



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

Sewerage & Water Board OF NEW ORLEANS

MITCHELL J. LANDRIEU, President

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October 16, 2017

The Pension Committee met on Monday, October 16, 2017 in the Board Room, 625 St. Joseph Street, New Orleans, LA. The meeting convened at approximately 3:00 P.M.

Present:

Director Joseph Peychaud
Director Alan Arnold
Director Ralph Johnson
Ms. Chante' Powell Pierre
Mr. Christopher Bergeron
Mr. John Wilson
Mr. Marvin Russell

Executive Session

Disability Retirement Application

Mr. Marvin Russell moved to go into Executive Session. Mr. John Wilson seconded the motion. The motion carried.

Mr. John Wilson moved to return from Executive Session. Director Ralph Johnson seconded the motion. The motion carried.

Mr. John Wilson moved to accept the recommendation of the staff of Human Relations on the Executive Session matter as described in the Disability Retirement Application. Mr. Marvin Russell seconded the motion. The motion carried.

ACTION ITEMS:

1. Mission Statement for the Employees' Retirement System of the Sewerage & Water Board of New Orleans (R-114-2017)

Director Alan Arnold moved to recommend the Board of Trustees adopt the Mission Statement as it is described in resolution R-114-2017. Ms. Chante' Powell Pierre seconded the motion. The motion carried.

2. Adoption of the CFA Code of Conduct for Members of a Pension Scheme Governing Body by the Employees' Retirement System of Sewerage & Water Board of New Orleans (R-115-2017)

Mr. John Wilson moved to recommend that the Board of Trustees adopt the CFA Code of Conduct (R-115-2017). Mr. Marvin Russell seconded. The motion carried.

3. Asset Allocation Targets for Employees' Retirement System of the Sewerage & Water Board of New Orleans (R-109-2017)

Director Ralph Johnson moved to recommend that Board of Trustees incorporate the 2015 asset allocation into the Investment Policy Statement (R-109-2017). Mr. Marvin Russell seconded. The motion carried.

4. Miscellaneous Updates of the Investment Policy Statement for the Employees' Retirement System of the Sewerage & Water Board of New Orleans (R-110-2017)

Director Ralph Johnson moved to recommend to the Board of Trustees the various edits in the redlined Investment Policy Statement (R-110-2017). Ms. Chante' Powell Pierre seconded. The motion carried.

All Resolutions listed above will be moved to the Board of Trustee's Committee for full adoption.

PRESENTATION ITEMS:

Ms. Sharon Judkins, Deputy Director of Administration, shared an informational item on rehiring retired S&WB employees. Ms. Sharon Judkins noted that Human Resources was considering various strategies to fill the roughly 300 vacant positions at the Sewerage & Water Board of New Orleans (S&WB). Among those strategies was the rehiring of retired S&WB employees. The Rules and Regulations Article II of the Employees' Retirement System of the Sewerage & Water Board of New Orleans (ERS) defines "employee." That definition excludes individuals who "work less than 17.5 hours per week." If the rehired retiree works less than 17.5 hours per week, they would not be a contributing member of the ERS. They would continue to receive their pension but not accrue sick time or vacation. Mr. Mike Conefry – ERS's Actuary - confirmed that individuals who worked less than 17.5 hours per week would not be members of ERS and thus would not impact the pension with their rehiring. S&WB Attorney Mr. James Thompson confirmed this interpretation.

Committee members asked a number of questions for clarification and to understand compliance. Mr. John Wilson raised a question as to whether S&WB employees on DROP could withdraw from DROP to lengthen their employment. Mr. Mike Conefry said the Rules and Regulations would not currently allow this and Ms. Sharon Judkins said the topic might be considered in the future. Director Joseph Peychaud encouraged Ms. Sharon Judkins to make sure communications about the rehiring of retired S&WB employees was communicated to avoid misunderstandings.

Chief Investment Officer, Dr. Tim Viezer's presentation provided background for the four action items and two updates. Dr. Tim Viezer introduced the first of four action items noting that "prudence is process." He noted that the ERS trust is a separate entity created by Louisiana RS 11:3821. S&WB - the water utility – was created by Louisiana RS 33:4071. Since "mission clarity" is a governance best practice, it would be useful to adopt a separate mission statement for ERS. Mr. James Thompson noted that the proposed mission statement is consistent with and its language derived from RS 11:3821.

Dr. Tim Viezer then presented the CFA Institute's Code of Conduct for Members of a Pension Scheme Governing Body. Dr. Tim Viezer noted that this was a "gold standard" within the industry and that as a CFA charter holder was himself bound by the CFA Institute's Code of Ethics and Standards of Professional Conduct. Dr. Tim Viezer noted that the Code would help assure all stakeholders that ERS would adhere to high standard which was achievable. The Code also provides protection to Trustees as it offers guidance on how to comply with their duties to administer benefits as Directors and make investment decisions as Trustees.

Dr. Tim Viezer then presented two administrative items to amend the Investment Policy Statement. The first was to memorialize changes to the asset allocation that were voted upon by the Pension Committee in 2015 and implemented but not incorporated into the Investment Policy Statement. Dr. Tim Viezer noted that in the course of providing that update to the Investment Policy Statement, FFC Capital Management proposed a number of minor edits (e.g., benchmark titles, dates, etc.). Dr. Tim Viezer noted that the Committee will monitor compliance with the asset allocation each month. He also noted that RS 11:3821 limits total equity to 65% of the total fund.

Dr. Tim Viezer then reiterated the rationale for the asset-liability study. A goal of ERS is to honor S&WB's pension obligations. Since the future is unknown, the Pension Committee must prepare for multiple situations in financial markets, plan design, and contribution levels to plan on how to achieve full funding. The asset-liability study is the tool that will assist that planning. An RFP has been issued and responses are due on

October 20, 2017. The Pension Committee discussed the composition of the Proposal Selection Committee. The Pension Committee made clear its desire for a competent, unbiased Proposal Selection Committee and adherence to S&WB's Professional Services Procurement Policy. Finally, Dr. Tim Viezer noted that FFC Capital Management's general investment consultant contract expires in March 2018. FFC has served as ERS's prime investment consultant since October 2008. To begin preparing to rebid the contract, the Pension Committee will discuss the general investment consultant services it desires over the next two meetings.

INFORMATION ITEMS:

Information item(s) 5b, 5c, 5d, 5e, 5f, 5g and 5h were received.

ADJOURNMENT:

There being no further business to come before the Pension Committee, the meeting adjourned at approximately 4:15 P.M.

Respectfully submitted,

Joseph Peychaud, Vice Chair

**MISSION STATEMENT
FOR THE EMPLOYEES' RETIREMENT SYSTEM
OF THE SEWERAGE AND WATER BOARD OF NEW ORLEANS**

WHEREAS, LA RS 11:3821 describes the purpose and constraints upon the Employees' Retirement System of Sewerage and Water Board of New Orleans;

WHEREAS, mission clarity is a core best practice of investment governance; and

WHEREAS, based upon LA RS 11:3821, the mission of the Employees' Retirement System of Sewerage and Water Board of New Orleans is to "prudently manage an actuarially sound pension fund solely in the interest of participants and beneficiaries in a cost-effective manner";

NOW, THEREFORE, BE IT RESOLVED by Board of Trustees of the Employees' Retirement System of Sewerage and Water Board of New Orleans that it formally adopts the above Mission Statement as discussed at the October 16, 2017 meeting of the ERS Pension Committee.

I, _____, Executive Director,
Employees' Retirement System of the Sewerage and Water Board of New Orleans,
do hereby
certify that the above and foregoing is a true and
correct copy of a Resolution adopted at the Meeting of the
Board of Trustees of the Employees' Retirement System
of Sewerage and Water Board of New Orleans, duly called and held,
according to law, on **October 18, 2017**.

_____, **EXECUTIVE DIRECTOR**
EMPLOYEES' RETIREMENT SYSTEM OF THE SEWERAGE AND WATER BOARD OF NEW ORLEANS

**ADOPTION OF
THE CFA CODE OF CONDUCT
FOR MEMBERS OF A PENSION SCHEME GOVERNING BODY
BY THE EMPLOYEES' RETIREMENT SYSTEM
OF THE SEWERAGE AND WATER BOARD OF NEW ORLEANS**

WHEREAS, the Chartered Financial Analyst (CFA) Institute's *Code of Conduct for Members of a Pension Scheme Governing Body* (the code) represents best practice for members of the pension governing body when complying with their duties to the pension scheme;

WHEREAS, the conduct of the Code provides guidance to those *individuals* overseeing the management of the scheme regarding their individual duties and responsibilities;

NOW, THEREFORE, BE IT RESOLVED by Board of Trustees of the Employees' Retirement System of Sewerage and Water Board of New Orleans formally adopt the *CFA Code of Conduct for Members of a Pension Scheme Governing Body* at the October 16, 2017 meeting of the ERS Pension Committee.

I, _____, Executive Director,
Employees' Retirement System of the Sewerage and Water Board of New Orleans,
do hereby

certify that the above and foregoing is a true and
correct copy of a Resolution adopted at the Meeting of the
Board of Trustees of the Employees' Retirement System
of Sewerage and Water Board of New Orleans, duly called and held,
according to law, on **October 18, 2017**.

_____, **EXECUTIVE DIRECTOR**
EMPLOYEES' RETIREMENT SYSTEM OF THE SEWERAGE AND WATER BOARD OF NEW ORLEANS

**ASSET ALLOCATION TARGETS AND RANGES FOR EMPLOYEES' RETIREMENT SYSTEM
OF THE SEWERAGE AND WATER BOARD OF NEW ORLEANS**

WHEREAS, the investment of assets of the Employees' Retirement System of the Sewerage and Water Board of New Orleans (ERS) is governed by an Investment Policy Statement adopted by the ERS Board of Trustees; and

WHEREAS, the assets are allocated among equity investments, fixed income investments, and alternative investments according to targets established in the Investment Policy Statement; and

WHEREAS, the Executive Director presented a set of proposed changes to the target asset allocations at the Pension Committee's October 7, 2015 meeting; and

WHEREAS, the Pension Committee of ERS has voted to approve changes to the target asset allocations on October 7, 2015, November 4, 2015, and December 14, 2015;

WHEREAS, these changes were subsequently implemented through the sale and purchase of investments;

NOW, THEREFORE, BE IT RESOLVED by Board of Trustees of the Employees' Retirement System of Sewerage and Water Board of New Orleans that the Investment Policy Statement be formally revised to incorporate these policy targets asset allocations and the effective dates based upon historical implementation as noted by FFC Capital Management.

I, _____, Executive Director,
Employees' Retirement System of the Sewerage and Water Board of New Orleans,
do hereby

certify that the above and foregoing is a true and
correct copy of a Resolution adopted at the Meeting of the
Board of Trustees of the Employees' Retirement System
of Sewerage and Water Board of New Orleans, duly called and held,
according to law, on **October 18, 2017**.

_____, **EXECUTIVE DIRECTOR**
EMPLOYEES' RETIREMENT SYSTEM OF THE SEWERAGE AND WATER BOARD OF NEW ORLEANS

**MISCELLANEOUS UPDATES OF THE INVESTMENT POLICY STATEMENT
FOR THE EMPLOYEES' RETIREMENT SYSTEM
OF THE SEWERAGE AND WATER BOARD OF NEW ORLEANS**

WHEREAS, the investment of assets of the Employees' Retirement System of the Sewerage and Water Board of New Orleans (ERS) is governed by an Investment Policy Statement adopted by the ERS Board of Trustees; and

WHEREAS, in the course of updating the Investment Policy Statement to incorporate policy targets asset allocations and the effective dates based upon previous ERS Pension Committee votes and historical implementation, FFC Capital Management proposed minor updates and edits to the Investment Policy Statement;

NOW, THEREFORE, BE IT RESOLVED by Board of Trustees of the Employees' Retirement System of Sewerage and Water Board of New Orleans that the Investment Policy Statement be formally revised to incorporate these miscellaneous updates and edits as detailed in the redlined Investment Policy Statement presented at the October 16, 2017 meeting of the ERS Pension Committee.

I, _____, Executive Director,
Employees' Retirement System of the Sewerage and Water Board of New Orleans,
do hereby
certify that the above and foregoing is a true and
correct copy of a Resolution adopted at the Meeting of the
Board of Trustees of the Employees' Retirement System
of Sewerage and Water Board of New Orleans, duly called and held,
according to law, on **October 18, 2017**.

_____, **EXECUTIVE DIRECTOR**
EMPLOYEES' RETIREMENT SYSTEM OF THE SEWERAGE AND WATER BOARD OF NEW ORLEANS

CODE OF CONDUCT FOR MEMBERS OF A PENSION SCHEME GOVERNING BODY



CFA Institute



CFA Institute

CODE OF CONDUCT FOR MEMBERS OF A PENSION SCHEME GOVERNING BODY

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CFA Institute is the global association of investment professionals that sets the standards for professional excellence. We are a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community.

Our mission is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.

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Preamble

The conduct of those who govern **pension schemes**¹ significantly impacts the lives of millions of people around the world who are dependent on pensions for their retirement income. Consequently, it is critical that **pension plans**, also known as systems, schemes, or funds, are overseen by a strong, well-functioning **governing body** in accordance with fundamental ethical principles of honesty, integrity, independence, fairness, openness, and competence.

Codes of conduct addressing professional activities are standard practice for many successful investment firms and have become increasingly common among public and private pension schemes. Such codes are established to improve the performance of schemes sponsored by private enterprise and public pension schemes alike. Just as there is no one-size-fits-all governance structure for investment firms, there is no single governance structure that can be universally applied to pension schemes. Varying goals, restrictions, political environments, market conditions, manager/**trustee** competencies, regulatory schemes, and many other factors will affect the appropriate governance structure for any pension scheme.

This *Code of Conduct for Members of a Pension Scheme Governing Body* (the code) represents best practice for members of the pension governing body when complying with their duties to the pension scheme. Whether public or private, each pension scheme board that adopts the code will demonstrate its commitment to serving the best interests of **participants** and **beneficiaries**.

The code provides guidance to those *individuals* overseeing the management of the scheme regarding their individual duties and responsibilities and is not meant to replace the overall policies and procedures established for the governance of the pension scheme. However, to reflect best ethical practice, incorporating the fundamental ethical principles embodied in this code will enhance those policies and procedures.

Depending on the nature and type of pension scheme, members of the governing body may have responsibility for overseeing the administration of benefits as well as the scheme's investment decision-making process. All of the principles outlined in this code apply equally to the officials' duties in each of these roles.

¹Bold indicates terms defined in Appendix A.

For the purposes of this document, pension plans, systems, and funds are referred to collectively as “plans” or “schemes” and the individuals who serve on the governing body of the plans, schemes, or funds are referred to as “trustees.”

Code of Conduct

Pension trustees

1. Act in good faith and in the best interest of the scheme participants and beneficiaries.
2. Act with prudence and reasonable care.
3. Act with skill, competence, and diligence.
4. Maintain independence and objectivity by, among other actions, avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect their loyalty.
5. Abide by all applicable laws, rules, and regulations, including the terms of the scheme documents.
6. Deal fairly, objectively, and impartially with all participants and beneficiaries.
7. Take actions that are consistent with the established mission of the scheme and the policies that support that mission.
8. Review on a regular basis the efficiency and effectiveness of the scheme's success in meeting its goals, including assessing the performance and actions of scheme service providers, such as investment managers, consultants, and actuaries.
9. Maintain confidentiality of scheme, participant, and beneficiary information.
10. Communicate with participants, beneficiaries, and supervisory authorities in a timely, accurate, and transparent manner.

Code of Conduct Guidance

1. Act in good faith and in the best interest of the scheme participants and beneficiaries.

The overriding objective of the pension scheme is to serve as a secure source of retirement income. Pension scheme trustees have a primary duty to act for the benefit of the scheme participants and beneficiaries. Trustees comply with this duty by striving to safeguard and grow the assets of the pension scheme to provide maximum benefit to the scheme participants and beneficiaries.

To act in the participants' and beneficiaries' best interest, an effective trustee will

- Consider the different types of beneficiaries relevant to each pension scheme, including **deferred beneficiaries** and pensioners. Trustees often engage in a delicate balancing act of taking sufficient risk to generate long-term returns high enough to support real benefit increases for active participants who will become future beneficiaries while avoiding a level of risk that jeopardizes the safety of the payments to existing pensioners.
- Place the benefit of the scheme participants and beneficiaries above that of the **sponsor** of the pension scheme even if the trustee is employed by or appointed to the board of the pension scheme by the scheme's sponsor.
- Consider whether the position of the scheme is enhanced by any investment or action and will not be swayed by other considerations, such as the interests of the employer sponsor of the pension or other external institutions (e.g., trade unions or political parties).

However, trustees who exclusively seek to enhance the position of participants and beneficiaries cannot discount additional considerations, such as the effect of the trustees' decisions on the financial health and viability of the scheme sponsor or their impact on scheme investments.

In carrying out their responsibilities, effective trustees will

- Consider the additional objectives of ensuring an adequate match between plan assets and liabilities, maintaining stable funding costs over time, keeping management costs down, and paying benefits upon the death, disability, retirement, or other special circumstances of plan members.
- Carry out the scheme activities in a way that does not impose an unnecessary financial burden on the plan sponsor and serves the interests of plan members well but without excessive burden to the plan sponsor.
- Consider the position of other stakeholders when carrying out their duties to the fund. If appropriate under applicable law, it is acceptable for a trustee to consider the impact that the investment of scheme assets may have—for example, creating jobs or stimulating industry in the local area—so long as the interests of the participants and beneficiaries remain paramount.
- Consider all relevant risk and value factors deemed appropriate when designing the scheme's investment strategy. In addition to typical financial measures, these factors may include environmental, social, and corporate governance issues.

2. Act with prudence and reasonable care.

Effective trustees will exhibit the care and prudence necessary to meet their obligations to pension scheme participants and beneficiaries. The exercise of prudence requires acting with the appropriate levels of care, skill, and diligence that a person acting in a like capacity and familiar with such matters would use under the same circumstances.

In the context of serving as a trustee, prudence requires

- Acting in a judicious manner to avoid harming scheme participants and beneficiaries.
- Acting in good faith, without improper motive or purpose.
- Exercising power and discretion consistently.
- Following the investment parameters set forth by the scheme documents and applicable regulation.

- Having appropriate knowledge of and skill in balancing risk and return by seeking appropriate levels of diversification.

Pension schemes typically employ experts to advise, direct, and implement the decisions of their trustees. Both internal staff and **external consultants** are retained for this purpose. These “designees” thereby partner with the trustees in carrying out the responsibilities set forth in this code. However, external third-party service providers and professional consultants may have less accountability or vested interest in the outcome of actions resulting from their advice.

Trustees can rely on external third-party service providers and professional consultants provided that the trustees have made reasonable and diligent effort to

- Determine that the service providers act with appropriate skill, competence, and diligence.
- Determine that third-party experts are independent and free of conflicts of interest and have the proper incentives to act in the best interests of the fund participants.
- Ensure that the designees’ decisions have a reasonable and adequate basis and that the decision process is adequately documented.

Trustees may also consider

- Appointing expert trustees.
- Hiring internal staff with investment expertise who may act as an internal consultant.
- Developing an internal investment team to manage the fund directly.

However, although the delegation of certain trustee responsibilities to experts is a prudent option, the trustees retain the ultimate fiduciary duty and responsibility to monitor the experts and to ensure that the delegated responsibilities are carried out appropriately.

3. Act with skill, competence, and diligence.

Skill and diligence require trustees to be knowledgeable about the matters and duties with which they have been entrusted. Ignorance of a situation or an improper course of action on matters for which the trustee is responsible or should at least be aware is a violation of this code. Improper or ill-advised decisions can be costly to the pension scheme and detrimental to the scheme's participants and beneficiaries. Prior to taking action on behalf of the scheme, effective trustees and/or their designees analyze the potential investment opportunities and act only after undertaking due diligence to ensure they have sufficient knowledge about specific investments or strategies.

Effective trustees will have knowledge and understanding of

- Trust and pension laws.
- Pension scheme funding and liabilities.
- The policies of the scheme.
- The strategies in which the scheme is investing.
- Investment research and will consider the assumptions used—such as risks, inflation, and rates of return—as well as the thoroughness of the analysis performed, the timeliness and completeness of the information, and the objectivity and independence of the source.
- The basic structure and function of the selected investments and securities in which the scheme invests.
- How investments and securities are traded, their liquidity, and any other risks (including counterparty risk).

The level of such analysis will depend on the investment style and strategy employed by the scheme. Certain types of investments, such as hedge funds, private equity, or more sophisticated derivative instruments, necessitate more thorough investigation and understanding than do fundamental investments, such as straightforward and transparent equity, fixed-income, or mutual fund products. Trustees may seek appropriate expert or professional guidance if they believe themselves lacking the expertise necessary to make an informed decision.

Trustees should not act—or fail to act—for the beneficiaries if lacking appropriate understanding or knowledge.

- Trustees are expected to take any training or educational opportunities necessary to ensure that their level of knowledge and understanding about pensions and investments remains current.
- Incumbent trustees and the pension scheme sponsor have a responsibility to ensure that new trustees receive proper training and education to fulfill their duties.

4. Maintain independence and objectivity by, among other actions, avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect their loyalty.

Effective trustees endeavor to avoid actual and potential conflicts of interest between their work with the pension scheme and other personal or outside interests. Conflicts of interest are many and varied, but the interests of pension scheme participants and beneficiaries are paramount.

Effective trustees

- Strive to avoid even the appearance of impropriety. Outside duties or responsibilities should not influence decisions because the trustee acts primarily for the beneficiaries and participants of the scheme.
- Take great care to put their duties to the pension scheme before their loyalty to the sponsoring entity that appointed them (such as a company plan sponsor or labor union).
- Do not solicit political contributions from service providers to the fund, either personally or on behalf of another.
- Do not allow political interests, philosophy, or political party loyalty to influence decisions made on behalf of the scheme.

- Do not put themselves in a position where their interests and the interests of the pension scheme conflict. Trustees who also are pension scheme participants or beneficiaries should take precautions to avoid any personal profit at the expense of the scheme.
- Do not use the prestige or influence of their position for private gain or advantage.
- Avoid any employment or contractual relationship with, or any interest in, firms that provide services to the pension scheme.
- Are not involved in any retention or termination decisions of such firms or otherwise vote on matters related to the trustees' firms.
- Refuse any gift or benefit that could reasonably be expected to affect their independence, objectivity, or loyalty.
- Do not receive or accept, directly or indirectly, any gift, service, favor, entertainment, or any other thing of value from anyone currently engaged by or seeking business from the pension scheme if it could reasonably be expected to influence a decision or be considered a reward. The governing body should establish a written policy limiting the acceptance of gifts and entertainment in a variety of contexts.
- Refuse to accept gifts or entertainment of more than a minimal value from service providers, consultants, potential investment targets, or other business partners. Pension scheme governing bodies should define what the minimum value is and should consult applicable regulations, which may help establish limits as well. The governing body should also create a reporting mechanism for disclosure of gifts and consider creating limits (e.g., amount per time period, per vendor) for accepting gifts and prohibit the acceptance of any cash gifts.

To the extent conflicts may not be avoided, effective trustees recognize and take appropriate measures to deal with and manage the conflict, such as

- Disclosing all real or perceived conflicts of interests.
- Abstaining from a vote or excluding themselves from any deliberations in which they are in direct conflict.
- Ensuring that the pension scheme has procedures in place to manage and disclose any such conflicts. Policies should be appropriate to the circumstances and level of control that the trustees have over trading decisions of the fund.

- Documenting and disclosing to the pension scheme the acceptance of any gift or entertainment.

The overriding principle is that trustees should act in the best interests of the participants of the pension scheme and disclose any conflicts of interest.

The personal and business relationships that are built among the trustees or between trustees and outside experts, such as **investment managers**, are an intangible asset to be leveraged for the benefit of the scheme. The scheme should adopt policies to prohibit former trustees from using information gained about the scheme or relationships with incumbent trustees, investment managers, or other experts for personal benefit.

5. Abide by all applicable laws, rules, and regulations, including the terms of the scheme documents.

The pension scheme governing body, having been vested with the power to manage and administer the pension scheme, is responsible for ensuring adherence to the terms of the arrangement, statutes, bylaws, contract, trust instrument, or other associated governing documents. As a general matter, pension schemes operate in a complex, varied, and rapidly changing regulatory environment. Generally, trustees are not expected to master the nuances of technical, complex law or become experts in compliance with pension regulation.

Effective trustees

- Consult with professional advisers retained by the scheme to provide technical expertise on applicable law and regulation.
- Regularly investigate and ensure that the pension scheme has adopted and updated compliance policies and procedures designed to maintain compliance with laws and regulations that govern the pension scheme.
- Report any suspected illegal, unethical, or financial irregularities to the appropriate parties, including the scheme's internal auditor.

Policies and procedures are critical tools to ensure that pension schemes meet their legal and ethical requirements. Specific policies and procedures of the pension scheme

supplement the fundamental principle-based ethical concepts embodied in this code. Documented compliance procedures will assist trustees in fulfilling the responsibilities enumerated in this code.

6. Deal fairly, objectively, and impartially with all participants and beneficiaries.

To maintain the trust that beneficiaries of the pension scheme place in them, trustees deal with all scheme participants and beneficiaries in a fair and objective manner. Effective trustees do not give preferential treatment to beneficiaries within a particular class of members or otherwise favor one class over the others. Many schemes have different types of participants: **active members** who are making contributions and accruing benefits, deferred members who have left employment but have not transferred their assets and will draw future benefits when reaching retirement age, and **retirees**, including spouses of deceased members, who are currently drawing retirement benefits. Effective trustees balance the interests of all types of members, treating each category of member fairly.

7. Take actions that are consistent with the established mission of the scheme and the policies that support that mission.

Effective trustees develop and implement comprehensive written investment policies that set forth the mission, beliefs, and strategic investment plans that guide the investment decisions of the scheme (the “policies”).

Trustees

- ❏ Draft written policies that include a discussion of risk tolerances, return objectives, liquidity requirements, liabilities, tax considerations, and any legal, regulatory, or other unique circumstances.
- ❏ Review and approve the scheme’s investment policies as necessary, but at least annually, to ensure that the policies remain current.

- Only take investment actions that are consistent with the stated objectives and constraints of these established scheme policies.
- Consider the suitability of investments given the needs of the pension scheme, its future (or projected) liabilities, risk tolerance, and diversification goals.
- Select investment options within the context of the stated mandates or strategies and appropriate asset allocation.
- Establish policy frameworks within which to allocate risk for both asset mix policy risk and active risk as well as frameworks within which to monitor performance of the asset mix policies and the risk of the overall pension fund.
- Work to achieve the proper investment blend to reflect the sometimes competing interests among the different classes of scheme members while focusing on long-term stability and growth.
- Carry out the terms of the scheme while abiding by any supplemental legal or regulatory requirements.

8. Review on a regular basis the efficiency and effectiveness of the scheme's success in meeting its goals, including assessing the performance and actions of scheme service providers, such as investment managers, consultants, and actuaries.

Effective trustees have the knowledge and understanding to critically review and verify the performance of the scheme's investment managers.

Trustees

- Develop disciplined decision rules for hiring, firing, and retaining investment managers that foster a long-term investment focus and are consistent with the scheme's investment policy statement. Hiring and firing decisions should be made by

considering well-reasoned criteria that may include performance, organizational or operational strength, personnel quality, and other considerations.

- Ensure that the investment entity managing scheme assets employs qualified staff and sufficient human and technological resources to thoroughly investigate, analyze, implement, and monitor investment decisions and actions.
- Ensure that investment managers and consultants retained by the scheme adopt and comply with adequate compliance and professional standards.
- Ensure that the pension scheme has in place proper monitoring and control procedures for investment managers.
- Review investment manager performance assessments relative to the scheme's investment policy statement on a regular basis, generally quarterly but at least annually.

Trustees may delegate the selection and monitoring of investment managers to an investment committee or professional staff as long as the trustees maintain essential oversight and policy-setting responsibilities.

9. Maintain confidentiality of scheme, participant, and beneficiary information.

Effective trustees hold strictly confidential all information communicated to them in the context of their duty to the scheme, and they take all reasonable measures to preserve this confidentiality. This discretion applies to information related to individual scheme participants and beneficiaries as well as any information that may affect the scheme's competitive ability (e.g., detailed security transactions, investment holdings, private equity transactions, and merger and acquisition information). Effective trustees ensure that the scheme has in place a privacy policy that addresses how confidential pension scheme information will be collected, used, stored, and protected and should ensure that this policy extends to external agents and delegates.

10. Communicate with participants, beneficiaries, and supervisory authorities in a timely, accurate, and transparent manner.

Full and fair disclosure of relevant information is a fundamental ethical principle of capital markets and the investment services industry. Developing and maintaining clear, timely, and thorough communication practices is critical to providing high-quality financial services to scheme participants and beneficiaries.

Trustees have a responsibility to

- Ensure that the information they provide to scheme participants and beneficiaries is accurate, pertinent, and complete.
- Not misrepresent any aspect of their services or activities in any communications, including oral representations, electronic communications, or written materials (whether publicly disseminated or not).

Communication with participants and beneficiaries is generally provided on a regular timetable and by the pension scheme, not by individual trustees. Nevertheless, effective trustees work to ensure that all communications with scheme participants and beneficiaries are timely, relevant, complete, and accurate. If the pension scheme is considering significant changes, such as mandating a later retirement age, lowering the percentage of future benefits, or closing the scheme to new members, trustees will communicate this information well in advance to allow affected parties the opportunity to provide input. Among other disclosures, trustees have a duty to present performance information that is a fair representation of the scheme's investment record and that includes all relevant factors. Trustees have a responsibility to comply with the scheme's disclosure policies by submitting any requested information in a timely manner. To be effective, disclosures of information must be made in plain language and in a manner designed to effectively communicate the information.

Appendix A. Definitions

Active member. See **Participants**.

Beneficiaries. Those persons who are no longer making contributions to the pension scheme but who are receiving benefits.

Deferred member or Beneficiary. Those persons who are eligible for benefits in the future but who are no longer making contributions.

External consultant. An individual or entity outside the pension plan retained to provide professional services to the plan, including assisting the plan in selecting investment managers.

Governing body. The group of persons or legal entity responsible for managing and safeguarding the assets of the pension scheme.

Investment manager. An individual or entity retained by the pension scheme to invest the assets of the plan.

Participants. Those persons who are participating in the pension scheme by making contributions but who are not yet receiving benefits.

Pension plan or Pension scheme. An arrangement whereby a public or private employer, such as a corporation, labor union, or government agency, provides income through deferred compensation to its employees after retirement.

Plan sponsor. The entity that establishes the pension scheme and employs the members of the scheme.

Retirees. Those persons who are receiving pension benefits from the scheme.

Trustee. An individual who serves on the governing body of a pension plan, scheme, or fund.



CFA Institute

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CFA INSTITUTE CENTRE FOR FINANCIAL MARKET INTEGRITY

The Code of Conduct for Members of a Pension Scheme Governing Body (the code) is a joint effort to develop and promote a code of professional conduct for individuals who sit on the governing bodies of pension funds. The CFA Institute Centre for Financial Market Integrity invited representatives from a number of industry organizations to participate in a working group that guided the creation of the initial draft of the code. We are grateful to the following groups who contributed to the working group's efforts: the Council of Institutional Investors (United States), the National Association of Pension Funds (United Kingdom), the Dutch Association of Industry-wide Pension Funds, the Swiss Pension Funds Association, the Hong Kong Retirement Schemes Association, and the Organisation for Economic Co-operation and Development. We are also thankful for the efforts of individuals and organizations who reviewed the document and sent in their contributions during the public comment period.

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CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

PREAMBLE

The CFA Institute Code of Ethics and Standards of Professional Conduct are fundamental to the values of CFA Institute and essential to achieving its mission to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. High ethical standards are critical to maintaining the public's trust in financial markets and in the investment profession. Since their creation in the 1960s, the Code and Standards have promoted the integrity of CFA Institute members and served as a model for maintaining the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations. All CFA Institute members (including holders of the Chartered Financial Analyst® [CFA®] designation) and CFA candidates must abide by the Code and Standards and are encouraged to notify their employer of this responsibility. Violations may result in disciplinary sanctions by CFA Institute. Sanctions can include revocation of membership, revocation of candidacy in the CFA Program, and revocation of the right to use the CFA designation.

THE CODE OF ETHICS

Members of CFA Institute (including CFA charterholders) and candidates for the CFA designation ("Members and Candidates") must:

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity and viability of the global capital markets for the ultimate benefit of society.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

STANDARDS OF PROFESSIONAL CONDUCT

I. PROFESSIONALISM

- A. Knowledge of the Law.** Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.
- B. Independence and Objectivity.** Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

- C. Misrepresentation.** Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.
- D. Misconduct.** Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

II. INTEGRITY OF CAPITAL MARKETS

- A. Material Nonpublic Information.** Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.
- B. Market Manipulation.** Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

III. DUTIES TO CLIENTS

A. Loyalty, Prudence, and Care. Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests.

B. Fair Dealing. Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.

C. Suitability.

1. When Members and Candidates are in an advisory relationship with a client, they must:

- Make a reasonable inquiry into a client's or prospective client's investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.
- Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action.
- Judge the suitability of investments in the context of the client's total portfolio.

2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must make only investment recommendations or take only investment actions that are consistent with the stated objectives and constraints of the portfolio.

D. Performance Presentation. When communicating investment performance information, Members and Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

E. Preservation of Confidentiality. Members and Candidates must keep information about current, former, and prospective clients confidential unless:

- The information concerns illegal activities on the part of the client or prospective client,
- Disclosure is required by law, or
- The client or prospective client permits disclosure of the information.

IV. DUTIES TO EMPLOYERS

A. Loyalty. In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.

B. Additional Compensation Arrangements. Members and Candidates must not accept gifts, benefits, compensation, or consideration that competes with or might reasonably be expected to create a conflict of interest with their employer's interest unless they obtain written consent from all parties involved.

C. Responsibilities of Supervisors. Members and Candidates must make reasonable efforts to ensure that anyone subject to their supervision or authority complies with applicable laws, rules, regulations, and the Code and Standards.

V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

A. Diligence and Reasonable Basis. Members and Candidates must:

- Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.

- Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

B. Communication with Clients and Prospective Clients. Members and Candidates must:

- Disclose to clients and prospective clients the basic format and general principles of the investment processes they use to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
- Disclose to clients and prospective clients significant limitations and risks associated with the investment process.
- Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
- Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

C. Record Retention. Members and Candidates must develop and maintain appropriate records to support their investment analyses, recommendations, actions, and other investment-related communications with clients and prospective clients.

VI. CONFLICTS OF INTEREST

A. Disclosure of Conflicts. Members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

B. Priority of Transactions. Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.

C. Referral Fees. Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from or paid to others for the recommendation of products or services.

VII. RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

A. Conduct as Participants in CFA Institute Programs. Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA Institute programs.

B. Reference to CFA Institute, the CFA Designation, and the CFA Program. When referring to CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA program.

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



Original Draft Adopted - November 4, 2004

As Amended – ~~September 20, 2017~~ **May 20, 2015**

Document **Maintained** By:



FFC CAPITAL MANAGEMENT

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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 ~~5-10~~ years (Long Term)
Assumed ROR: 7.00% (Actuarial ~~-~~Assumption¹)
Strategic Allocation: ~~42.49, 25.00%~~ Global Equities / ~~37.38, 75.00%~~ Global Fixed Income / ~~21.12, 00.00%~~ 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

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<u>Mandate</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
GLOBAL EQUITY	28.25	30.25	35.00

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As determined from Refer to 2010 January 1, 2017 Conefray & Company, LLC Actuarial
 Valuation Actuarial Report

September 20, 2017 April 1, 2015

<u>U.S. Large Cap Equity</u>	<u>20.00</u>	<u>27.25</u>	<u>35.00*</u>
<u>Large Cap Value</u>	<u>0</u>	<u>10.00</u>	<u>12.50*</u>
<u>Large Cap Enhanced Core</u>	<u>0</u>	<u>10.00</u>	<u>12.50*</u>
<u>Large Cap Growth</u>	<u>0</u>	<u>7.25</u>	<u>9.00*</u>
<u>U.S. Small/Mid Cap Equity</u>	<u>9.75</u>	<u>13.00</u>	<u>16.25*</u>
<u>SMID Cap Equity</u>	<u>9.75</u>	<u>13.00</u>	<u>16.25*</u>
<u>Other Small or MID Cap Equity</u>	<u>0</u>	<u>0</u>	<u>0*</u>
<u>Non US Equity</u>	<u>6.75</u>	<u>9.00</u>	<u>11.25*</u>
<u>International Developed Equity</u>	<u>6.75</u>	<u>9.00</u>	<u>11.25*</u>
<u>International EM Equity</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GLOBAL FIXED INCOME</u>	<u>35.00</u>	<u>38.75</u>	<u>40.00*</u>
<u>Core, Phys (Shaded) Bond</u>	<u>0</u>	<u>37.00</u>	<u>40.00*</u>
<u>Core Fixed</u>	<u>27.75</u>	<u>0</u>	<u>0</u>
<u>Convertible Bond</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>High Yield Fixed</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Cash & Equivalents</u>	<u>0</u>	<u>1.75</u>	<u>2.00</u>
<u>COMMODITIES</u>	<u>0</u>	<u>0.00</u>	<u>1.00*</u>
<u>Commodities</u>	<u>0</u>	<u>0</u>	<u>0*</u>
<u>HPOF-Absolute Return</u>	<u>0</u>	<u>8.75</u>	<u>9.625*</u>
<u>Real Estate REITs</u>	<u>0</u>	<u>3.25</u>	<u>5.00*</u>
<u>Private Equity</u>	<u>0</u>	<u>0</u>	<u>0*</u>

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. ~~1. Have the ability to pay all benefit and expense obligations when due; 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; 2. Achieve a fully funded status with regard to the Accumulated Benefit Obligation and 100% of the Projected Benefit Obligation.~~

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- ~~3. Maintain the purchasing power of the current assets and all future contributions by producing positive real rates of return on Plan assets;3. Have the ability to pay all benefit and expense obligations when due.~~
- ~~4. Maximize returns within reasonable and prudent levels of risk in order to minimize contribution4. Maintain flexibility in determining the future level of contributions;.~~
- ~~5. Control costs of administering the plan and managing the investments.5. Maximize return within reasonable and prudent levels of risk in order to minimize contribution;s. and~~
- ~~6. Maintain flexibility in determining the future level of 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

² Refer to January 1, 2017 Conefrý & Company, LLC Actuarial Valuation Based upon 2010 actuarial report

total transaction costs; should perform above a customized index comprised of market indices weighted by the strategic asset allocation of the Plan.

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>-LC² 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>5.75</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>

<u>Mandate</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
GLOBAL EQUITY	26.50	29.25	65
<i>U.S. Large Cap Equity</i>	<i>20.00</i>	<i>27.25</i>	<i>35.00</i>
<i>-Large Cap Value</i>	<i>0</i>	<i>10.00</i>	<i>12.50</i>
<i>-Large Cap Enhanced Core</i>	<i>0</i>	<i>10.00</i>	<i>12.50</i>

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² Large Cap

⁴ Treasury Inflation Protected Securities

⁵ Hedge Fund of Funds

⁶ Real Estate Investment Trusts

<u>Large Cap Growth</u>	<u>0</u>	<u>7.25</u>	<u>9.00</u> ◀
<u>U.S. Small/Mid Cap Equity</u>	<u>9.75</u>	<u>13.00</u>	<u>16.25</u> ◀
<u>SMID Cap Equity</u>	<u>9.75</u>	<u>13.00</u>	<u>16.25</u> ◀
<u>Other Small or MID Cap Equity</u>	<u>0</u>	<u>0</u>	<u>0</u> ◀
<u>Non US Stocks</u>	<u>6.75</u>	<u>9.00</u>	<u>11.25</u> ◀
<u>International Developed Equity</u>	<u>6.75</u>	<u>9.00</u>	<u>11.25</u> ◀
<u>International EM Equity</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GLOBAL FIXED INCOME</u>	<u>35.00</u>	<u>38.75</u>	<u>40.00</u> ◀
<u>Core-Plus (Global) Bond</u>	<u>0</u>	<u>37.00</u>	<u>40.00</u> ◀
<u>Core Fixed</u>	<u>27.75</u>	<u>0</u>	<u>0</u>
<u>Convertible Bond</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>High Yield Fixed</u>	<u>0</u>	<u>0</u>	<u>0</u> ◀
<u>Cash & Equivalents</u>	<u>0</u>	<u>1.75</u>	<u>2.00</u>
<u>ALTERNATIVES</u>	<u>0</u>	<u>12.00</u>	<u>21.00</u> ◀
<u>Commodities</u>	<u>0</u>	<u>0</u>	<u>0</u> ◀
<u>HFOF- Absolute Return</u>	<u>0</u>	<u>8.75</u>	<u>9.625</u> ◀
<u>Real Estate/REITs</u>	<u>0</u>	<u>3.25</u>	<u>5.00</u> ◀
<u>Private Equity</u>	<u>0</u>	<u>0</u>	<u>0</u> ◀

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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.

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.

⁷ Fixed income instrument maturing in 360 days or less
⁸ Very liquid mutual fund that invests solely in cash equivalents

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 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.

⁹Standard & Poor's, Moody's ~~and or~~ Fitch
¹⁰Also 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 – Baa3 ** 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-/Baa3 bonds not to exceed 15% of portfolio*, † For Core Plus only, bonds rated below BBB-/Baa3 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.

Does not apply to:

applicable to Core Bond-Plus, (Global) Bond, Private Equity, Real Estate/REIT, or Absolute Return. Refer to individual manager guidelines.

‡ Exception given for indexed or exchange-traded funds and notes (ETF's and ETN's)

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

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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; and
6. Avoid prohibited transactions and conflicts of interest.

Pension Consultant

The Board of Trustees will retain a (one or more) third-party Consultant(s) to assist the Board of Trustees in managing the overall investment process. The Consultant(s) 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 Trustees' 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 Trustees' 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 PSN¹ 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.

¹ 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

Style Based Asset Class	Index/Benchmark	Peer Group Universe
Global Equity	Russell 3000 Index	PSN All Cap
Large Cap Value	Russell 1000 Value Index	PSN Large Cap Value
LC Enhanced Core Large Cap Value	Russell 1000 Index Russell 1000 Value Index	PSN Large Cap PSN Large Cap Value
Large Cap Growth-LC Enhanced Core	Russell 1000 Growth Index Russell 1000 Index	PSN Large Cap Growth PSN Large Cap
Mid Cap Equity-Large Cap Growth	Russell Mid Cap Index Russell 1000 Growth Index	PSN Mid Cap PSN Large Cap Growth
SMID Cap Equity-Mid Cap Core	Russell 2500 Index Russell Mid Cap Index	PSN Small/Mid Cap PSN Mid Cap
Small Cap Equity-SMID Cap Core	Russell 2000 Index Russell 2500 Index	PSN Small Cap PSN Small/Mid Cap
International Equity-Small Cap Core	MSCI ACWI-EX US Index Russell 2000 Index	PSN Int'l Equity PSN Small Cap

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<u>International EM Equity</u>	<u>MSCI Emerging Markets Index</u>	<u>PSN Int'l EM Equity</u>
Global Fixed Income	Bloomberg Barclays Aggregate Bond	PSN Core Plus Fixed
<u>U.S. Core Bond</u>	<u>Bloomberg Barclays Aggregate Bond Index</u>	<u>PSN Core Fixed</u>
<u>High Yield-Core Bond</u>	<u>Bloomberg Barclays HY US Index</u>	<u>PSN High Yield Core Fixed</u>
Core-Plus-(Global) Bond (constrained)	1) <u>Bloomberg Barclays Aggregate Bond Index</u> 2) <u>Bloomberg Barclays Aggregate Universal Bond Index</u> + 50-bps	PSN Core Plus Fixed
Global TIPS	<u>Bloomberg Barclays World Inflation Linked Bond Index</u>	PSN Global TIPS
Convertible Bonds	BofA ML Inv Grade Convertible Bond Index	PSN Convertibles
Alternative Investments	Sub-Class Custom Blended Index	
Multi-Strat/Multi-Manager HFOFs/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
<u>Private Equity</u>	<u>Cambridge Private Equity</u>	<u>TBD</u>

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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 active investment manager and passive investment product
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 4519, #'s numbers 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~~ September 20, 20152017.

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

_____, Trustee
Mayor Mitchell J. Landrieu

_____, Trustee
Jeff Hebert – Mayor's Representative

_____, Trustee
Christopher Bergeron – Elected EE Representative

_____, Trustee
Harold Heller

Chante' Powell-Pierre – Elected EE Representative

_____, Trustee
Marvin Russell – Elected EE Representative

_____, Trustee
Genald Ebron

_____, Trustee
John Wilson

Trustee

~~Alan Arnold~~ John Wilson – Elected EE Representative

Trustee

~~Alan Arnold~~

~~Robin Barnes~~

Trustee

~~Robin Barnes~~

~~Marion Bracy~~

Trustee

~~Marion Bracy~~

~~Dr. Tamika Duplessis~~

Trustee

~~Dr. Tamika Duplessis~~

~~Ralph Johnson~~

Trustee

~~Stacy Horn Koch~~

~~Council District "A"~~ Robin Barnes

Trustee

~~Ralph Johnson Council District "B"~~

~~Eric Blue~~

—

Trustee

Joseph Peychaud

Council District “C”

Marian Bracy

Trustee

D. Erika Duplessis

Trustee

Scott Jacobs

Trustee

Keri Kane

Trustee

Ray Manning

Mark Moody

Trustee

Council District “A” - TBD

Joseph Peychaud

Trustee

Council District “B” - TBD

Trustee

Council District "C" - TBD

Stacy Horn Koch ~~Kimberly Thomas~~

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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:

~~September 20, 2017~~ April 4, 2015

Print Name:

Title:

Company:

September 20, 2017 April 4, 2045

APPENDIX A

Sewerage and Water Board of New Orleans Board Officers

Mitchell J. Landrieu, President

~~Jeff Hebert~~ ~~Suchitra Satpathi~~, Mayor's Representative

~~Raymond Manning~~ ~~Scott Jacobs~~, President Pro-Tem

Sewerage and Water Board of New Orleans Board Members

Alan Arnold

~~Robin Barnes~~

~~Robin Barnes~~

Marion Bracy

Dr. Tamika Duplessis

~~Stacy Horn Koch~~

~~Ralph Johnson~~

~~Stacy Horn Koch~~

~~Scott Jacobs~~

~~Kerri Kane~~

~~Mark Moody~~

Joseph Peychaud

~~Kimberly Thomas~~

Sewerage and Water Board of New Orleans Employee Trustees

~~Christopher Bergeron~~

~~Chante Powell-Pierre~~

~~Harold Heller~~

Marvin Russell

~~Gerald Tilton~~

John Wilson

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Sewerage and Water Board of New Orleans Management

Executive Director

Timothy W. Viezer, PhD, CFA, CAIA

Chief Investment Officer

Cedric S. Grant, Executive Director

Robert K. Miller, Deputy Executive Director

APPENDIX B

SUMMARY OF CAPITAL MARKET ASSUMPTIONS INPUTS

LONG TERM CAPITAL MARKET ASSUMPTIONS RETURN AND RISK CHARACTERISTICS

ASSET CLASS	EXPECTED		RISK	
	AROR	to US LCE	Expected Risk	Standard Deviation
US Large Cap Equity	8.40		17.00	
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

Correlations are to US Large Cap Equity:

E_R = Expected AROR Annualized Rate of Return; and

Note: E_R Risk is σ = Expected Risk quantified as a measurement of Standard Deviation or the annual variability of returns.

AROR = Annualized Rate of Return.

The above table was developed in November 2009 utilizing data that was derived from sources believed to be accurate and reliable. Neither forecasts nor past performance are indicative of future results; therefore there is no implied assurance of any individual asset class achieving the referenced expected return, risk or correlation characteristics.

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.

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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:

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Investment Management Consultants Association (IMCA); and
[PSN Enterprise](#)

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