market Drawdown (continued)

Market Drawdown	Step 1 Action to be Taken	Step 2 The Meeting	Proposed Rebalancing Plan
Additional 10% (35% total drawdown)	<ul style="list-style-type: none"> <li>As the drawdown approaches an additional 10%, the Investment Consultant will initiate a special meeting with IPC members or a sub-set of designated members.</li> <li>The Executive Director will post the special meeting on the website and at the Retirement System office to ensure adherence to the Open Meetings Act.</li> </ul>	<ul style="list-style-type: none"> <li>Meet with IPC members or designated subset of the IPC</li> <li>The meeting will review the recent events and the impact to the asset allocation.</li> <li>The Investment Consultant will review the market sentiments and market valuation with the IPC.</li> <li>The IPC will examine the next course of action: rebalance or no action.</li> </ul>	<ul style="list-style-type: none"> <li>The IPC and the Consultant together will determine which equity sleeve(s) will be brought to target weight(s) plus up to an additional 5%</li> <li>Funding sources will be determined by the IPC members in consultation with the Consultant.</li> <li>Approval of the proposed rebalancing must be made by a majority of the IPC members.</li> </ul>

- A market drawdown is measured by the Russell 3000 Index for U.S. equities and the MSCI ACWI ex-U.S. Index for Non-U.S. equities.
- The U.S. equity and Non-U.S. equity exposures will be viewed independently of each other.
- The Investment Consultant will initiate the special meeting(s) as the market conditions change.