

BERRIEN COUNTY EMPLOYEE RETIREMENT FUND



INVESTMENT POLICY STATEMENT

*(Approved and Adopted by the Berrien County Board of Commissioners
as Resolution Number F1409210 on September 25, 2014.)*

September 2014

**Investment Policy Statement
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I. Introduction

The Berrien County Employee Retirement Fund's (the "Fund") investment policy statement (the "Policy") is designed to provide a framework for the investment of fund assets, investment decision making, monitoring, management of risk and achievement of long-term financial objectives.

The Fund is overseen by the Berrien County Finance Committee (the "Committee") and administered by the County of Berrien Human Resources Department. The Trust Investment Advisory Committee is responsible for recommending changes to the Fund's investment policy, investment managers and advisors, and other duties.

The Fund is a Michigan local government defined benefit pension plan that operates under Michigan State statutes including the Michigan Public Employee Retirement System Investment Act (PERSIA), PA 314 of 1965 among other requirements.

The purpose of this policy is to document the following:

- The goals and objectives of the Fund's investment program
- Roles, responsibilities and reporting requirements of fiduciaries
- The asset allocation structure employed to facilitate achievement of objectives
- Criteria by which the Fund's investment performance and risk will be evaluated
- Reporting and monitoring requirements for fiduciaries who manage Fund assets
- Guidelines that govern Fund investments in approved asset classes and strategies

The Fund's investment objectives are formulated to meet the financial needs of the Berrien County Retirement System (the "System"). The System's financial needs are influenced by the County of Berrien's (the "County") benefit policies, funding objectives, the System's liabilities and outcomes related to management of Fund assets.

The Fund's asset allocation structure is designed to facilitate achievement of investment objectives over the long-term within acceptable levels of risk, while providing necessary liquidity for payment of System benefit obligations.

The Committee has delegated implementation of the Fund's asset allocation structure to a discretionary investment manager (the "Investment Manager") who is responsible for allocating assets to investment products and vehicles that conform to federal and state statutes and the provisions of this Policy.

The Investment Manager is expected to facilitate implementation of the Fund's asset allocation structure through well diversified, high quality, cost-effective investment strategies.

The Fund utilizes performance evaluation and risk measures as means of determining whether investment objectives are being achieved within acceptable levels of risk. The Fund also considers non-quantifiable criteria in evaluating performance and risk (e.g. adherence to fiduciary duty). The Committee evaluates performance over long time horizons consistent with the objective of funding long-term System benefit obligations.

II. Investment Objectives

The overriding goal of the Fund's investment program is to achieve a level of return consistent with the System's actuarial requirements to facilitate payment of all benefit and expense obligations when due and to contribute to an adequate funding status.

Academic research has identified asset allocation as an overriding determinant of long-term portfolio returns. Accordingly, the Fund has developed an asset allocation structure that takes into account the Fund's actuarial earnings assumption, liquidity needs, risk tolerances and liability structure as well as assumptions for long-term expected returns, risks and correlations within various segments of the capital markets.

The Fund's overall investment objectives are to:

- Earn a net of fee annual rate of return that meets or exceeds the actuarial return assumption
- Maximize portfolio returns for the amount of risk taken
- Achieve a net of fee annual rate of return that meets or exceeds the return of the policy index
- Maintain liquidity in the portfolio sufficient to meet plan obligations
- Minimize volatility in the Fund's return.

III. Roles & Responsibilities

To facilitate achievement of its objectives the Fund has delegated roles, responsibilities and reporting requirements to specific parties. In carrying out their responsibilities, all parties are expected to adhere to their duties as fiduciaries, act in the best interests of the Fund and its participants, avoid conflicts of interest and exercise prudence in decision making. Roles and responsibilities include:

Finance Committee (the "Committee")

- Review, approve, and periodically evaluate amendments to the investment policy statement (the "Policy") and other policies that govern the Fund
- Review, approve, and periodically evaluate changes to the Fund's asset allocation structure
- Select the Investment Manager, advisors and other service providers to the Fund
- Monitor investment performance, risk, expenses and compliance and, take appropriate action where objectives are not being met.

Trust Investment Advisory Committee

The Trust Investment Advisory Committee is responsible for recommending changes to the Fund's investment policy and objectives, investment managers and advisors, and other duties.

Plan Administrator

The Berrien County Employee Retirement Plan Administrator, which is the County Administrator, is responsible to the Finance Committee for supervising the Investment Manager, service providers, and advisors to the Fund on a day to day basis with the assistance of the County Human Resources and Financial Services departments.

Human Resources Department

The Berrien County Human Resources Department is responsible for administering the Fund.

Discretionary Investment Manager ("Investment Manager")

- Accept fiduciary responsibility and carry out responsibilities as an Investment Manager in a manner materially consistent with applicable federal and state laws
- Assist the Committee in developing and amending the investment policy statement
- Assist the Committee in developing and amending the asset allocation structure
- Select, direct, implement and terminate investments in accordance with the Policy
- Rebalance assets to policy targets; manage liquidity and cash flows
- Negotiate individual portfolio manager fees and contractual arrangements
- Monitor and report on investment performance, risk exposures and portfolio activity
- Monitor investments relative to limitations under PERSIA/Act 314, as amended
- Manage the portfolio to provide the necessary liquidity to facilitate timely payment of benefit payments and funding for other Fund expenses
- Develop and maintain guidelines that govern portfolio managers and investment products utilized to implement the asset allocation structure
- Report to the Committee on total fund, asset class, portfolio manager and investment product performance, compliance, risk and expenses
- Facilitate voting of proxies for the Fund's securities holdings.

Portfolio Managers (the "Sub advisors")

The Investment Manager utilizes portfolio managers ("sub-advisors") to manage portions of the Fund's assets consistent with the Policy. The Investment Manager is responsible for selecting and monitoring sub-advisors and for evaluating sub-advisors' performance and risk based on criteria the Investment Manager has established.

Consultant

The Committee may utilize a consultant to assist in matters related to the Fund's investment program including but not limited to the Policy, asset allocation structure and selection and performance monitoring of the Investment Manager.

Custodian Bank

The custodian bank's duties include, but are not limited to:

- Safekeeping of Fund assets and fulfillment of fiduciary duties required under federal and state laws and regulations
- Delivery of accurate and timely asset valuations and transaction reporting
- Delivery of full accrual, multi-currency accounting reports on the Fund's portfolio
- Investment of Fund assets in accordance with instructions from the Investment Manager and/or other authorized designees of the Committee.

IV. Asset Allocation Structure and Rebalancing

The Fund's asset allocation structure is developed to facilitate satisfaction of the Fund's financial needs and achievement of investment objectives. Asset classes are selected based on their expected long-term returns, reward/risk characteristics, correlations, diversification benefits and conformance to any applicable statutory guidelines, including the Michigan Public Employee Retirement System Investment Act (PERSIA), PA 314 of 1965.

The Committee has approved the following Target Allocation Ranges for Fund investments. Investments will be made in conformance with approved Asset Allocation Targets that are included in Appendix I of the Policy.

Asset Class	Target Allocation Range*
Public Equities	35% - 65%
Fixed Income	20% - 40%
Alternative Investments	0% - 15%
Cash	0% - 5%
Total Assets	100%

*Notes

- (1) Authorized asset allocation targets are included in Appendix I to the Policy.
- (2) Asset classes are described in Section VII of the Policy.
- (3) Public Act 314 includes a 70% maximum limit on domestic equities and a 20% limit on foreign equities.

Asset Allocation Targets

The Committee approves Asset Allocation Targets within the Target Allocation Ranges with assistance from the Investment Manager and a Consultant, as needed. Asset

Allocation Targets include specific target weights for the allocation of Fund assets. The Committee reviews the Asset Allocation Targets periodically and will consider changes based on changes to the Fund's financial needs, investment objectives, risk tolerances, investment results and changing capital markets assumptions.

Rebalancing

The Investment Manager will monitor the Fund's asset allocation relative to the Asset Allocation Targets regularly. The Committee has delegated to the Investment Manager the discretion to implement asset allocation decisions within the Asset Allocation Targets within ranges specified in Appendix I to this Policy. The Investment Manager may reallocate (rebalance) assets among sub-advisors and investment products to facilitate the Fund's adherence to the Asset Allocation Targets.

Liquidity Management

The Fund's staff will notify the Investment Manager of the amount of cash needed to meet Fund expenditures. The Investment Manager will transfer assets from the sub-advisor or investment product accounts to the Fund custodian's short-term investment fund or administrative account to facilitate payments as necessary.

V. Performance Evaluation

The Fund utilizes performance and risk measures to evaluate the effectiveness of the Fund's investment program at the total portfolio, asset class and investment strategy level. The Fund's investment performance will be assessed on a long-term basis over multiple time periods relative to appropriate benchmarks and peer groups. Results will be adjusted for risk.

The Investment Manager will provide reports to the Committee to facilitate a comparison of actual results to measurable goals, risk tolerances and comparable peer groups. Evaluation criteria include cost-effectiveness as measured by investment manager fees, transaction costs and other investment related expenses on a total and asset-weighted basis. Returns are evaluated on a net of fee basis.

Total Fund Performance

The Fund's objective is to achieve a net of fee annualized rate of return that:

- Meets or exceeds the Fund's actuarial return assumption over rolling ten year periods
- Meets or exceeds the Fund's policy index return over rolling three and five year periods
- Maximizes return for the level of risk taken as measured by the Sharpe Ratio
- Maintains liquidity in the portfolio sufficient to meet plan obligations
- Minimizes volatility as measured by standard deviation and other measures.

Performance Measures and Criteria

The Committee utilizes performance and risk measures to assess the overall effectiveness of the investment program and Investment Manager. The Committee assesses results over all available periods of time. The Investment Manager, who is responsible for selecting, monitoring and terminating investments, utilizes established measures to assess portfolio manager and sub-advisor performance.

Consistent with the Fund's long-term focus, performance evaluations focus on net of fee annualized returns over one, three, five and ten year periods and take into account adherence to risk controls. Generally, investment products, strategies and managers should meet the following criteria. An updated summary of benchmark indexes will be included in Appendix II to the Policy as necessary.

Actively Managed Investment Strategies

Performance criteria for actively managed investment strategies include:

- Achievement of a net of fee rate of return over a full market cycle that meets or exceeds the benchmark index
- Achievement of a rate of return that ranks in the top half of the peer group over a full market cycle
- Achievement of a risk-adjusted rate of return (e.g. adjusted for volatility and tracking error) that is competitive with comparable strategies (peer groups).

Passively Managed Investments

Performance criteria for passively managed (indexed) strategies:

- Achievement of a net of fee rate of return that is similar to that of the benchmark index with a similar amount of risk taken
- Maximizes returns for the level of risk taken as measured by the Fund's Sharpe Ratio and standard deviation relative to those measures for the policy index.

Benchmark Indexes*

Equity	Benchmark Index	Peer Group
U.S. Large Cap Equities – Core	Russell 1000 Index S&P 500 Index	U.S. Large Cap Core Equity
U.S. Mid Cap Equities	Russell Mid Cap Equity index	U.S. Mid Cap Core Equity
U.S. Small Cap Equities	Russell 2000 Index Russell 2500 Index	U.S. Small Cap Core Equity
International Equities	MSCI EAFE Index NR Russell Developed ex-U.S. LC	International Equity
Global Equities	MSCI All Country World Index Russell Developed Large Cap	Global Equity
Emerging Markets Equities	Russell Emerging Markets MSCI Emerging Markets Index	Emerging Markets International Equity

Fixed Income	Benchmark Index	Peer Group
Core Fixed Income	Barclays Capital Aggregate Index	Core Fixed Income
Core Plus Fixed Income	Barclays Capital Aggregate Index	Core Plus Fixed Income
Global Fixed Income	Barclays Global Capital Aggregate	Global Fixed Income
Cash	91 Day T – Bill	Money Market Funds

Alternative Investments	Benchmark Index	Peer Group
Real Estate – Open End Funds	NECREIF ODCE Index	Real Estate – Open End
Global Real Estate	FTSE EPRA/NAREIT Developed Real Estate	Global Real Estate
Private Equity	Venture Economics Index	Private Equity
Hedge Funds of Funds	91 Day T – Bill Plus 300 bps / HFRI Fund of Fund Index	HFRI Fund of Fund Index
Commodities	Dow Jones UBS Commodity Index	Commodity Managers

***Notes**

- (1) Updates and additions to the Benchmark Indexes are included in Appendix II to the Policy.
- (2) Benchmark indexes are not all inclusive.
- (3) Style Benchmarks (e.g. U.S. Large Cap Equity Growth) will be included in Appendix II as needed.

Risk Management

The Investment Manager and portfolio managers are responsible for managing risk within the span of their operations. Risk is assessed by multiple measures including but not limited to standard deviation (volatility), Sharpe Ratio, and beta. The Investment Manager and portfolio managers are responsible for measurement, management and reporting on risk using established characteristics and measures. The following examples are included for illustrative purposes:

Equity Characteristics	Fixed Income Characteristics
• Standard Deviation	• Duration
• Tracking Error	• Credit Quality
• Market Capitalization	• Default Rate
• Issuer Concentration	• Sector Allocation
• Price Earnings Ratio	• Issuer Concentration

***Notes**

- (1) Risk measures are not all inclusive.
- (2) The Investment Manager is responsible for management of other market, credit and liquidity risks.

Real Estate Equity Characteristics	Fund of Hedge Fund Characteristics	Private Equity Characteristics
• Diversification	• Sharpe Ratio	• Capital Committed
• Property Lifecycle	• Sortino Ratio	• Capital Called
• Property Type	• Beta	• Vintage Year
• Occupancy	• Downside Deviation	• Style
• Leverage	• Up/Down Capture	• Manager Diversification

***Notes**

(1) Risk measures are not all inclusive

(2) The Investment Manager is responsible for management of other market, credit and liquidity risks.

VI. Reporting and Review Procedures

The Investment Manager is responsible for furnishing to the Committee and its designees quarterly (or monthly upon request) appraisals of the investment portfolio valued as of the last business day of the quarter or month, together with performance tabulations, a summary of purchases and sales and other reports as the Committee may request.

Upon request of the Committee, representatives of the Investment Manager shall meet with the Committee and/or its designees to discuss investment performance of the Fund and other matters relating to the Investment Manager’s obligations. The Investment Manager calculates performance reports and presentations in accordance with the global investment performance standards (“GIPS”). The Investment Manager provides periodic reports and statements relating to both assets managed by Investment Manager and, if applicable, assets that are separately managed as may be agreed upon by it and the Committee.

The Investment Manager is responsible for adhering to the following procedures:

- At least quarterly, provide written reports on performance, risk and material developments within the System’s portfolio within forty-five (45) days of period end
- Meet with the Committee and its designees on a quarterly basis, at a minimum
- Promptly report any material developments including but not limited to developments related to the Investment Manager’s ownership, senior management or staff assigned to work with the County, or regulatory or legal developments.

The Investment Manager’s reports to the Committee will include:

- Review of economic and market conditions
- Review of individual fund performance
- Review of target vs. actual allocations
- Review of total portfolio and asset class performance
- Review of manager changes implemented
- Availability of daily information through on-line reporting.

VII. Asset Class Descriptions (subject to discussion with investment manager)

The Investment Manager is responsible for recommending asset classes and strategies that are appropriate for the Fund. The Investment Manager is responsible for providing information and research to assist the Committee in achieving the most efficient Asset Allocation Structure for the Fund while limiting risk.

The Fund's investments and target allocations will be compliant with the Public Employee Retirement System Investment Act (Public Act 314 of 1965, as amended).

Asset classes and strategies that may be included are described below. Investment vehicles may include commingled/collective trusts and separate account investment vehicles invested in active and passive strategies.

U.S. Equity

U.S. equity investments provide exposure to all segments of the U.S. equity markets including large, mid and small capitalization stocks. Strategies may include but not be limited to core, value and growth oriented styles and quantitative and fundamental approaches to security selection. Exposure to U.S. equities may be achieved through active and/or passive management strategies.

International Equity (established markets)

International equity investments provide exposure to established non-U.S. equity markets as measured by the MSCI Europe, Australia and Far East (EAFE) Index and other specialized indexes. Exposure to International equities may be achieved through active and/or passive management strategies.

Emerging Markets Equity

Emerging markets investments provide exposure to equity markets in countries that are characterized by economic advancements as measured by the MSCI Emerging Markets Index and the Russell Emerging Markets Index. The MSCI Emerging Markets Index includes large and medium capitalization stocks issued in 21 emerging markets.

Global Equity

Global equity investments provide exposure to equity markets in the U.S., international established and emerging markets. Global equity investments are measured by the MSCI All Country World Index and the Russell Developed Large Cap Index. A global approach to equity investing is supported in part by a diminishment in distinguishing characteristics between U.S. and non-U.S. equity markets.

Fixed Income

Fixed income investments provide exposure to marketable bonds and convertible securities issued by U.S. and non – U.S. corporate, government, quasi-government and other entities. Fixed income investments will be diversified according to maturity, issuers and credit quality and may include, within approved guidelines, limited allocations to high yield and emerging markets debt.

Real Estate Equity

Real estate equity includes investments in real property including office, retail, multi-family and industrial properties diversified across geographic regions and global markets. Investment vehicles include real estate investment trusts (REITs) and open ended commingled funds measured against the FTSE EPRA/NAREIT Developed Real Estate and NCREIF ODCE indexes.

Fund of Hedge Funds

Fund of Hedge fund investments are aimed primarily at reducing the volatility of the Fund without materially decreasing Fund returns. Hedge fund may include Fund of Hedge Fund collective investments to be selected and monitored by the Investment Manager. Hedge fund strategies differ from traditional public market asset investment strategies due in part to the fact that the portfolio managers may have discretion to use short-selling, leverage, and derivatives and to invest across asset classes.

Commodities

The primary goal of commodities investments is to diversify the total Fund's risk. A secondary objective is to provide for an inflation hedge. Commodities investments may include funds operated as enhanced index or index funds selected by the Investment Manager. Commodities investments will be measured against the Dow Jones UBS Commodity Index.

Private Equity

Private Equity is an illiquid equity asset class that is expected to provide a significant source of investment return. Private Equity investments may include commingled vehicles selected by the Investment Manager that invest in venture capital, buyout, turnaround, mezzanine, distressed security, and special situation funds.

Inclusion of the above investment strategies does not commit the Fund to investing in such strategies, but rather provides a general description should such strategies be included in the Fund's portfolio in the future.

Appendix I

Asset Allocation Targets (Sample)

The target asset allocation shall be approved by the Committee in consultation with the Investment Manager and/or consultant.

Asset Class	Target Allocation
U.S. Large Cap Equities	35.0%
U.S. Small Cap Equities	11.0%
International Equities	12.0%
Total Equities	58.0%
Core Fixed Income	35.0%
Total Fixed Income	35.0%
Global Real Estate	5.0%
Commodities	2.0%
Total Alternative Investments	7.0%
Total Assets	100%

*Notes

- (1) Target allocations are modified samples from Discretionary Investment Manager proposals.
- (2) Target allocations do not reflect targets approved by the Finance Committee.
- (3) Public Act 314 includes a 70% maximum limit on domestic equities and a 20% limit on foreign equities.

Rebalancing

The Committee has delegated to the Investment Manager the discretion to implement asset allocation decisions within the Target Asset Allocation mix. The Investment Manager will monitor the Fund's asset allocation relative to the Target Asset Mix and will rebalance the portfolio if the variance between the Target Allocation and actual balance exceeds a Maximum Variance. The Investment Manager is obligated to manage and administer the portfolio consistent with the Targets. The Investment Manager has defined the Maximum Variance ("Maximum Tolerance) as 2.0%.

To the extent that the Investment Manager requires signature to certify the Target Asset Allocation, the Committee has delegated such authority to the Fund's staff.

Appendix II

Performance Benchmarks

(To be updated as necessary subject to discussion with Investment Manager)

Appendix III

Glossary of Terms (in process)

Asset Allocation – Asset allocation is the process of apportioning investments among different categories of assets toward the end of optimizing risk and return.

Benchmark - A weighted group of securities or indexes that is designed to represent the investment performance of a specific asset allocation structure, asset class or investment strategy.

Beta - A measure of sensitivity of an investment or portfolio to movements in the overall market.

Commingled Funds – Collective investment vehicles that are offered by the Investment Manager and to which Fund assets may be allocated in accordance with the Policy.

Custom Benchmark Index – The custom benchmark index return is calculated by multiplying the return for each asset in the Target Asset Mix by the percent target.

Investment Manager – The entity that is responsible for assisting in the development of the Fund's asset allocation structure and for implementing the asset allocation structure, selecting, directing and terminating investments, among other duties.

Market Cycle – A period that includes one complete upward and downward trend in a market factor or index. A market cycle generally occurs over three to five years.

Net of Fee Investment Returns – The amount of return a portfolio earns after deducting investment related expenses and fees including but not limited to investment manager fees, custodial costs and any transaction costs.

Sharpe Ratio – A measure of the amount of return a portfolio generates for each unit of risk taken.