



"RE-BUILDING THE CITY'S WATER SYSTEMS FOR THE 21ST CENTURY"

Sewerage & Water Board OF NEW ORLEANS

MITCHELL J. LANDRIEU, President
WM. RAYMOND MANNING, President Pro-Tem

625 ST. JOSEPH STREET
NEW ORLEANS, LA 70165 • 504-529-2837 OR 52W-ATER
www.swbno.org

May 15, 2015

TO THE HONORABLE MEMBERS OF THE SEWERAGE AND WATER BOARD OF THE PENSION TRUSTEES

Mesdames and Gentlemen:

This comes as a formal notification of a Meeting of the Board of Pension Trustees of the Sewerage and Water Board of New Orleans being held on Wednesday, May 20, 2015 at 8:45 a.m. immediately prior to the Regular Board Meeting being held at 9:00 a.m., at 625 St. Joseph Street, Room 240, as follows:

The purpose of the meeting is to approve the following:

1. Previous Report - November 19, 2014
2. Amendments to the Employees' Retirement System Investment Policy Statement.

Respectfully,

Robert K. Miller
Deputy Director
Sewerage & Water Board of New Orleans

BOARD OF TRUSTEES MEETING

SEWERAGE & WATER BOARD OF NEW ORLEANS

WEDNESDAY, MAY 20, 2015

8:45 AM- PRIOR TO REGULAR BOARD

SEWERAGE & WATER BOARD- BOARD ROOM

625 ST. JOSEPH STREET

ORDER OF BUSINESS

- 1. Calling of the Roll**
- 2. Approval of Previous Report**
- 3. Amendment of the Investment Policy Statement**
- 4. ADJOURNMENT**

BOARD OF TRUSTEE'S MEETING

NOVEMBER 19, 2014

MEETING MINUTES

SEWERAGE AND WATER BOARD OF NEW ORLEANS

ROLL CALL

The Executive Director, Cedric S. Grant, called the roll and showed the following members present: **Ms. Suchitra Satpathi, Mr. Wm. Raymond Manning, Mr. Alan Arnold, Mrs. Robin Barnes, Mr. Scott Jacobs, Mr. Joseph Peychard, Mr. Harold Heller, Mr. Gerald Tilton, Mr. John Wilson, Mr. Marvin Russell, (Ten) and a quorum.

Absent: Mr. Marion Bracy, Dr. Tamika Duplessis, Mr. Mark M. Moody, Ms. Kimberly Thomas (Four).

**Ms. Suchitra Satpathi, Mayor's Representative

Also present were: Brenda Thornton, CommuniRep, Inc.; Richard Rainey, Times Picayune; The Hawthorne Agency, Inc.; Paul West, Chester Engineers; Renee' Lapeyrolerie, CDM Smith; Stephen Stuart, BGR; John Weiler, Weiler & Rees; Octave Francis, Marcia Culotta, FFC Capital Management.

Staff present were: Cedric S. Grant, Executive Director; Robert Miller, Deputy Director; Joseph Becker, Madeline Fong Goddard, General Superintendent's Office; Nolan Lambert, Special Counsel; Brian Ferrara, Harold Marchand, Legal Department; Raymond Gable, Irma Mahannuar, Internal Audit Department; Willie Mingo, Purchasing Department; Rosita Thomas, Finance Administration Department; Robert Jackson, Community & Intergovernmental Relations Department; Bobby Nathan, EEOC, Equal Employment Opportunity Department; Kathleen LaFrance, Executive Director's Office; Dexter Joseph, Budget Department.

A quorum was established and Mr. Wm. Raymond Manning, President Pro Tem, presided and called the meeting to order at 8:45 a.m.

APPROVAL OF THE PREVIOUS REPORT

Mr. John Wilson moved for the approval of the previous meeting held on September 17, 2014. Mr. Alan Arnold seconded the motion. The motion carried.

**AMENDMENT TO THE RULES AND REGULATIONS OF THE
EMPLOYEES' RETIREMENT SYSTEM OF THE SEWERAGE AND
WATER BOARD OF NEW ORLEANS**

The Pension Committee and the staff discussed and reviewed the results of the recent pension actuarial study which showed that the health of the pension plan has decreased while the cost of the plan has increased. During the August 2014 Pension Committee Meeting, management identified two recommended changes to the rules that are intended to improve the health of the pension plan of the Sewerage and Water Board. These recommended changes are as follows:

- Increase employee contribution rate effective January 1, 2015 from 5% to 6% for all employees.
- Change computation of average compensation to highest consecutive 48-month period effective on January 1, 2017 and to highest consecutive 60-month period effective January 1, 2018 for all employees who are not retirement-eligible as of December 31, 2014.

The Executive Director stated staff recommends the Board adopt the above proposed changes to the Sewerage and Water Board of New Orleans amendment to the rules and regulations of the employees' retirement system.

- Mr. Alan Arnold moved for the approval of the Amendment to the Rules and Regulations of the Employees' Retirement System of the Sewerage and Water Board of New Orleans, therein, (R-251-2014). Ms. Suchitra Satpathi seconded the motion.

Mr. Wm. Manning requested by a show of hands of those in approval: Ms. Suchitra Satpathi, Mr. Alan Arnold, Mr. Wm. Manning, Mrs. Robin Barnes, Mr. Joseph Peychaud; a total of six (6) yeas.

Mr. Wm. Manning requested by a show of hands of those in opposition: Mr. Harold Heller, Mr. Marvin Russell, Mr. Gerald Tilton, and Mr. John Wilson; a total of four (4) nays.

- The motion carried; the resolution passed.

ADJOURNMENT

There being no further business the meeting adjourned at 8:55 a.m.



SEWERAGE AND WATER BOARD OF NEW ORLEANS

May 20, 2015

Board of Trustees

Sewerage and Water Board of New Orleans Employee Retirement System
New Orleans, Louisiana

Dear Committee Members:

Subject: Recommended Update of Employees' Retirement System Investment Policy Statement

The Policy Adoption Statement of the Sewerage and Water Board of New Orleans Employees' Retirement System Investment Policy Statement states *"The Board of Trustees will review this IPS at least annually to determine whether stated investment objectives are still relevant, and the continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS."* In accordance with this policy adoption statement, the Pension Committee reviewed and the document and recommends adoption of the updated Investment Policy Statement.

Staff has provided the attached marked-up pages and final recommended copy of the Employees' Retirement System Investment Policy Statement for your review. The changes reflect the recommendations of FFC Capital Management. Staff will be prepared to discuss the policy at the May 20, 2015 meeting of the Board of Trustees.

Robert K. Miller
Deputy Director

SEWERAGE & WATER BOARD
of NEW ORLEANS
EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT POLICY STATEMENT



Original Draft Adopted - November 4, 2004

As Amended –

~~August 17, 2011~~ May 20, 2015

Document Prepared By:



FFC CAPITAL MANAGEMENT

The Investment Policy Statement (IPS) should be reviewed and updated at least annually. Any change to this policy should be communicated in writing on a timely basis to all parties of interest.

STATEMENT OF PURPOSE

The purpose of this Investment Policy Statement (IPS) is to guide the Board of Trustees (the members of the Sewerage & Water Board and the elected employee members to the Board of Trustees) [Appendix A] in effectively supervising, monitoring and evaluating the investment of the SWBNO Employees' Retirement System assets. The Plan's investment program is defined in the various sections of the IPS by:

1. Stating in a written document the Board of Trustees' attitudes, expectations, objectives, and guidelines for the investment of all Plan assets.
2. Setting forth an investment structure for managing all Plan assets. This structure includes various asset classes, investment management styles, asset allocation, and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
3. Providing guidelines for each investment portfolio that when viewed in conjunction with each individual investment manager's contract, control the level of overall risk and liquidity assumed in that portfolio.
4. Providing policy concurrent rate-of-return and risk characteristics for various investment options utilized in developing asset allocation. [Appendix B].
5. Encouraging effective communications between the Board of Trustees, the investment consultant and hired money managers.
6. Establishing formal criteria to monitor, evaluate, and compare the performance results achieved by the money managers on a regular basis.
7. Complying with all fiduciary, prudence and due diligence requirements experienced investment professionals would utilize; and with all applicable laws, rules and regulations from various local, state, federal, and international political entities that may impact Plan assets.
8. ~~Complying (though not bound by law to comply) with ERISA regulations as a matter of prudence.~~

This IPS has been formulated, based upon consideration by the Board of Trustees, of the financial implications of a wide range of policies, and describes the prudent investment process the Board of Trustees deems appropriate.

5. Maximize return within reasonable and prudent levels of risk in order to minimize contributions.

6. Control costs of administering the plan and managing the investments.

Keys to achieving objectives include maximizing investment returns within prudent levels of risk, while minimizing the Plan's reliance on contributions.

Time Horizon

The investment guidelines are based upon the Plan's investment time horizon of (>5) greater than five years. Interim fluctuations should be viewed with appropriate perspective. Similarly, the Plan's strategic asset allocation is based on this long-term perspective. Short-term liquidity requirements are anticipated to be non-existent, or at least should be covered by the annual contribution.

Risk Tolerances

The Board recognizes the difficulty of achieving the Plan's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Board also recognizes some risk must be assumed to achieve the Plan's long-term investment objectives. In establishing the risk tolerances of the IPS, the ability to withstand short- and intermediate-term variability were considered. These factors were:

- The SWBNO Employees' Retirement System's strong financial condition enables the Board to adopt a long-term investment perspective, allowing for a less aggressive risk tolerance.
- Demographic characteristics of participants suggest an average risk tolerance due to the moderate to aging work force.

In summary, the SWBNO Employees' Retirement System's prospects for the future, current financial condition and several other factors suggest collectively the Plan can tolerate some interim fluctuations in market value and rates of return in order to achieve long-term objectives.

Performance Target

The desired investment objective is a long-term rate of return on assets that is at least 7.00%, as defined by current² actuarial assumptions. ~~Annually, over a three to five (3 to 5) year period, the~~ Plan's overall ~~annualized~~ total return, after deducting for advisory, money management, and custodial fees, as well as total transaction costs; should perform above a customized index comprised of market indices weighted by the strategic asset allocation of the Plan.

² Based upon 2010 actuarial report

Review of Investments

The Board will review in addition to the total fund; each active manager's and indexed product's performance at least quarterly with its Consultant. The total fund will be measured against a composite index of asset class proxies or benchmarks blended in the same percentages as the IPS asset allocation targets contained herein. Each active investment manager will be measured against an appropriate benchmark(s) as stated in their respective contract(s). Each indexed product will be measured against its appropriate tracking index.

Market Indices

Available benchmarking opportunities for the capital markets include the Dow Jones 30 Industrial Average, S&P 500, Russell 1000 Indexes for large cap equities, the Russell 2000 Index for small cap equities, the MSCI ACWI Index for global equities, the MSCI EAFE ACWI ex-U.S. Index for international equities, the ~~Salomon Brothers Broad Investment Grade~~ Barclays Aggregate Bond Index for investment grade fixed income securities, Venture Economics Index for Private Equity, ~~CSFB Tremont~~ HFRI Fund-of-Funds Index for Absolute Return, ~~the Merrill Lynch Convertible Bond Index for convertible bonds~~ and/or other comparable indices appropriate for monitoring individual portfolio investment strategies. Some of the other comparable indices include style indices such as the Russell 1000 Growth or Value Index for large cap growth or value, and the Russell 2000 Growth or Value Index for small cap growth or value.

Performance reviews will focus on:

1. Total Retirement System and investment manager compliance with the IPS guidelines and stated investment regulations.
2. Material changes in the manager organizations, such as in investment philosophy, personnel, acquisitions or losses of major accounts, etc.
3. Comparison of managers' results to a universe of funds using a similar investment style and similar asset classes.
4. Comparison of managers' results to style specific benchmarks established for each individual manager's portfolio. Where multiple asset classes are employed in a portfolio, a customized benchmark index ~~will~~ may be developed to mirror the asset classes utilized by the manager.
5. The appropriate market index will be stated in each investment manager's contract.

Compliance

On an ongoing basis, the Board of Trustees and its Consultant will review each investment manager's relative compliance with, and adherence to the principles, guidelines and benchmarks established in this IPS. Annually, each investment manager will be formally examined and graded individually. If, in the opinion of the Board of Trustees, there is concern for remedial action to be taken by the investment manager, it will be expressed and communicated by the Board of Trustees to the Investment Manager at that time.

The investment managers will be responsible for keeping the Board of Trustees advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance of all managers. The investment managers will be responsible for reconciliation with Custodian Bank.

Performance Expectations

The Board of Trustees recognizes that real return objectives may not be meaningful during some time periods. In order to ensure that investment opportunities available over a specific time period are fairly evaluated, the Board of Trustees will use comparative performance statistics to evaluate investment results. Each investment manager (whether equity, fixed income or alternative manager) and the total Retirement System, will be expected to achieve minimum performance standards as follows:

- 1) Rank in the top forty percent (40%) of an appropriate style peer group of actively managed portfolios over rolling three-year periods.
- 2) Exceed an appropriate benchmark index, net of management fees over rolling three-year periods.
- 3) ~~Where appropriate, rank in the top forty percent (40%) of a style universe over rolling three-year periods.~~

The Board of Trustees is keenly aware that ongoing review and analysis of the Plan's investment products and managers is just as important as the due diligence implemented during the selection process. The net performance of all indexed products and investment managers will be monitored on an ongoing basis; and at the sole discretion of the Board of Trustees, corrective (probation, termination) or progressive (new hire, add funds) action may be taken if it is deemed appropriate at any time.

On a timely basis, but not less than quarterly, the Board of Trustees will meet to review whether or not individual active investment managers as well as indexed products achieve and maintain the Board's performance expectations as outlined above; specifically:

- The manager's adherence to the Plan's investment guidelines
- Material changes in the manager's organization, investment philosophy, and/or personnel
- Any legal, SEC, and/or other regulatory agency proceedings affecting the manager.

While these performance standards should be achieved over a three to five year period complete market cycle, the Board of Trustees will also monitor performance on a shorter-term basis.

The Investment Managers are requested to be aware at all times of the pension plan's actuarial assumption of seven percent (7%) overall annual return.

Probationary Period

Investment managers should be advised that the Board of Trustees intends to track interim progress toward multi-year (3 to 5-year) goals. However, if in the opinion of the

3. A meeting with the manager, which may be conducted on-site, to gain insight into organizational changes and any changes in strategy or discipline.

Style Benchmarks

<u>Style Based Asset Class</u>	<u>Index/Benchmark</u>	<u>Peer Group Universe</u>
<i>Global Equity (Styles)</i>	<i>Russell 3000 Index</i>	<i>PSN All Cap</i>
<u>Class Aggregate</u>	<u>Russell 3000 Index</u>	<u>PSN All Cap</u>
Large Cap Value	Russell 1000 Value Index	PSN Large Cap Value
LC Enhanced Core	Russell 1000 Index	PSN Large Cap
Large Cap Growth	Russell 1000 Growth Index	PSN Large Cap Growth
Mid Cap Core	Russell Mid Cap Index	PSN Mid Cap
SMID Cap Core	Russell 2500 Index	PSN Small Mid Cap
Small Cap Core	Russell 2000 Index	PSN Small Cap

<u>International Equity</u>	<u>MSCI ACWI-EX US Index</u>	<u>PSN Int'lernational Equity</u>
<u>Global Fixed Income (Style)</u>	<u>Barclays Aggregate Bond</u>	<u>PSN Core Plus Fixed</u>
<u>Class Aggregate</u>	<u>Barclays Aggregate Bond Index</u>	<u>PSN Core Plus Fixed</u>
<u>Core Bond</u>	<u>Barclays Aggregate Bond Index</u>	<u>PSN Core Fixed</u>
<u>Core-Plus Bond</u>	1) Barclays Aggregate Bond Index 2) ¹³ Barclays Global Agg Bond Index + 50 bps	PSN Core Plus Fixed
<u>Global TIPS</u>	CG World Govt Index 2) <u>BGI Barclays World Inflation Linked Bond World Government Infl. Linked Index</u>	<u>PSN Global Fixed TIPS</u>
<u>Convertible Bonds</u>	BofA ML Inv. Grade Convertible Bond Index	PSN Convertibles
<u>Alternatives Investments</u>	<u>Sub-Class Blended Index</u>	
<u>Class Aggregate</u>	<u>Sub-Class Blended Index</u>	N/A
<u>Absolute Return/Multi-Strat/Multi-Manager HFOFs/Absolute Return</u>	1) Dow Jones Credit Suisse Blue Chip HF Index 2) HFRI Fund-of-Funds Index	N/A <u>PSN Fund-of-Funds</u>
<u>Domestic REITs</u>	<u>DJ Wilshire REIT Index</u> <u>MSCI REIT</u>	PSN REIT/Real Estate
<u>International REITs</u>	<u>DJ Wilshire xUS RESI Index</u> <u>FTSE/EPRA NAREIT ex US</u>	PSN Global/International REIT
<u>Commodities</u>	<u>S&P GSCI</u>	<u>PSN Commodities & Energy</u>

Formatted: Font: Italic

Formatted: Font: Italic

Formatted: Font: 11 pt

¹³ Formerly Lehman Brothers Aggregate Bond Index

~~The Board of Trustees will review this IPS at least annually to determine whether stated investment objectives are still relevant, and the continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.~~

DRAFT

APPENDIX A

Sewerage and Water Board of New Orleans

Board Officers

Mitchell J. Landrieu, President

~~Tommie Vassel~~ Raymond Manning, President Pro-Tem

Sewerage and Water Board of New Orleans

Board Members

~~Jacquelyn Brechtel Clarkson, Council Member-at-Large~~ Alan Arnold

~~Stacy Head, Councilwoman~~ Robin Barnes

~~Jon D. Johnson, Councilman~~ Marion Bracy

~~Karen Henley-Raymond~~ Dr. Tamika Duplessis

~~Raymond Manning~~ Scott Jacobs

~~Mark M. Moody~~ Keri Kane

~~Glen Pilie~~ Mark Moody

~~Florence Schornstein~~ Joseph Psychaud

~~Beverly Wright, PhD.~~

~~Loyce P. Wright~~ Kimberly Thomas

Sewerage and Water Board of New Orleans

Employee Trustees

Harold Heller

Marvin Russell

Gerald Tilton

John Wilson

Sewerage and Water Board of New Orleans Management

~~Marcia St. Martin~~ Cedric S. Grant, Executive Director

Robert K. Miller, Deputy Director

APPENDIX B

SUMMARY OF CAPITAL MARKETS INPUTS

LONG TERM CAPITAL MARKET ASSUMPTIONS RETURN AND RISK CHARACTERISTICS

ASSET CLASS	EXPECTED AROR	RISK	CORRELATION to US LCE
US Large Cap Equity	8.40	17.00	1.00
US Mid Cap Equity	8.55	21.00	.91
US Small Cap Equity	8.70	25.00	.80
US Long Bonds	4.75	6.00	.30
Cash Equivalents	3.00	3.00	-.01
Non-US Equity	8.70	20.00	.65
Non-US Fixed Income	4.75	10.00	.04
Inflation Indexed Bonds	4.50	5.50	.30
High Yield Bonds	7.00	10.00	.50
Private Equity	12.00	30.00	.73
Absolute Return	7.50	9.00	.50
Real Estate	7.00	16.00	.45
Emerging Equities	9.50	28.00	.60

Note: Risk is quantified as a measurement of Standard Deviation or the annual variability of returns.
AROR = Annualized Rate of Return. US LCE = US Large Capitalization Equity.

The above table was developed in November 2009 utilizing data that was derived from sources believed to be accurate and reliable. Past performance is not necessarily indicative of future results; hence, there is no implied guarantee that any individual asset class will achieve the referenced Expected AROR.

SEWERAGE & WATER BOARD
of NEW ORLEANS
EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT POLICY STATEMENT



Original Draft Adopted - November 4, 2004
As Amended – May 20, 2015

Document Prepared By:



FFC CAPITAL MANAGEMENT'

TABLE OF CONTENTS

Executive Summary	Page 4
Statement of Purpose	Page 5
Introduction	Page 6
Statement of Objectives	Page 7
Time Horizon	Page 8
Risk Tolerances	Page 8
Performance Target	Page 8
Asset Allocation Policy	Page 9
Targets/Ranges	Page 9
Asset Class Guidelines	Page 10
Adherence to Policy	Page 10
Cash Holdings	Page 10
Non-Individual Securities	Page 11
Rebalancing	Page 11
Guidelines for Individual Security Holdings	Page 12
Duties and Responsibilities	Page 14
Board of Trustees	Page 14
Pension Consultant	Page 14
Investment Managers	Page 14
Custodian	Page 16
Investment Product and Manager Selection	Page 16
Volatility	Page 17
Liquidity	Page 17
Voting of Proxies	Page 17
Execution of Security Trades	Page 17
Securities Lending Guidelines	Page 17
Control Procedures	Page 18
Conflicts of Interest	Page 18

Review of Liabilities	Page 18
Review of Investment Policy Statement (IPS)	Page 18
Review of Investments	Page 19
Market Indices	Page 19
Compliance	Page 19
Performance Expectations	Page 20
Probationary Period	Page 20
Style Benchmarks	Page 22
Cause for Termination	Page 22
Measuring Costs	Page 23
Policy Adoption Statement	Page 24
Co-Fiduciary Acknowledgement	Page 25
Appendix A	Page 26
Appendix B	Page 27
Appendix C – Glossary of Terms	Page 28
Appendix D – Manager Guidelines	Attachment

EXECUTIVE SUMMARY

Name of Plan:	SWBNO Employees' Retirement System ("the Plan")
Type of Plan:	Defined Benefit Plan, IRS Qualified
Plan Sponsor:	Sewerage and Water Board of New Orleans (SWBNO)
Time Horizon:	Greater than 5 years (Long Term)
Assumed ROR:	7.00% (Actuarial Assumption ¹)
Strategic Allocation:	42.00% Equities / 37.00% Fixed Income / 21.00% Alternatives

<u>Asset Class/Sub-Class</u>	<u>Minimum</u>	<u>Strategic Allocation</u>	<u>Maximum</u>
EQUITY		42.00	
US Large Cap Equities	20.00	20.00	35.00
US Mid Cap Equities	0.00	0.00	7.50
US SMID Cap Equities	0.00	13.00	21.50
US Small Cap Equities	7.50	0.00	15.00
International Equities	5.00	9.00	10.00
Int'l Emerging Equities	0.00	0.00	5.00
FIXED INCOME		37.00	
Core Bond	0.00	0.00	25.00
Core Plus Bond	25.00	28.00	35.00
High Yield Bonds	0.00	0.00	10.00
Global TIPS	0.00	9.00	15.00
Convertible Bond	0.00	0.00	10.00
ALTERNATIVES		21.00	
Commodities	0.00	7.25	10.00
Multi-Strategy HFOF	0.00	8.75	10.00
Private Equity	0.00	0.00	10.00
Real Estate/REITs	0.00	5.00	10.00

¹ As determined from 2010 Actuarial Report

The Investment Policy Statement (IPS) should be reviewed and updated at least annually. Any change to this policy should be communicated in writing on a timely basis to all parties of interest.

STATEMENT OF PURPOSE

The purpose of this Investment Policy Statement (IPS) is to guide the Board of Trustees (the members of the Sewerage & Water Board and the elected employee members to the Board of Trustees) [Appendix A] in effectively supervising, monitoring and evaluating the investment of the SWBNO Employees' Retirement System assets. The Plan's investment program is defined in the various sections of the IPS by:

1. Stating in a written document the Board of Trustees' attitudes, expectations, objectives, and guidelines for the investment of all Plan assets.
2. Setting forth an investment structure for managing all Plan assets. This structure includes various asset classes, investment management styles, asset allocation, and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
3. Providing guidelines for each investment portfolio that when viewed in conjunction with each individual investment manager's contract, control the level of overall risk and liquidity assumed in that portfolio.
4. Providing policy concurrent rate-of-return and risk characteristics for various investment options utilized in developing asset allocation. [Appendix B].
5. Encouraging effective communications between the Board of Trustees, the investment consultant and hired money managers.
6. Establishing formal criteria to monitor, evaluate, and compare the performance results achieved by the money managers on a regular basis.
7. Complying with all fiduciary, prudence and due diligence requirements experienced investment professionals would utilize; and with all applicable laws, rules and regulations from various local, state, federal, and international political entities that may impact Plan assets.

This IPS has been formulated, based upon consideration by the Board of Trustees, of the financial implications of a wide range of policies, and describes the prudent investment process the Board of Trustees deems appropriate.

INTRODUCTION

This document establishes the Investment Policy Statement for the SWBNO Employees' Retirement System for the management of the assets held for the benefit of the participants and beneficiaries in the System. The Board of Trustees is responsible for managing the investment process of the Retirement System in a prudent manner with regard to preserving principal while providing reasonable returns.

The Board of Trustees has arrived at this IPS through careful study of the returns and risks associated with various investment strategies in relation to the current and projected liabilities of the Retirement System. This policy has been chosen as the most appropriate policy for achieving the financial objectives of the Retirement System which are described in the Objectives section of this document.

The Board of Trustees has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighted against the long term potential for appreciation of assets.

In addition to the policy defined herein, the management of the SWBNO Employees' Retirement System will be in strict compliance with all relevant and applicable legislation.

STATEMENT OF OBJECTIVES

The assets of the SWBNO Employees' Retirement System shall be invested in accordance with all relevant legislation. Specifically:

1. Investment shall be in accordance with the Louisiana Revised Statutes, R.S. 11:3821.
2. Investments shall be made solely in the interest of the participants and beneficiaries of the pension plan and for the exclusive purpose of providing benefits to such participants and their beneficiaries and defraying the reasonable expenses of administering the plan.
3. The Board of Trustees and its investments advisors shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds considering probable safety of capital as well as probable income.

The primary investment objective shall be to achieve full funding of the actuarial accrued liability so that such assets are preserved for the providing of benefits to participants and their beneficiaries and such long-term return (either in the form of income or capital appreciation or both) may without undue risk maximize the amounts available to provide such benefits. These objectives have been established in conjunction with a comprehensive review of both the current and projected financial requirements and investment returns by asset class.

While there cannot be complete assurance that these objectives will be realized, it is believed that the likelihood of their realization is reasonably high based upon this Investment Policy and historical performance of the asset classes discussed herein. The objectives have been based on a five-year investment horizon, so that short-term fluctuation should be viewed secondary to long-term investment results.

Relative performance benchmarks for the System's investment managers are set forth in the Control Procedures section of this document.

This IPS has been arrived at upon consideration by the Board by a wide range of policies, and describes the prudent investment process the Board deems appropriate. This process includes seeking various asset classes and investment management styles that, in total, are expected to offer participants a sufficient level of overall diversification and total investment return over the long-term. The objectives are:

1. Maintain the purchasing power of the current assets and all future contributions by producing positive real rates of return on Plan assets.
2. Achieve a fully funded status with regard to the Accumulated Benefit Obligation and 100% of the Projected Benefit Obligation.
3. Have the ability to pay all benefit and expense obligations when due.
4. Maintain flexibility in determining the future level of contributions.

5. Maximize return within reasonable and prudent levels of risk in order to minimize contributions.

6. Control costs of administering the plan and managing the investments.

Keys to achieving objectives include maximizing investment returns within prudent levels of risk, while minimizing the Plan's reliance on contributions.

Time Horizon

The investment guidelines are based upon the Plan's investment time horizon of (>5) greater than five years. Interim fluctuations should be viewed with appropriate perspective. Similarly, the Plan's strategic asset allocation is based on this long-term perspective. Short-term liquidity requirements are anticipated to be non-existent, or at least should be covered by the annual contribution.

Risk Tolerances

The Board recognizes the difficulty of achieving the Plan's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Board also recognizes some risk must be assumed to achieve the Plan's long-term investment objectives. In establishing the risk tolerances of the IPS, the ability to withstand short- and intermediate-term variability were considered. These factors were:

- The SWBNO Employees' Retirement System's strong financial condition enables the Board to adopt a long-term investment perspective, allowing for a less aggressive risk tolerance.
- Demographic characteristics of participants suggest an average risk tolerance due to the moderate to aging work force.

In summary, the SWBNO Employees' Retirement System's prospects for the future, current financial condition and several other factors suggest collectively the Plan can tolerate some interim fluctuations in market value and rates of return in order to achieve long-term objectives.

Performance Target

The desired investment objective is a long-term rate of return on assets that is at least 7.00%, as defined by current² actuarial assumptions. Annually, the Plan's overall total return, after deducting for advisory, money management, and custodial fees, as well as total transaction costs; should perform above a customized index comprised of market indices weighted by the strategic asset allocation of the Plan.

² Based upon 2010 actuarial report

ASSET ALLOCATION POLICY

Targets and Ranges

It shall be the policy of the SWBNO Employees' Retirement System to invest in each style based asset class ranging between a minimum and a maximum of total plan assets as indicated below:

Stated Ranges are as a Percent of Total Plan Assets

<u>Mandate</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
EQUITY		42.00	
<i>US Large Cap Stocks</i>	<i>20.00</i>	<i>20.00</i>	<i>35.00</i>
<i>Large Cap Value</i>	<i>0.00</i>	<i>10.00</i>	<i>35.00</i>
<i>LC³ Enhanced Core</i>	<i>0.00</i>	<i>10.00</i>	<i>35.00</i>
<i>US Small/Mid Cap Stocks</i>	<i>7.50</i>	<i>13.00</i>	<i>22.50</i>
<i>SMID Cap Core/Value</i>	<i>0.00</i>	<i>13.00</i>	<i>22.50</i>
<i>Non US Stocks</i>	<i>5.00</i>	<i>9.00</i>	<i>10.00</i>
<i>International Equity</i>	<i>5.00</i>	<i>9.00</i>	<i>10.00</i>
FIXED INCOME		37.00	
<i>Core Plus Bond</i>	<i>25.00</i>	<i>28.00</i>	<i>35.00</i>
<i>Global TIPS⁴</i>	<i>0.00</i>	<i>9.00</i>	<i>15.00</i>
ALTERNATIVES		21.00	
<i>Commodities</i>	<i>0.00</i>	<i>7.25</i>	<i>10.00</i>
<i>Multi-Strategy/Absolute⁵</i>	<i>0.00</i>	<i>8.75</i>	<i>10.00</i>
<i>Real Estate/REITs⁶</i>	<i>0.00</i>	<i>5.00</i>	<i>10.00</i>

During the investment manager selection process, the Board of Trustees will communicate specific manager guidelines regarding capitalization and stylistic characteristics such that the total portfolio conforms to policy. It is expected that these guidelines will be strategic in nature and not change frequently.

³ Large Cap

⁴ Treasury Inflation Protected Securities

⁵ Hedge Fund-of-Funds

⁶ Real Estate Investment Trusts

Asset Class Guidelines

The Board of Trustees believes long-term investment performance, in large part, is primarily a function of asset class mix. The Board of Trustees has reviewed the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards.

History suggest, that while interest-generating investments, such as bond portfolios, have the advantage of relative stability of principal value; they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting, provided the time horizon for the equity portion of the portfolio is sufficiently long (greater than five years).

Adherence to Policy

The Board of Trustees is guided by the philosophy that asset allocation is the most significant determinant of long term investment return. The Retirement System asset allocation will be maintained as close to the target allocations as reasonably possible. Contributions to the Plan and withdrawals to pay benefits and expenses shall be allocated across portfolios to bring the asset mix as close to the target allocation as possible.

Rapid, substantive and unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the policy range. Any divergence caused by these factors should be of a short-term nature.

The Board of Trustees or its designee will review the Plan's allocation status at least quarterly. It is anticipated that active rebalancing will occur at least annually.

Cash Holdings

It shall be the policy of The Employees' Retirement System of The Sewerage & Water Board of New Orleans to be fully invested to the maximum extent possible. Any cash holdings in separate short term accounts should be kept as small as possible.

However, the Board of Trustees may from time to time authorize the use of cash equivalent(s)⁷ and or money market fund(s)⁸ as interim investment vehicle(s) for assets being transitioned from one manager/product to another.

For equity and fixed income portfolios, cash and short term instruments maturing in less than 360 days shall be restricted to a maximum of 5% of each portfolio except for brief periods or when building liquidity in anticipation of a large withdrawal.

Cash equivalent reserves shall consist of cash instruments having a quality rating by at least two rating agencies⁹ of A-2, P-2, F-2, or higher.

Investment managers shall have discretion to invest up to 5% of assets under management in cash reserves when they deem it appropriate. However, the Investment

⁷ Fixed Income instrument maturing in 360 days or less

⁸ Very liquid mutual fund that invests solely in cash equivalents

⁹ Standard & Poor's, Moody's, or Fitch

Managers will be evaluated against their peers on the performance of the total funds under their direct management.

Non-Individual Securities

The Board of Trustees may authorize the use of non-individual securities such as indexed instruments¹⁰ (interchangeably referred to as passive instruments), mutual funds, and other pooled (interchangeably referred to as commingled) investment vehicles.

Rebalancing

The percentage allocation to each asset class may vary as much as plus or minus 5% from the strategic allocation (policy), depending upon market conditions. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Plan. If there are no cash flows, the allocation of the Plan will be reviewed quarterly.

If the Board of Trustees judges cash flows to be insufficient to bring the Plan within the strategic allocation ranges, the Board of Trustees shall decide whether to effect transactions to bring the strategic allocation within the threshold ranges.

¹⁰ Also commonly referred to index funds, exchange traded funds, or ETFs.

GUIDELINES FOR INDIVIDUAL SECURITY HOLDINGS

	Equities	Fixed Income & Cash	Alternatives
Minimum Diversification Standards:			
Single Investment	(a) Maximum 6% *φ	(a) Maximum 10% *φ except U.S. Treasury Notes and Bonds	Not Applicable
	(b) Maximum of 5% of outstanding shares of any company		
Single Industry	(c) Maximum 25% *	(b) Maximum 25% *	
Single Sector	(d) Maximum of 2 times the appropriate style index	(c) Maximum of 2 times the appropriate style index. *	
Minimum Liquidity Standards	(a) Readily marketable securities of U.S corporations, foreign securities or ADRs	(a) Readily marketable U.S. Corporate and Government debt obligations, including mortgage pass-through, CMOs, convertible bonds and foreign securities.	Not Applicable
	(b) Traded on one or more domestic or international exchanges.	(b) Remaining outstanding principal value of the issue must be (and remain) at least \$100 million unless Plan Trustees approve.	
Minimum Quality Standards	(a) At least 3 years of earnings history **	Minimum Quality Ratings: Cash & Equivalents – S&P A-2, Moody's P-2, Fitch F-2 S&P – BBB** Moody's – Baa** Only Core Plus portfolio is allowed to buy and/or hold bonds rated below BBB/Baa.	Not Applicable
	(b) Profitable (from continuing operations) in at least 3 of the last 5 years	BBB/Baa bonds not to exceed 15% of portfolio*, † For Core Plus only, bonds rated below BBB/Baa are not to exceed 15% of portfolio; non-rated bonds are not to exceed 1% of portfolio *	
Bond Maturities		(a) Minimum (single issue) maturity: None, but maturities under 12 months will be viewed as "cash" under this policy (b) Maximum remaining, term to maturity (single issue) at purchase: 30 years	Not Applicable

	Equities	Fixed Income & Cash	Alternatives
Foreign Securities	(a) Foreign securities to a maximum of 5%*	Foreign debt issues to a maximum of 5%*† Foreign debt issues to a maximum of 15% for Core Plus portfolio	Foreign debt issues to a maximum of 5%
Prohibited Categories	(a) Preferred stock (b) Lettered stock and other unregistered equity securities (c) Margin purchases (d) Short sales or warrants (e) Issuer related to the investment manager (f) Options, except as noted below (g) Commodity contracts, except stock index futures	(a) issuer related to the investment manager (b) Issues traded flat (not currently accruing interest) c) Debt obligations of either the Sewerage & Water Board of New Orleans or the City of New Orleans (d) Commodity contracts, except bond futures	(a) Direct Investments
Portfolio Turnover (maximum expected in one quarter without prior consultation)	35%	35%	Not Applicable
Reports to the Pension Committee	At least quarterly	At least quarterly	At least quarterly
Written Reports to the Committee	Monthly	Monthly	Quarterly

* Percentages refer to the market value of any single investment manager's portfolio, not the total fund. Small/Mid Cap Manager(s) is allowed a maximum of 10% in a single position. Foreign securities limitations do not apply to International Equity Manager(s) or Core Plus Bond Manager(s).

** Either as a stand alone company or as a separately identifiable subsidiary, division or line of business. Not applicable to Core Bond Plus, Private Equity, Real Estate/REIT, or Absolute Return. Refer to individual manager guidelines.

φ Exception given for index funds.

† With the exception of Convertible Bonds and Core Bond Plus. Refer to individual manager guidelines.

DUTIES AND RESPONSIBILITIES

The Board of Trustees is responsible for overseeing the Retirement Systems' investments. This includes, but is not limited to, the selection of acceptable asset classes, allowable ranges of holdings between asset classes and individual investment managers as a percent of assets, the definition of acceptable securities within each asset class, investment performance expectations, and monitoring compliance with state investment regulations.

The Board of Trustees selects, retains and replaces investment managers and custodians, and controls the asset allocation within policy limits.

The Board of Trustees will communicate the policy and performance expectations to the Investment Managers. The Board of Trustees will also review investment performance regularly to assure the policy is being followed and progress is being made toward achieving the objectives.

Board of Trustees

As fiduciaries under the Plan, the primary responsibilities of the Board of Trustees are:

1. Prepare and maintain this investment policy statement
2. Prudently diversify the Plan's assets to meet an agreed upon risk/return profile
3. Prudently select both actively managed and indexed (passive) investment products
4. Control and account for all investment, record keeping, and administrative expenses associated with the Plan
5. Monitor and supervise all service vendors and investment options
6. Avoid prohibited transactions and conflicts of interest.

Pension Consultant

The Board of Trustees will retain a third-party Consultant to assist the Board of Trustees in managing the overall investment process. The Consultant will be responsible for guiding the Board of Trustees through a disciplined and rigorous investment process to enable the Board of Trustees to meet the fiduciary responsibilities outlined herein.

Investment Managers

Distinguishable from the Board of Trustees and Pension Consultant, who are responsible for managing the investment process, investment managers are responsible for making investment decisions (security selection and price decisions). The Investment Managers shall be responsible for determining investment strategy and implementing security selection and the timing of purchases and sales within the policy guidelines set forth in this statement and as otherwise provided by the Board of Trustees. The specific duties and responsibilities of each investment manager are:

1. Manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective contracts, prospectus, or trust agreement.

2. Exercise full investment discretion with regards to buying, managing, and selling assets held in the portfolios.
3. If managing a separate account (as opposed to a mutual fund or a commingled account), seek approval from the Board of Trustees prior to purchasing and/or implementing the following securities and transactions, unless otherwise stated in manager's contract with Board of Trustees:
 - Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions. Securities lending; pledging or hypothecating securities.
 - Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor
 - Investments for the purpose of exercising control of management,
4. Vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the Plan as described in this IPS. Each investment manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
5. Communicate with the Board of Trustees all significant changes pertaining to the fund it manages or the firm itself. Changes in ownership, organizational structure, financial condition, and professional staff are examples of changes to the firm in which the Board is interested.
6. Effect all transactions for the Plan subject to best price and execution. If a manager utilizes brokerage commission generated from Plan assets to effect soft-dollar transactions, records detailing all activity (brokerage and soft-dollar use) will be kept and communicated to the Board of Trustees on a monthly basis.
7. If applicable (i.e. for active equity managers), to direct its trading to designated commission recapture broker(s) at or near target level of 35% of total trades placed on behalf of Plan. Again, records detailing the level of participation will be kept and communicated to the Board of Trustees on a monthly basis.
8. Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals, acting in a like capacity and fully familiar with such matters, would use in like activities for like retirement Plans with like aims in accordance and compliance with ERISA and all applicable laws, rules, and regulations.
9. If managing a separate account¹¹ (as opposed to an indexed product, mutual fund or commingled account), acknowledge co-fiduciary responsibility by signing and returning a copy of this IPS.

¹¹ Also referred to as SMA or separately managed account

Custodian

Custodians are responsible for the safekeeping of the Plan's assets. The specific duties and responsibilities of the custodian are:

1. Maintain separate accounts by legal registration
2. Value the holdings
3. Collect all income and dividends owed to the Plan
4. Settle all transactions (buy-sell orders) initiated by the Investment Manager
5. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the previous report.

INVESTMENT PRODUCT AND MANAGER SELECTION

The process for selecting both indexed strategy products, as well as alternative strategy managers will consist of the Consultant's pre-search development of criterion which consider both quantitative and qualitative characteristics for the specific class and style of indexed or alternative strategy. The Board of Trustees will adopt and diligently apply this criterion in its selection of each passive product or alternative strategy manager.

With exception given to indexed products, for example an iShares or SPDR S&P 500 ETF, as well as alternative strategy managers, for example Private Equity, Absolute Return/HFOFs and/or Real Estate/REIT managers, the Board of Trustees will apply the following due diligence criteria in selecting each (active) equity and fixed income manager.

1. Regulatory oversight: Each investment manager should be a regulated bank, an insurance company, a mutual fund organization, or an SEC registered investment adviser.
2. Correlation to style or peer group: The product should be highly correlated to the asset class of the investment option. This is one of the most critical parts of the analysis, since most of the remaining due diligence involves comparisons of the manager to the appropriate peer group.
3. Performance relative to a peer group: The product's performance should be evaluated against the peer group's median manager return, for 1-, 3-, and 5-year cumulative periods.
4. Performance relative to assumed risk: The product's risk-adjusted performance (standard deviation, alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance.
5. Minimum track record: The product's inception date should be greater than three years.
6. Assets under management: The product should have at least \$75 million under management.

7. Holdings consistent with style: The screened product should have no more than 20% of the portfolio invested in "unrelated" asset class securities.
8. Stability of the organization: i.e. *Manager Tenure* - no material organizational or investment team changes in the past two years.

Volatility

Consistent with the desire for adequate diversification, the investment policy is based on the assumption that the volatility of the combined portfolios will be similar to that of the market opportunity available to institutional investors with similar return objectives.

The volatility of each investment managers' portfolio will be compared to the volatility of appropriate market indices and peer groups. Above median volatility is acceptable only so long as performance is commensurately above median.

Liquidity

Based on current actuarial assumptions, it is expected that contributions will exceed benefit payments for the foreseeable future. Therefore, there is no need for Investment Managers to maintain liquid reserves for payment of pension benefits.

If benefit payments are projected to exceed contributions in some future period, the Board of Trustees or its designee will notify the investment managers well in advance of any withdrawal orders to allow them sufficient time to build up necessary liquid reserves. The managers will be expected to review the cash flow requirements with the Pension Committee at least annually.

Voting of Proxies

Voting of proxy ballots shall be for the exclusive benefits of the participants and beneficiaries of the Retirement System. Unless the Board of Trustees provides information on how to vote a proxy, the investment managers shall vote the proxies in accordance with its own policy for shareholder issues. Managers will communicate their proxy voting record to the Board of Trustees in writing every quarter and will provide a written summary of all proxies voted on an annual basis.

Execution of Security Trades

The Board of Trustees expects the purchase and sale of securities to be made in a manner designed to receive the combination of best price and execution. The Board of Trustees may implement a Directed Brokerage Program in the future. In June of 2001, the Board of Trustees implemented a Commission Recapture Program.

Securities Lending Guidelines

The Plan may engage in the lending of securities subject to the following guidelines:

1. Collateral on loans is set at 102% of the market value of the security plus accrued interest.
2. Collateral should be marked to market daily.
3. Securities of the System are not released until the custodian bank receives payment for the book entry withdrawal of the loaned security.

4. Eligible securities can include the lending of all U.S. Treasury and other government guaranteed securities, corporate securities, and common stock.

CONTROL PROCEDURES

Conflicts of Interest

The Investment Manager (and any persons acting on its behalf) who enters into a contract with the Plan must reasonably believe, immediately prior to entering into the contract, that the contract represents an arm's length arrangement between the parties and that the Board of Trustees, alone or together with the Board of Trustee's independent agents, understands the proposed method of compensation and its risks. In addition to the requirements of Form ADV, the Investment Manager shall disclose to the Board of Trustees, or to the Board of Trustee's independent agent, prior to entering into an advisory contract, all material information concerning the proposed advisory arrangement including the following:

1. The periods which will be used to measure investment performance throughout the contract and their significance in the computation of the manager's fee.
2. The nature of any index which will be used as a comparative measure of investment performance, the significance of the index, and the reason the Investment Manager believes the index is appropriate.
3. How the securities will be valued and the extent to which the valuation will be determined independently where the Investment Manager's compensation is based in part on the unrealized appreciation of securities for which market quotations are not readily available.

Review of Liabilities

All major liability assumptions regarding number of participants, compensation, benefit levels, and actuarial assumptions will be subject to an annual review by the Board. This review will focus on an analysis of major differences between the Retirement System's assumptions and actual experience.

Review of Investment Policy Statement

The IPS will be reviewed annually and updated with pertinent or substantive changes as frequent as necessary.

Review of Investment Objectives

Investment performance will be reviewed annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy for achieving these objectives.

It is not expected that the investment policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in the investment policy.

Review of Investments

The Board will review in addition to the total fund; each active manager's and indexed product's performance at least quarterly with its Consultant. The total fund will be measured against a composite index of asset class proxies or benchmarks blended in the same percentages as the IPS asset allocation targets contained herein. Each active investment manager will be measured against an appropriate benchmark(s) as stated in their respective contract(s). Each indexed product will be measured against its appropriate tracking index.

Market Indices

Available benchmarking opportunities for the capital markets include the Dow Jones 30 Industrial Average, S&P 500, Russell 1000 Indexes for large cap equities, the Russell 2000 Index for small cap equities, the MSCI ACWI Index for global equities, the MSCI ACWI ex-U.S. Index for international equities, the Barclays Aggregate Bond Index for investment grade fixed income securities, Venture Economics Index for Private Equity, HFRI Fund-of-Funds Index for Absolute Return and/or other comparable indices appropriate for monitoring individual portfolio investment strategies. Some of the other comparable indices include style indices such as the Russell 1000 Growth or Value Index for large cap growth or value, and the Russell 2000 Growth or Value Index for small cap growth or value.

Performance reviews will focus on:

1. Total Retirement System and investment manager compliance with the IPS guidelines and stated investment regulations.
2. Material changes in the manager organizations, such as in investment philosophy, personnel, acquisitions or losses of major accounts, etc.
3. Comparison of managers' results to a universe of funds using a similar investment style and similar asset classes.
4. Comparison of managers' results to style specific benchmarks established for each individual manager's portfolio. Where multiple asset classes are employed in a portfolio, a customized benchmark index may be developed to mirror the asset classes utilized by the manager.
5. The appropriate market index will be stated in each investment manager's contract.

Compliance

On an ongoing basis, the Board of Trustees and its Consultant will review each investment manager's relative compliance with, and adherence to the principles, guidelines and benchmarks established in this IPS. Annually, each investment manager will be formally examined and graded individually. If, in the opinion of the Board of Trustees, there is concern for remedial action to be taken by the investment manager, it will be expressed and communicated by the Board of Trustees to the Investment Manager at that time.

The investment managers will be responsible for keeping the Board of Trustees advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance of all managers. The investment managers will be responsible for reconciliation with Custodian Bank.

Performance Expectations

The Board of Trustees recognizes that real return objectives may not be meaningful during some time periods. In order to ensure that investment opportunities available over a specific time period are fairly evaluated, the Board of Trustees will use comparative performance statistics to evaluate investment results. Each investment manager (whether equity, fixed income or alternative manager) and the total Retirement System, will be expected to achieve minimum performance standards as follows:

- 1) Rank in the top forty percent (40%) of an appropriate style peer group of actively managed portfolios over rolling three-year periods.
- 2) Exceed an appropriate benchmark index, net of management fees over rolling three-year periods.

The Board of Trustees is keenly aware that ongoing review and analysis of the Plan's investment products and managers is just as important as the due diligence implemented during the selection process. The net performance of all indexed products and investment managers will be monitored on an ongoing basis; and at the sole discretion of the Board of Trustees, corrective (probation, termination) or progressive (new hire, add funds) action may be taken if it is deemed appropriate at any time.

On a timely basis, but not less than quarterly, the Board of Trustees will meet to review whether or not individual active investment managers as well as indexed products achieve and maintain the Board's performance expectations as outlined above; specifically:

- The manager's adherence to the Plan's investment guidelines
- Material changes in the manager's organization, investment philosophy, and/or personnel
- Any legal, SEC, and/or other regulatory agency proceedings affecting the manager.

While these performance standards should be achieved over a three to five year period complete market cycle, the Board of Trustees will also monitor performance on a shorter-term basis.

The Investment Managers are requested to be aware at all times of the pension plan's actuarial assumption of seven percent (7%) overall annual return.

Probationary Period

Investment managers should be advised that the Board of Trustees intends to track interim progress toward multi-year (3 to 5-year) goals. However, if in the opinion of the Board of Trustees an investment manager's performance is deemed to be deficient, the Board of Trustees will inform the investment manager in writing that the firm has been placed on probation (*Watch List*). The length of an investment manager's probation

period will be determined by the Board of Trustees on a case-by-case basis. If the Board of Trustees' concerns are not sufficiently addressed during this probationary period, or if the investment manager is unable to remedy deficiencies in performance, this would constitute grounds for termination of the investment manager.

An Investment Manager may be removed from probation if, in the opinion of the Board of Trustees, the factors which caused the probationary review have been eliminated, mitigated or otherwise appropriately and sufficiently addressed to the complete and total satisfaction of the Board of Trustees.

Specifically, a manager may be placed on the Watch List and a thorough review and analysis of the investment manager may be conducted, when:

1. A manager performs below median for their peer group over 1, 3, and/or 5 year cumulative period(s); or over any period deemed relevant by the Board of Trustees.
2. A manager's 1 to 3 year risk adjusted return (alpha and/or Sharpe) falls below the peer group's median risk adjusted return.
3. There is a change in the professionals managing the portfolio.
4. There is a significant decrease in the product's assets.
5. There is an indication the manager is deviating from his/her stated style and/or strategy.
6. There is an increase in the product's fees and expenses.
7. Any extraordinary event such as a substantive change in firm ownership occurs that may interfere with the manager's ability to fulfill their role in the future.

The Board of Trustees has determined it is in the best interest of the Plan's participants that performance objectives be established for each investment manager. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large cap domestic equity manager) and the relevant peer group (e.g. the PSN¹² Large Cap Universe for large cap domestic managers).

A manager evaluation may include the following steps:

1. A letter to the manager asking for an analysis/explanation of their performance (underperformance) for the period(s) under review.
2. An analysis of recent transactions, holdings, and portfolio characteristics to determine the cause for underperformance or to check for a change in style.
3. A meeting with the manager, which may be conducted on-site, to gain insight into organizational changes and any changes in strategy or discipline.

¹² PSN Enterprise is a software application licensed by Plan's Consultant; powered by the PSN investment manager database. The PSN database provides connectivity to separately managed accounts, open ended mutual funds, closed end funds, exchange traded funds, hedge funds, fund-of-funds, stocks, variable annuities, and other investment content. A proprietary platform of Informa Investment Solutions, the PSN database was fully integrated into the former Check Free Systems Mobius investment manager database in September 2006.

Style Benchmarks

<u>Style Based Asset Class</u>	<u>Index/Benchmark</u>	<u>Peer Group Universe</u>
<i>Global Equity</i>	<i>Russell 3000 Index</i>	<i>PSN All Cap</i>
Large Cap Value	Russell 1000 Value Index	PSN Large Cap Value
LC Enhanced Core	Russell 1000 Index	PSN Large Cap
Large Cap Growth	Russell 1000 Growth Index	PSN Large Cap Growth
Mid Cap Core	Russell Mid Cap Index	PSN Mid Cap
SMID Cap Core	Russell 2500 Index	PSN Small/Mid Cap
Small Cap Core	Russell 2000 Index	PSN Small Cap
<i>International Equity</i>	<i>MSCI ACWI-EX US Index</i>	<i>PSN Int'l Equity</i>
<i>Global Fixed Income</i>	<i>Barclays Aggregate Bond</i>	<i>PSN Core Plus Fixed</i>
Core Bond	Barclays Aggregate Bond Index	PSN Core Fixed
Core-Plus Bond	1) Barclays Aggregate Bond Index 2) Barclays Agg Bond Index + 50 bps	PSN Core Plus Fixed
<i>Global TIPS</i>	<i>Barclays World Inflation Linked Bond Index</i>	<i>PSN Global TIPS</i>
Convertible Bonds	BofA ML Inv. Grade Convertible Bond Index	PSN Convertibles
<i>Alternative Investments</i>	<i>Sub-Class Blended Index</i>	
Multi-Strat/Multi-Manager FOFs/Absolute Return	HFRI Fund-of-Funds Index	PSN Fund-of-Funds
Domestic REITs	MSCI REIT	PSN REIT/Real Estate
International REITs	FTSE/EPRA NAREIT ex US	PSN Global/Int'l REIT
Commodities	S&P GSCI	PSN Commodities & Energy

Cause for Termination

While the Board of Trustees intends to fairly evaluate both indexed (passive) products and active investment managers over time; the Board reserves the right to terminate its relationship with a product sponsor or investment manager at any time without a probationary period if there is:

1. Failure to meet the Board of Trustees' communication and reporting requirements.
2. A significant change in the personnel managing the investment decisions of the Fund, or a change in the ownership of the Investment Manager that could be deemed to adversely impact the management of Fund assets.
3. A lack of confidence that the Investment Manager or his organization can produce acceptable results in the future.
4. Unacceptable justification for poor performance results.
5. Lack of responsiveness to the Board of Trustees.
6. A change in asset allocation which may result in the termination of an Investment Manager for reasons other than for cause.
7. In the Board of Trustees' opinion, a change of Investment Manager would be beneficial to the Plan.

There is no implied contract for a fixed time period, or otherwise, between the SWBNO Employees' Retirement System and any of its Investment Managers, and the relationship between the parties may be terminated at any time for any reason with prior written notification.

Measuring Costs

The Board of Trustees will review, at least annually, all costs associated with the management of the Plan's investments including:

1. Fees and expense reimbursements of pension consultant
2. Fees and expense ratios of each investment manager
3. Custody Fees: Encompassing the holding of the assets, the collection of income and disbursement of payments.
4. Trading Costs: Evaluating whether or not the manager is demonstrating attention to best execution efforts, commission recapture program targets¹³, and other efficiencies in trading securities.

¹³ Refer to Page 15, #'s 6 and 7 of this IPS for details

POLICY ADOPTION STATEMENT

This Investment Policy document is hereby adopted by the Board of Trustees of the Sewerage and Water Board of New Orleans on May 20, 2015.

Adopted by: The Board of Trustees of Sewerage and Water Board of New Orleans

_____, Trustee

Harold Heller

_____, Trustee

Marvin Russell

_____, Trustee

Gerald Tilton

_____, Trustee

John Wilson

_____, Trustee

Alan Arnold

_____, Trustee

Robin Barnes

_____, Trustee.

Marion Bracy

_____, Trustee
Dr. Tamika Duplessis

_____, Trustee
Scott Jacobs

_____, Trustee
Keri Kane

_____, Trustee
Mark Moody

_____, Trustee
Joseph Peychaud

_____, Trustee
Kimberly Thomas

CO-FIDUCIARY ACKNOWLEDGEMENT

The undersigned hereby acknowledges fiduciary capacity as defined by the Employee Retirement Investment Security Act (ERISA) of 1974.

The undersigned hereby acknowledges that it has read this Investment Policy Statement document and further will comply with the procedural and reporting requirements contained herein; and as amended by the Board of Trustees from time to time.

Acknowledged by:

Print Name:

Title:

Company:

APPENDIX A

Sewerage and Water Board of New Orleans Board Officers

Mitchell J. Landrieu, President
Raymond Manning, President Pro-Tem

Sewerage and Water Board of New Orleans Board Members

Alan Arnold
Robin Barnes
Marion Bracy
Dr. Tamika Duplessis
Scott Jacobs
Keri Kane
Mark Moody
Joseph Peychaud
Kimberly Thomas

Sewerage and Water Board of New Orleans Employee Trustees

Harold Heller
Marvin Russell
Gerald Tilton
John Wilson

Sewerage and Water Board of New Orleans Management

Cedric S. Grant, Executive Director
Robert K. Miller, Deputy Executive Director

APPENDIX B

SUMMARY OF CAPITAL MARKETS INPUTS

LONG TERM CAPITAL MARKET ASSUMPTIONS RETURN AND RISK CHARACTERSTICS

ASSET CLASS	EXPECTED AROR	RISK	CORRELATION to US LCE
US Large Cap Equity	8.40	17.00	1.00
US Mid Cap Equity	8.55	21.00	.91
US Small Cap Equity	8.70	25.00	.80
US Long Bonds	4.75	6.00	.30
Cash Equivalents	3.00	3.00	-.01
Non-US Equity	8.70	20.00	.65
Non-US Fixed Income	4.75	10.00	.04
Inflation Indexed Bonds	4.50	5.50	.30
High Yield Bonds	7.00	10.00	.50
Private Equity	12.00	30.00	.73
Absolute Return	7.50	9.00	.50
Real Estate	7.00	16.00	.45
Emerging Equities	9.50	28.00	.60

Note: Risk is quantified as a measurement of Standard Deviation or the annual variability of returns.
 AROR = Annualized Rate of Return. US LCE = US Large Capitalization Equity.

The above table was developed in November 2009 utilizing data that was derived from sources believed to be accurate and reliable. Past performance is not necessarily indicative of future results; hence, there is no implied guarantee that any individual asset class will achieve the referenced Expected AROR.

APPENDIX C

GLOSSARY OF TERMS

Absolute Return Strategies: Strategies that are developed by private investment firms that seek to generate high absolute returns taking active positions in a variety of markets employing different financial instruments.

Active Management: (also called *active investing*) refers to a portfolio management strategy wherein the manager makes specific investments with the goal of outperforming an investment benchmark index. Investors or mutual funds that do not aspire to create a return in excess of the market benchmark index will often invest in an index fund that replicates as closely as possible the investment weighting and returns of that index. This is called passive management. Active management is the opposite of passive management, because the manager of a passive management fund does *not* seek to outperform the benchmark index.

Accumulated Benefit Obligation: ABO is an approximate measure of the liability of a pension plan in the event of a termination at the date the calculation is performed.

Alpha: This statistic measures a portfolio's return in excess of the market return adjusted for risk. It is a measure, of the manager's contribution to performance with reference to security selection. A positive alpha indicates that a portfolio was positively rewarded for the residual risk, which was taken for that level of market exposure.

Asset Allocation: The process of determining the optimal allocation of a fund's portfolio among broad asset classes.

AROR: Annualized rate of return.

Basis Point: 100 bps (basis points) equals 1%.

Best Execution: This is formally defined as the difference between the strike price (the price at which a security is actually bought or sold) and the "fair market price", which involves calculating opportunity costs by examining the security price immediately after the trade is placed. Best execution occurs when the trade involves no lost opportunity cost, for example, when there is no increase in the price of a security shortly after it is sold.

Beta: A statistical measure of the volatility or sensitivity, of rates of return on a portfolio or security in comparison to a market index. The beta value measures the expected change in return per one percent change in the return on the market. Thus, a portfolio with a beta of 1.1 would move 10% more than the market.

Commingled Fund: This is a type of investment fund that is similar to a mutual fund in that investors purchase and redeem units that represent ownership in a pool of securities. Commingled funds usually are offered through a bank- administered plan allowing for broader and more efficient investing.

Commission Recapture: An agreement by which a plan Fiduciary earns credits based upon the amount of brokerage commissions paid. These credits can be used for services that will benefit the plan such as consulting services, custodian fees, or hardware and software expenses.

Convertible Bonds: Securities, usually bonds or preferred shares that can be converted into common stock.

Core Fixed Income - A fixed income approach that applies 90% or more of the securities available in the Lehman Brothers Aggregate Index. MBS issues should be the major component of the portfolio in a core product.

Core Fixed Plus: A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate. This fixed-income style permits managers to add instruments with greater risk and greater potential return, such as high yield, global and emerging market debt, to their core portfolios of investment-grade bonds.

Correlation Coefficient: Correlation measures the degree to which two variables are associated with one another. Correlation is a commonly used tool for constructing a well-diversified portfolio. Traditionally, equities and fixed-income asset returns have not moved closely together. The asset returns are not strongly correlated. A balanced fund with equities and fixed-income assets represents a diversified portfolio that attempts to take advantage of the low Correlation between the two asset classes.

Defined Benefit Plan: A DB plan is a type of employee benefit plan in which employees know (through a formula) what they receive upon retirement or after a specified number of years of employment with an employer. The employer is obligated to contribute funds into the defined benefit plan based on an actuarially determined obligation that takes into consideration the age of the workforce, their length of service and the investment earnings that are projected to be achieved from the funds contributed. Defined Benefit Plans are over funded if the present value of the future payment obligations to employees is less than the current value of the assets in the Plan. It is under funded if the obligations exceed the current value of these Plan assets.

Direct Investment: (1). Also referred to as **Direct Stock Plans** are offered by companies that allow you to purchase or sell stock directly through them without your having to engage an investment advisor or pay commissions to a broker. But you may have to pay a fee for using the plan's services. Some companies require that you already own stock in the company or are employed by the company before you may participate in their direct stock plans. You may be able to buy stock by investing a specific dollar amount rather than having to pay for an entire share. DSPs usually will not allow you to buy or sell your securities at a specific market price or at a specific time. Rather, the company will purchase or sell shares for the plan at established times — for example, on a daily, weekly, or monthly basis — and at an average market price. You can find when the company will buy and sell shares and how it determines the price by reading the company's disclosure documents. Depending on the plan, you may be able to have your shares transferred to your broker to have them sold, but the plan may charge you a fee to

do so. (2.) Also refers to the prohibited process or transaction type as it relates to alternatives. For this purpose, Direct Investment is defined as an investment made directly by an investor with a private company as it relates to a Private Equity or Absolute Return transaction; without the benefit and discretion of a third party investment manager or advisor.

Directed Brokerage: Circumstances in which a board of trustees or other fiduciary requests that the investment to a particular broker so that the commissions generated can be used for specific services or resources. See *Soft Dollars*.

Dollar-Weighted Rate of Return: Method of performance measurement that calculates returns based on the cash flows of a security or portfolio. A dollar-weighted return applies a discounted cash flow approach to obtain the return for a period. The discount rate that equates the cash inflow at the end of the period plus any net cash flows within the period with the initial outflow is the dollar-weighted rate of return. This return also is referred to as the internal rate of return (IRR).

Economically-Targeted Investment (ETI): Investments where the goal is to target a certain economic activity, sector, or area in order to produce corollary benefits in addition to the main objective of earning a competitive risk-adjusted rate of return.

Equal Weighted: In a portfolio setting, this is a composite of a manager's return for accounts managed that gives equal consideration to each portfolio's return without regard to size of the portfolio. Compare to *Size-Weighted Return*. In index context, equal weighted means each stock is given equal consideration to the index return without regard to market capitalization. The Value Line Index is an example of an equal weighted index.

ERISA: Employee Retirement Income Security Act is a 1974 law governing the operation of most private pension and benefit plans. The law eased pension eligibility rules, set up the *Pension Benefit Guaranty Corporation*, and established guidelines for the management of pension funds.

Fiduciary: Indicates the relationship of trust and confidence where one person (the Fiduciary) holds or controls property for the benefit of another person.

Any person who (1) exercises any discretionary authority or control over the management of a plan or the management or disposition of its assets, (2) renders investment advice for a fee or other compensation with respect to the funds or property of a plan, or has the authority to do so, or (3) has any discretionary authority or responsibility in the administration of a plan.

Foreign Direct Investment (FDI) is defined as a company from one country making a physical investment into building or factory in another country. Its definition can be extended to include investments made to acquire lasting interest in enterprises operating outside of the economy of the investor.

Fund-of-Funds: A fund-of-funds (FoF) is an investment fund that uses an investment strategy of holding a portfolio of other investment funds rather than investing directly in shares, bonds or other securities. This type of investing is often referred to as multi-manager investment.

There are different types of 'fund of funds', each investing in a different type of collective investment scheme (typically one type per FoF), eg. Mutual Fund FoF, Hedge Fund FoF, Private Equity FoF or Investment Trust FoF.

Geometric Return: A method of calculating returns which links portfolio results on a quarterly or monthly basis. This method is best illustrated by an example, and a comparison to Arithmetic Returns, which does not utilize a time link. Suppose a \$100 portfolio returned +25% in the first quarter (ending value is \$125) but lost 20% in the second quarter (ending value is \$100). Over the two quarters the return was 0% - this is the geometric return. However, the arithmetic calculation would simply average the two returns: $(+25\%)(.5) + (-20\%)(.5) = +2.5\%$.

Global: This term commonly refers to all countries including the United States. Common benchmarks include the MSCI All Country World Index (ACWI).

Hedge Fund: A hedge fund is a private investment fund open to a limited range of investors that is permitted by regulators to undertake a wider range of activities than other investment funds and also pays a performance fee to its investment manager. Although each fund will have its own strategy which determines the type of investments and the methods of investment it undertakes, hedge funds as a class invest in a broad range of investments, from shares, debt and commodities to works of art.

As the name implies, hedge funds often seek to offset potential losses in the principal markets they invest in by hedging their investments using a variety of methods, most notably short selling. However, the term "hedge fund" has come to be applied to many funds that do not actually hedge their investments, and in particular to funds using short selling and other "hedging" methods to increase rather than reduce risk, with the expectation of increasing return.

Hedge Fund Fund-of-Funds: (HFOFs) An investment fund consisting of multiple hedge funds. HFOFs can be made up of several hedge funds with similar strategic focus or several hedge funds with varying or multiple strategies. The latter would be referred to as a multi-strategy HFOF.

International: This term commonly refers to all countries excluding the United States. Common benchmarks include the MSCI All Country World Index (ACWI) ex US and the MSCI EAFE Index.

Large Cap (LC) Enhanced Core: An investment seeking to provide a total return that exceeds that of typically the S&P 500 index. The fund normally invests at least 80% of net assets in common stocks that comprise the S&P 500 Index, convertible securities that are convertible into stocks included in that index, and derivatives whose returns are closely equivalent to the returns of the S&P 500 Index or its components. It generally holds fewer stocks than the index and may hold securities that are not in the index.

Large Cap Growth: Large-Cap Growth funds seek to invest in large companies with good growth prospects. According to Morningstar, large-cap funds invest in companies with market capitalizations of more than \$11 billion. Other organizations may use different definitions. Large-cap funds typically are less volatile than mid-cap and small-

cap funds because large companies are more established and more predictably successful than smaller companies. Large companies also are more likely to pay dividends. Growth funds often have high P/E ratios because managers are willing to pay a premium for stocks of fast-growing companies.

Large Cap Value: Large-Cap Value funds seek capital appreciation by investing primarily in large companies with market capitalizations of \$5 billion or more. In selecting stocks, managers of value funds target companies that appear undervalued in terms of price-earnings ratios, price-to-book ratios or other such measures. Large-cap funds tend to be less volatile than those that invest in smaller companies.

Liquidity Risk: The risk that there will be insufficient cash to meet the fund's disbursement and expense requirements.

Market Capitalization: The market cap of a stock is its current price multiplied by the number of shares outstanding. It is the measure of a company's total value on a stock exchange.

Market Timing: A form of *Active Management* that moves funds between asset classes based on short-term expectations of movements in the capital markets. (Not recommended as a prudent process). It is very difficult to improve investment performance by attempting to forecast market peaks and troughs. A forecasting accuracy of at least 71% is required to outperform a buy and hold strategy.

Market-Weighted: Typically used in an index composite. The stocks in the index are weighted based on the total *Market Capitalization* of the issue. Thus, more consideration is given to the index's return for higher market capitalized issues than smaller market capitalized issues.

Money Markets: Financial markets in which financial assets with a maturity of less than one year are traded. Money market funds also. Refer to open-end mutual funds that invest in low-risk, highly liquid, short-term financial instruments and whose net asset value is kept stable at \$1 per share. The average portfolio maturity is 30 to 60 days.

Passive Management: (also called **passive investing**) is a financial strategy in which a fund manager makes as few portfolio decisions as possible, in order to minimize transaction costs, including the incidence of capital gains tax. One popular method is to mimic the performance of an externally specified index—called an 'index funds'. Passive management is most common in the equity markets, where index funds track a stock market index, but it is becoming more common in other investment types, including bonds, commodities, and hedge funds.

Private Equity: Equity capital made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet.

Profit Sharing Plan: Retirement plan that receives contributions as a percentage of the company's profits.

Projected Benefit Obligation: PBO is a measure of a pension plan's liability at the calculation date assuming that the plan is ongoing and will not terminate in the foreseeable future.

Proxy Voting: A written authorization given by a shareholder to someone else to vote his or her shares at a stockholders annual or special meeting called to elect directors or for some other corporate purpose.

REIT (Real Estate Investment Trust): An investment fund whose objective is to hold real estate-related assets, either through mortgages, construction and development loans, or equity interests.

Residual Risk: Residual risk is the unsystematic, firm-specific, or diversifiable risk of a security or portfolio. It is the portion of the total risk of a security or portfolio that is unique to the security or portfolio itself and is not related to the overall market. The residual risk in a portfolio can be decreased by including assets that do not have similar unique risk.

For example, a company that relies heavily on oil would have the unique risk associated with a sudden cut in the supply of oil. A company that supplies oil would benefit from a cut in another company's supply of oil. A combination of the two assets helps to cancel out the unique risk of the supply of oil. The level of residual risk in a portfolio is a reflection of the "bets" which the manager places in a particular asset class or sector. Diversification of a portfolio can reduce or eliminate the residual risk of a portfolio.

Risk-Adjusted Return: The return on an asset or portfolio, modified to explicitly account for the risk of the asset or portfolio.

Risk-Free Rate-of-Return (R_f): This rate is widely accepted as the return on a 90-day T-Bill. This is used as a proxy for no risk due to its US Government issuance and short-term maturity. The term is really a misnomer since nothing is free of risk. It is utilized since certain economic models require a "risk free" point of departure. See *Sharpe Ratio*.

R-squared (R^2): Formally called the coefficient of determination, this measures the overall strength or "explanatory power" of a statistical relationship. In general, a higher R^2 means a stronger statistical relationship between the variables that have been estimated, and therefore more confidence in using the estimation for decision-making.

SWBNO: Sewerage and Water Board of New Orleans (Plan Sponsor)

Safe Harbor Rules: A series of guidelines which when in full compliance may limit a fiduciary's liabilities.

Sharpe Ratio: This statistic is a commonly used measure of risk-adjusted return. It is calculated by subtracting the *Risk-free Return* (usually the then current 3-Month T-Bill rate) from the portfolio return and dividing the resulting "excess return" by the portfolio's total risk level (standard deviation). The result is a measure of return gained per unit of total risk taken. The Sharpe ratio can be used to compare the relative performance of managers. If two managers have the same level of risk but different levels of excess return, the manager with the higher Sharpe ratio would be preferable. The Sharpe ratio is most helpful when comparing managers with both different returns and different levels of risk. In this case, the Sharpe ratio provides a per-unit measure of the two managers that enables a comparison.

Socially-Targeted Investment: An investment that is undertaken based upon social, rather than purely financial, guidelines. See also *Economically-Targeted Investment*.

Soft-Dollars: The portion of a plan's commission expense incurred in the buying and selling of securities that is allocated through a *Directed Brokerage* arrangement for the purpose of acquiring goods or services for the benefit of the plan. In many soft dollar arrangements, the payment scheme is affected through a brokerage affiliate of the consultant. Broker-consultants servicing smaller plans receive commissions directly from the counseled account. Other soft dollar schemes are effected through brokerages that, while acting as the clearing/transfer agent, also serve as the conduit for the payment of fees between the primary parties to the directed fee arrangement.

Standard Deviation (Risk): A statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard deviation is used as an estimate of risk since it measures how wide the range of returns typically is. The wider the typical range of returns, the higher the standard deviation of returns, and the higher the portfolio risk. If returns were normally distributed (i.e., has a bell shaped curve distribution) then approximately 2/3 of the returns would occur within plus or minus one standard deviation from the sample mean.

Strategic Asset Allocation: Rebalancing back to the normal mix at specified time intervals (quarterly) or when established tolerance bands are violated ($\pm 5\%$).

Tactical Asset Allocation: The "first cousin" to *Market Timing* because it uses certain "indicators" to make adjustments in the proportions of portfolio invested in three asset classes - stocks, bonds, and cash.

Time Horizon: *The Plan* or portfolio's investment time horizon is defined as the point in time when disbursements in a given year exceed the sum of contributions, and increase in assets as a result of investment performance. In other words, *the Plan's* time horizon is the point in time when there is more money going out than there is coming in.

It can also be described as the primary variable in determining the allocation between equities and fixed income. An investment time horizon of less than five years is considered *short*, while five years or more is considered *long*.

Time-Weighted Rate of Return: Method of performance measurement that strips the effect of cash flows on investment performance by calculating sub period returns before and after a cash flow and averaging these sub period returns. Because dollars invested do not depend on the investment manager's choice, it is inappropriate to weight returns within a period by dollars.

Treasury Inflation Protected Securities (TIPS): A special type of Treasury note or bond that offers protection from inflation. As with other Treasuries, when you buy an inflation-indexed security you receive interest payments every six months and a payment of principal when the security matures. The difference is that the coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI).

Trading Costs: Behind investment management fees, trading accounts for the second highest cost of plan administration. Trading costs usually are usually quoted in cents per share. Median institutional trading costs range around 5 to 7 cents per share.

(U.S.) 90-Day T-Bill: The 90-Day or 3-Month T-Bill provides a measure of riskless return. The rate of return is the average interest rate available in the beginning of each month for a T-Bill maturing in 90 days.

(U.S.) Large Cap: Companies based in the United States referred to as domestic companies having market capitalizations between \$10 billion and \$200 billion.

(U.S.) Mid Cap: Companies based in the United States referred to as domestic companies having a market capitalization of between \$2 billion and \$10 billion.

(U.S.) SMID Cap: Companies based in the United States referred to as domestic companies having a market capitalization of between \$300 million and \$10 billion. A term commonly used to refer to an equity style of management which combines both Small Cap and Mid Cap disciplines. A term used to acknowledge both Small and Mid-Cap Stocks collectively.

(U.S.) Small Cap: The definition of (U.S.) small-cap can vary throughout the investment industry, but generally a company based in the United States with a market capitalization between \$300 million to \$2 billion.

Variance: The Variance is a statistical measure that indicates the spread of values within a set of values. For example, the range of daily prices for a stock will have a variance over a time period that reflects the amount that the stock price varies from the average, or mean price of the stock over the time period. Variance is useful as a risk statistic because it gives an indication of how much the value of a portfolio might fluctuate up or down from the average value over a given time.

This glossary was compiled from various sources including the following:

Eugene B. Burroughs, CFA, *Investment Terminology* (Revised Edition), International Foundation of Employee Benefit Plans, Inc., 1993.

John Downes, Jordan Elliot Goodman, *Dictionary of Finance and Investment Terms* (Third Edition), Barron's Educational Series, Inc.

John W. Guy, *How to Invest Someone Else's Money*, Irwin Professional Publishing, Burr Ridge, Illinois.

Donald B. Trone, William R. Allbright, Philip R. Taylor, *The Management of Investment Decisions*, Irwin Professional Publishing, Burr Ridge, Illinois.

Donald B. Trone and William R. Allbright, *Procedural Prudence for Fiduciaries*, self-published, 1997.

Foundation for Fiduciary Studies, *Auditor's Handbook*, 2002-2003

Wikipedia (free encyclopedia)

Investment Management Consultants Association (IMCA)