



CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER

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**CFO ADMINISTRATIVE ORDER
No. 2018-101-009A**

SUBJECT: Retiree Protection Fund Investment Advisory Committee

ISSUANCE DATE: March 29, 2018

EFFECTIVE DATE: March 29, 2018

AMENDED DATE: August 22, 2019

1. AUTHORITY

- 1.1. State of Michigan Public Act 279 of 1909, Section 117.4s(2), as amended by Public Act 182 of 2014, states the chief financial officer shall supervise all financial and budget activities of the city and coordinate the city's activities relating to budgets, financial plans, financial management, financial reporting, financial analysis, and compliance with the budget and financial plan of the city.
- 1.2. Chapter 47 of the 1984 Detroit City Code, Retirement Systems, as amended by Article III Retiree Protection Trust Fund, Sections 47-3-1 through 47-3-10, among other items, authorizes the creation of an investment advisory committee to be chaired by the Chief Financial Officer (the "CFO").
- 1.3. Trust assets be invested as provided by Public Employees Retirement System Investment Act - Michigan Public Act 314 of 1965, MCL § 38.1132 et seq., as amended (Act 314).

2. OBJECTIVE

- 2.1. To ensure the Retiree Protection Fund Investment Advisory Committee (the "Advisory Committee") executes its responsibilities as established by Chapter 47 of the 1984 Detroit City Code, Retirement Systems, as amended by Article III Retiree Protection Trust Fund, Sections 47-3-6 and 47-3-8.
- 2.2. To ensure the CFO receives investment recommendations regarding the Trust assets in a manner that safeguards principle and maximizes the Trust's investment returns.

3. PURPOSE

- 3.1. To establish the responsibilities of the Advisory Committee.
- 3.2. To designate the chair of the Advisory Committee.

4. SCOPE

- 4.1. This Administrative Order only applies to the Investment Advisory Committee established pursuant to Chapter 47 of the 1984 Detroit City Code, Retirement Systems, as amended by Article III Retiree Protection Trust Fund, Section 47-3-8 and does not apply to other City investments.

5. RESPONSIBILITIES

- 5.1. The CFO's Office shall be responsible for the periodic review and maintenance of this Administrative Order, as well as other related policies and / or procedures that may be deemed necessary.
- 5.2. The Advisory Committee shall review, and act in accordance with, this Administrative Order, City Ordinance No. 21-17 and Act 314.

53. The Chief Deputy CFO / Finance Director (the “CDCFO”) shall coordinate the business of the Advisory Committee with assistance from the Office of the Treasury.

6. POLICY

61. The CFO hereby designates the CDCFO as the chair of the Advisory Committee.
62. The Advisory Committee shall develop and recommend a Policy Statement to the CFO, see Exhibit A for current Policy Statement.
63. The Advisory Committee shall, at a minimum, meet annually during the month of September to conduct its business and review the Annual Statement submitted to the CFO by the Trustee.
64. The Advisory Committee, through the chair, shall submit an annual written report (the “Annual Advisory Committee Report”) to the CFO stating its recommendations regarding the investment of Trust assets and any additional information deemed relevant by the Advisory Committee or the CFO no later than the end of October each year. The format of the Annual Advisory Committee Report will be prescribed in the Policy Statement.

7. DEFINITIONS

71. *Annual Advisory Committee Report*: the annual written report to the CFO stating the Advisory Committee’s recommendations regarding the investment of Trust assets and any additional information the Advisory Committee or CFO deems relevant.
72. *Annual Statement*: the Annual Statement submitted to the CFO by the Trustee in accordance with Chapter 47 of the 1984 Detroit City Code, Retirement Systems, as amended by Article III Retiree Protection Trust Fund, Section 47-3-6, Article VIII Accounts and Recordkeeping, Section 8.02 Reporting.
73. *Advisory Committee*: the RPF Investment Advisory Committee established pursuant to Chapter 47 of the 1984 Detroit City Code, Retirement Systems, as amended by Article III Retiree Protection Trust Fund, Section 47-3-8.
74. *Policy Statement*: the Policy Statement outlines 1) specific guidelines for the management of the Trust and 2) the requirement of the Annual Advisory Committee Report.
75. *Trust*: the Retiree Protection Trust Fund established pursuant to Chapter 47 of the 1984 Detroit City Code, Retirement Systems, as amended by Article III Retiree Protection Trust Fund, Section 47-3-2.
76. *Trustee*: the Trustee as defined in Chapter 47 of the 1984 Detroit City Code, Retirement Systems, as amended by Article III Retiree Protection Trust Fund, Section 47-3-6.

APPROVED



David P. Massaron
Chief Financial Officer, City of Detroit

EXHIBIT A: POLICY STATEMENT

CITY OF DETROIT RETIREE PROTECTION FUND

Investment Policy Statement

I. PURPOSE OF INVESTMENT POLICY STATEMENT

Ordinance No. 21-17 amended Chapter 47 of the Detroit City Code to establish a Trust as a mechanism to save and invest funds and contributions of the City for later distribution to the General Retirement System and the Police and Fire System, and to authorize the creation of an Investment Advisory Committee (IAC). Furthermore, pursuant to CFO Administrative Order No. 2018-101-009, the IAC shall submit an Annual Advisory Committee Report to the CFO stating its recommendations regarding the investment of the Trust assets. The purpose of this Investment Policy Statement (Statement) is to provide 1) specific guidelines for the management of assets of the Trust and 2) the requirements of the Annual Advisory Committee Report.

This Statement is authorized by CFO Administrative Order No. 2018-101-008, CFO Administrative Order No. 2018-101-009, City Ordinance No. 21-17 and the Public Employees Retirement System Investment Act - Michigan Public Act 314 of 1965, MCL § 38.1132 *et seq.*, as amended (Act 314).

Investment objectives are formulated in response to the financial needs of the Trust. Financial needs are influenced by the City's benefit policies, funding objectives, liabilities, and the successful management of Trust assets. Therefore, investment objectives consider the Trust's financial and liquidity needs and the City's risk tolerances and inflation expectations.

II. Roles and Responsibilities

A. Investment Advisory Committee

The Investment Advisory Committee (IAC) acknowledges its responsibility as an advisor to the CFO, who is a fiduciary to the Trust. In this regard, the IAC must provide advice prudently and for the exclusive interest of the Trust's participants and beneficiaries.

More specifically, the IAC's responsibilities include:

1. Comply with the provisions of pertinent federal, state, and local laws and regulations, including Act 314.
2. With the advice of the Investment Consultant, recommend qualified investment managers and consultants to manage and advise on the Trust's assets.
3. With the advice of the Investment Consultant, monitor and review the investment performance of the Trust to determine achievement of goals and compliance with policy guidelines.
4. With the advice of the Investment Consultant, monitor and evaluate manager performance.
5. Conduct manager searches when needed for policy implementation.
6. When the IAC is considering the engagement of a new investment manager, the IAC may perform due diligence site visits to the offices of the interview candidates.
7. Make recommendation of return assumptions.

*City of Detroit Retiree Protection Fund – Investment Policy Statement***B. Investment Consultant**

The Investment Consultant's (Consultant) role is that of an advisor to the Trust, enabling the Investment Advisory Committee to make well-informed and timely recommendations to the CFO regarding the investment of the Trust's assets. The Consultant acknowledges its responsibilities as an advisor to the CFO, who is a fiduciary under Act 314 and must act in the exclusive interest of the Trust.

More specifically, the Consultant's responsibilities include:

1. Assist the IAC in strategic planning for the Trust. Provide objective advice and counsel that will enable the IAC to make well-informed and well-educated recommendations regarding the investment of the Trust's assets.
2. Assist the IAC in the development and periodic review of a policy statement that properly reflects the IAC's tolerance for risk, and that best assists the IAC in meeting its rate-of-return, and overall investment policies associated with administering and investing this Trust.
3. Assist the IAC in the development and periodic review of the asset allocation policy and investment manager structure that provides adequate diversification with respect to the number and types of asset classes and investment managers to be retained.
4. Determine the Trust's capacity to add new investments, participate in cash flow/liquidity forecasting for the Trust's needs, and advise on general compliance requirements.
5. Review, monitor, and advise the IAC on the current asset allocation to determine whether the Trust complies with asset limitations under Act 314 (as amended) and the IAC's investment objectives and guidelines.
6. Assist the IAC in its due diligence and search for new investment manager(s) utilizing the appropriate data bases, both externally and proprietary.
7. Assist the IAC in the development and review of performance standards and guidelines with which the IAC can measure each investment manager's progress.
8. To provide to the IAC quarterly performance measurement reports on each of the investment managers and on the Trust as a whole, and to assist the IAC in interpreting the results.
9. Monitor and review monthly statements, review and advise the IAC on information sent by the investment managers, review investment managers as necessary (based on the guidelines set forth in this IPS and the consultant's internal research policies; including but not limited to legal and financial information provided by the managers).
10. The Consultant's report will be the main report the IAC utilizes when evaluating the overall investment results of the Trust and individual managers. The Consultant will reconcile performance, holdings, and security pricing data with the Trust's custodian bank and when necessary staff reports/data. In the event of a discrepancy, the custodian's values will be used.
11. Make recommendation of return assumptions to the IAC.
12. Provide general consulting services as requested by the IAC and as deemed appropriate by the Investment Consultant. Attend necessary meetings as requested by the IAC. Act as a liaison between investment managers and the Trust, and thereby facilitate the communication of important information in the management of the Trust.
13. Shall acknowledge in writing that they are a prudent expert for the Trust with all attendant duties and responsibilities, including without limitation, fiduciary responsibility.

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14. Shall conduct themselves in accordance with this Investment Policy Statement.
15. Such other duties as may be mutually agreed upon in writing.

C. Investment Managers

The investment managers (Managers) will acknowledge their responsibility as an investment fiduciary under Act 314. Each investment manager will have full discretion to make all investment decisions for the assets placed under their control, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement.

More specifically, the Managers' responsibilities include:

1. Manage the Trust's assets under its supervision in accordance with the guidelines and objectives contained in this Investment Policy Statement.
2. Exercise investment discretion in regard to buying, managing, and selling assets held in the portfolio, subject to any limitations contained in this Investment Policy Statement.
3. Perform its investment management duties with respect to the assets with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with such matters would use in the conduct of a similar enterprise with similar aims.
4. Seek to obtain "best execution" with respect to portfolio transactions.
5. Vote all proxies consistent with the guidelines contained in the Manager's Investment Management Agreement or similar document. Investment managers shall provide documentation regarding the disposition of proxy solicitations to the IAC upon request.
6. Comply with the reporting requirements outlined in this Investment Policy Statement.
7. Acknowledge and agree in writing as to their fiduciary responsibility to comply fully with the entire Investment Policy Statement set forth herein.
8. Report to the IAC and Consultant quarterly regarding the status of the portfolio and its performance for various time periods and meet with the IAC as requested to report on their performance and compliance with goals and objectives.
9. Promptly inform the IAC and Investment Consultant regarding all significant matters pertaining to the investment of the Trust's assets. The IAC shall be notified in writing of any material change in ownership, organizational structure, financial condition, senior staffing and management, or the management of the investment manager's portfolio.
10. Michigan law shall apply to all investment manager contracts where individual investment manager agreements are negotiated.

D. Custodian

The custodian (Custodian) will provide safekeeping and accounting services for the Trust. More specifically, the Custodian's responsibilities include:

1. Provide adequate safekeeping services.
2. Upon receipt of proper, executable trade instructions, custodian shall seek to settle trades in a timely manner.
3. Collect interest and dividend income when due.

City of Detroit Retiree Protection Fund – Investment Policy Statement

4. Notify investment managers of corporate actions, including mergers, tender offers, stock splits and capital changes that require a decision.
5. Sweep daily cash balances into appropriate investment funds.
6. Accept instructions from the designated individuals.
7. Disburse funds as directed.
8. Provide monthly statements by investment managers' accounts and a consolidated statement of all assets.
9. To perform other services for the IAC as are customary and appropriate for custodians.

III. INVESTMENT OBJECTIVES

The objectives of the Trust have been established in conjunction with a comprehensive review of the current and projected financial requirements as presented in an asset allocation review performed in 2019 by the Consultant. The objectives include:

- To have the ability to supplement the City's General Fund in making its annual required contributions to the Pension Systems when due.
- The Trust's overall investment objective is the preservation of principal.
- To maintain the purchasing power of the current assets and all future contributions by producing positive real rates of return on Trust assets.
- To control costs of administering the Trust and managing the investments.
- To meet all statutory requirements of the State of Michigan.

The following investment objectives, in order of priority, shall be applied in the management of the Trust:

The primary objectives, in priority order, of investment activities shall be safety, yield and liquidity.

- **Safety.** Safety of principal is the foremost objective of the Trust. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to manage credit risk and interest rate risk.
- **Return on Investment.** The Trust shall be designed with the objective of attaining the maximum market rate of return throughout budgetary and economic cycles, taking into account the IAC's investment risk constraints and cash flow needs and characteristics of the portfolio
- **Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all budgetary requirements that may be reasonably anticipated.

*City of Detroit Retiree Protection Fund – Investment Policy Statement***IV. ASSET ALLOCATIONS**

The asset allocation policy is developed 1) to attempt to achieve the investment objectives, 2) to achieve the expected investment returns with a prudent amount of investment risk, and 3) in recognition that the capital markets may behave differently over any time period, throughout the life of the Trust.

This strategic asset allocation policy is consistent with the achievement of the Trust's financial needs and overall investment objectives. Asset classes are selected based on their expected long-term returns, individual reward/risk characteristics, correlation with other asset classes, manager roles, and fulfillment of the Trust's long-term financial needs. Conformance with statutory investment guidelines is also considered.

The Investment Advisory Committee will recommend an allocation range for each asset class and provide the recommendation in the IAC's Annual Advisory Committee Report. The IAC recognizes the need to vary exposure within and among different asset classes, based on investment opportunities and changing capital market conditions. The IAC will take into consideration the Trust's current investments and present market conditions. The IAC intends to review these allocation targets at least annually, focusing on changes in the Trust's financial needs, investment objectives and asset class performance.

The IAC's attitude regarding the Trust's assets combines both the preservation of capital and minimal risk-taking. The IAC recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the potential of loss in purchasing power (due to inflation) are present to some degree with all types of investment vehicles. While high levels of risk are to be avoided, the assumption of a limited level of risk is warranted in order to allow the opportunity to achieve satisfactory results consistent with the objectives and character of the Trust. The policies and restrictions contained in this statement should not impede the investment manager to attain the overall Trust objectives, nor should they exclude the investment manager from appropriate investment opportunities.

V. INVESTMENT PERFORMANCE OBJECTIVES**A. Total Portfolio Performance**

1. The Trust will be managed in accordance with the parameters specified in this Investment Policy. The portfolio should obtain a market average rate of return. A series of appropriate benchmarks shall be established against which the portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual allocation of assets, securities held, and the risks undertaken.

B. Fixed Income Performance

The overall objective of the fixed income portion of the portfolio is to add stability and liquidity to the total portfolio.

VI. INVESTMENT GUIDELINES**A. Overall**

All investment guidelines and restrictions of the State of Michigan are incorporated by reference, including, but not limited to Act 314.

B. Pooled Funds

Investments made by the Trust may include pooled funds. For purposes of this policy pooled funds may include, but are not limited to, mutual funds, commingled funds, exchange-traded funds, limited

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partnerships and limited liability corporations. Pooled funds may be governed by separate documents which may include investments not expressly permitted in this IPS. In the event of investment by the Trust into a pooled fund, the Trust will adopt the prospectus or governing policy of that fund as that manager's addendum to this Investment Policy Statement.

C. Alternative Investments

The Trust may invest in investments that would otherwise not be qualified under these Investment policies, to the extent permitted under Section 38.1140d of Act 314 (informally referred to as the "basket clause").

D. Collective Investment Restrictions and Correcting Excess/Deficient Investments

All Managers are restricted individually, and collectively, by this IPS. The Managers shall coordinate periodically with the Consultant, who shall (among other things) assure collective compliance with this IPS. In the event any investment based on changes in the market value of the Trust assets, causes the Trust to exceed or fall short of any range prescribed in this IPS, the assets may be reallocated in a prudent manner to comply with Act 314 and the strategic allocation and ranges outlined in this IPS.

E. Guideline for Fixed Income Investments

1. Per Act 314, as amended guidelines, not more than 15% of the Trust's assets may be invested in below investment grade bonds. Investment grade is defined as securities graded in the top 4 major grades as determined by 2 national rating services. Asset allocation guidelines may be more restrictive and provide for a lower amount of exposure to below investment grade bonds.
2. For mutual funds and collective trusts guidelines will be outlined in their prospectus or offering document.

VII. REPORTING**A. Monthly**

On a monthly basis, the Custodian shall supply an accounting statement that will include a summary of all receipts and disbursements and the cost and the market value of all assets.

B. Quarterly

On a quarterly basis the Investment Managers shall deliver a report detailing the Trust's performance, forecast of the market and economy, portfolio analysis and current assets of their portfolio. Written reports shall be delivered to the IAC and the CFO within 30 days of the end of the quarter. A copy of the written report shall be submitted to the person designated by the City of Detroit Retiree Protection Fund and shall be available for public inspection. The Investment Managers will provide immediate written and telephone notice to the IAC of any significant market related or non-market related event impacting the portfolio and its performance.

The Investment Consultant shall evaluate and report on a quarterly basis the rate of return and relative performance of the Trust on a gross and net of fee basis.

C. Annually – Annual Advisory Committee Report

Pursuant to CFO Administrative Order 2018-101-009: Retiree Protection Fund Investment Advisory Committee, the Advisory Committee, through the chair, shall submit an annual written report to the CFO stating its recommendations regarding the investment of Trust assets and any additional information deemed relevant by the Advisory Committee of the CFO no later than the end of October each year.

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At minimum, the following items shall be included in the Annual Advisory Committee Report:

1. Summary of activity of the IAC since submittal of the previous Annual Advisory Committee Report
2. Asset Allocation Recommendations and Justification (including analysis of Risk)
3. Earnings assumptions for total portfolio, as well as any portion as appropriate (e.g., Fixed Income)
4. Forecast which models Trust performance through life of the trust fund.

D. As Necessary

If an Investment Manager holds securities, that complied with section VI at the time of purchase, which subsequently exceed the applicable limit or do not satisfy the applicable investment standard, such excess or noncompliant investments may be continued until it is economically feasible to dispose of such investment in accordance with the prudent person standard of care, but no additional investment may be made unless authorized by law or ordinance. In addition, an action plan outlining the investment 'hold or sell' strategy shall be provided to the IAC immediately.

The IAC will meet periodically to review the Investment Consultant's performance report. The IAC will meet with the Investment Managers and appropriate outside consultants to discuss performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the Trust on a periodic basis.

VIII. COMPLIANCE

It is the direction of the IAC that the Trust assets are held by a third-party Custodian, and that all securities purchased by, and all collateral obtained by the Trust shall be properly designated as Trust assets. No withdrawal of assets, in whole or in part, shall be made from safekeeping except by an authorized member of the IAC or their designee.

At the direction of the IAC, operations of the Trust shall be reviewed by independent certified public accountants as part of any financial audit periodically required. Compliance with the IAC's internal controls shall be verified. These controls have been designed to prevent losses of assets that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the IAC or employees of the Trust sponsor, to the extent possible.

IX. CRITERIA FOR INVESTMENT MANAGER REVIEW

The Investment Consultant will monitor the performance for each component of the Trust on a monthly basis utilizing a time-weighted rate of return calculation. Certain managers, based on their individual investment mandates, may report results using an internal rate of return calculation. The Investment Consultant will review investment manager information monthly and will provide updates to the IAC as necessary. No investment manager will make a presentation to the IAC unless requested by the Investment Consultant due to probationary status as outlined below or any other extenuating circumstance where the Investment Consultant deems it appropriate that the IAC receives such presentation from the investment manager.

The Investment Consultant will evaluate each investment manager as outlined in this IPS and will then report to the IAC.

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The IAC may initiate a change in investment manager at any time based upon performance results, a change in investment needs, a lack of confidence based upon the evaluation of the investment manager's results, or for any other or no reason at all.

The IAC wishes to adopt standards by which judgments of the ongoing performance of a Manager may be made. The IAC will rely on the Investment Consultant to carefully monitor the Trust's investment managers on several key indicators outlined below:

- Style consistency or purity drift from the mandate.
- Management turnover in portfolio team or senior management.
- Investment process change, including varying the index or benchmark.
- Failure to adhere to the Investment Policy Statement or other compliance issues.
- Investigation of the firm by the Securities and Exchange Commission (SEC) or other regulatory agency.
- Significant asset flows into or out of the company or strategy.
- Merger or sale of firm.
- Fee increases outside of the competitive range.
- Servicing issues – key personnel stopservicing the account without proper notification.
- Failure to attain a majority vote of confidence by the IAC.

Nothing in this section shall limit or diminish the IAC's right to terminate the Manager at any time.

X. REVIEW AND AMENDMENTS

The investment policy is intended to be flexible and should be reviewed and modified on an ongoing basis. The goals, objectives and guidelines may be amended to reflect material or sustained changes in the financial condition of the Trust, the economic environment, regulatory change or the opportunities available within the capital markets. All changes to this document will be subject to IAC and CFO approval and will be made on an as needed basis.

Adoption recommended by Investment Committee on July 24, 2019.

Adopted **CITY OF DETROIT RETIREE PROTECTION FUND**



CFO Approval
David P. Massaron, CFO

August 22, 2019

Date

City of Detroit Retiree Protection Fund – Investment Policy Statement

MANAGEMENT REPORT:

A. Asset Allocations – as of July 2019

Asset Class*	Target	Range	Benchmark Index
Global Equity	0%	0-0%	MSCI World Index
Intermediate Gov/Cred	50%	35-60%	BB Intermediate Gov/Credit
US AGG Fixed Income	50%	35%-60%	BB US Aggregate Bond
High Yield	0	0-10%	BB US High Yield Bond
Leveraged Loans	0%	0-10%	S&P LSTA Leveraged Loan Index
Cash*	0%	0%-30%	90-Day T-Bills

The IAC recognizes that from time to time the asset mix will deviate from the targeted percentages due to market conditions. A range has been established for each asset class to control the risk and maximize the effectiveness of the Trust's asset allocation strategy, while avoiding unnecessary turnover at the security level. The Investment Consultant will monitor the aggregate asset allocation of the portfolio and notify the Investment Advisory Committee to rebalance to the target asset allocations based on market conditions. To minimize turnover, an asset class that is outside of its allowable range, will be rebalanced towards its target allocation in a prudent manner. When possible, contributions and distributions will be utilized to maintain allocations within policy ranges and reduce transaction costs.

The IAC does not intend to exercise short-term changes to the target allocations.

B. Portfolio Performance – as of July 2019

The IAC recommends, on an absolute basis, a return of the total portfolio that will equal or exceed the budgeted earnings assumption of 3.0%. This absolute return objective will be evaluated in the context of the prevailing market conditions. The core fixed income portion of the portfolio is expected to perform at a rate at least equal to 1) the Bloomberg Barclays Capital U.S. Aggregate Bond Index, and 2) rank in the top 50th percentile of the total core fixed income universe over three (3) and five (5) year time periods.