STATEMENT OF INVESTMENT POLICY
OBJECTIVES AND GUIDELINES

MACOMB TOWNSHIP

ACT 345

RETIREMENT SYSTEM

SEPTEMBER 21, 2005

Amended December 2005

Amended: August 20, 2009

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I. INTRODUCTION / PURPOSE

A. Introduction

The investment policy objectives and guidelines which follow should be dynamic in nature and should represent the current consensus of the Board of Trustees of the Macomb Township Act 345 Fire Retirement System (hereinafter referred to as the "Board") regarding the investment of the Macomb Township Fire Retirement System's (hereinafter referred to as the "System" or "Retirement System") assets. This Statement of Investment Policy, Objectives and Guidelines (hereinafter referred to as "Statement") will need to be reviewed and possibly revised from time to time to insure that it continues to reflect the Board's attitudes, expectations and objectives and to insure its relevance to current capital conditions and plan needs. It is intended to be used as a guideline rather than a rigid statement of policy from which there can be no deviation. However, it is anticipated that any important deviations and the reasons therefore would be brought to the attention of the Board. Whenever the investment consultant or managers believe that this Statement should be altered, it is the responsibility of the investment consultant or managers to initiate written communication with the Board.

B. Purposes of this Statement

This Statement is intended to satisfy the fiduciary obligations of the Board to:

1. Briefly outline the investment related responsibilities of both the Board and the investment consultant and managers it retains to manage the assets of the System.
2. Set forth a clear understanding of the investment policy, guidelines and objectives of the System between the Board and their investment consultant and managers.
3. Establish formal yet flexible investment guidelines incorporating prudent asset allocations and realistic total return goals.
4. Provide the investment consultant and managers with an understanding of the guidelines, limitations and direction that the Board feels is most appropriate for the System.

5. Provide a framework for regular constructive communication between the Board and its investment consultant and managers.

6. Create standards of investment performance which are historically achievable and by which the investments will be measured over a reasonable time period.

7. Provide for the monitoring of performance results of the investment managers to determine whether the investment consultant and managers continue to satisfactorily comply with the System's policy guidelines and objectives.

II. **<u>DELEGATION OF RESPONSIBILITIES</u>**

A. <u>BOARD</u>

The Board acknowledges its responsibility as a Retirement System fiduciary. In this regard, it must act prudently and for the exclusive interest of the participants and beneficiaries of the System.

More specifically, the Board's responsibilities include:

1. Discharging its duties solely in the interest of the participants and beneficiaries of the System.

2. Acting with the same care, skill and prudence and due diligence under the circumstances that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims.

3. Acting with due regard for the management, reputation and stability of the character of the particular investments being considered.

4. Making investment for the exclusive purposes of providing benefits to participants and participants' beneficiaries, and of defraying reasonable expenses of investing the assets of the System.

5. Giving appropriate consideration to those facts and circumstances that the Board knows or should know are relevant to the particular investment course of action involved, including the role that the investment or investment course of action plays on that portion of the System's investments for which the Board has responsibilities; for purposes of this subsection, "appropriate consideration" includes but is not limited to a determination by the fiduciary that a particular investment or investment course of action is reasonably designed, as part of the investment of the

System, to further the purposes of the System, taking into consideration the risk of loss and the opportunity for gain or other return associated with the investment or investment course of action and consideration of the following factors as they related to the investment or investment course of action:

a. the diversification of the investments of the System.

b. the liquidity and current return of the investments of the System relative to the anticipated cash flow requirements of the System.

c. the projected return of the investment of the System relative to the funding objectives of the System.

6. Preparing and maintaining written objectives, policies, and strategies, which clearly define accountability and responsibility for implementing and executing the System's investments.

7. Monitoring the investment of the System's assets with regard to the limitations on those investments pursuant to Public Act 314 of 1965 as amended. Upon discovery that an investment causes the System to exceed a limitation prescribed in Public Act 314 of 1965 as amended, the Board shall reallocate assets in a prudent manner in order to comply with the prescribed limitation.

8. Refraining from causing the System to engage in a transaction if it knows or should know that the transaction is any of the following, either directly or indirectly:

a. a sale or exchange or a leasing of any property from the System to a party in interest for less than fair market value, or from a party in interest to the System for more than fair market value.

b. a lending of money or other extension of credit from the System to a party in interest without the receipt of adequate security and a reasonable rate of interest or from a party in interest to the System with the provision of excessive security or at an unreasonably high rate of interest.

c. a transfer to, or use by, or for the benefit of, the political subdivision sponsoring the System of any assets of the System for less than adequate consideration.

d. the furnishing of goods, services or facilities from the System to a party in interest for less than adequate consideration or from a party in interest to the System for more than adequate consideration.

9. Refraining from engaging in the following actions.

    a. dealing with the assets of the System in its interest or for its own account.

    b. receiving any consideration for its own personal accounts from any party dealing with the System in connection with a transaction involving the assets of the System.

    c. acting in any transaction involving the System on behalf of a party whose interests are adverse to the interests of the System or the interests of the participants or participants' beneficiaries.

10. Complying with the provisions of all pertinent federal, state and local regulations and rulings.

11. Developing sound and consistent investment goals, objectives and performance measurement standards which are consistent with the needs of the System.

12. Evaluating and appointing a qualified investment consultant or managers to invest and manage the System's assets.

13. Communicating the investment goals, objectives and standards, including any material changes that may subsequently occur.

14. Determining, with the advice of the investment consultant and managers, how plan assets should be allocated among various asset classes.

15. Reviewing and evaluating the results of the investment consultant and managers in context with established standards of performance.

16. Taking whatever corrective action is deemed prudent and appropriate when the investment consultant or manager fails to perform as mutually expected.

17. Notify the investment consultant or managers of:

    a. Significant changes in the System's cash flow and/or cash flow needs.

b. Any matter which may bear upon the proper investment management of the System's assets, including pertinent financial, legal and actuarial information involving the fund.

B. INVESTMENT CONSULTANT

The Board considers the services of an Investment Consultant as appropriate to assist in the investment of Retirement System assets.

The Role of the Investment Consultant

The Investment Consultant is a fiduciary to the Retirement System and is an advisor to the Board.

The role of the Investment Consultant is to provide the following services:

1) Help the Board evaluate the Retirement System's tolerance for risk.
2) Assist in establishing appropriate investment objectives based on the Retirement System's needs and risk tolerance.
3) Provide the Board with the information necessary to decide on the optimal allocation of the Retirement System assets.
4) Monitor the investment of Retirement System assets for compliance with Act 314.

Providing a Range of Capabilities

The Investment Consultant is a fiduciary retained by the Board and Retirement System to assist in several key areas of the management of the Retirement System's assets. The Investment Consultant shall at all times be registered in good standing as an investment adviser under the Investment Advisers Act of 1940, and shall acknowledge in writing that it is a fiduciary of the Retirement System.

The Investment Consultant shall:

1) Gather and evaluate statistical information on the Retirement System's assets, investment needs, and risk parameters.
2) Analyze and understand the implications of historical capital market behavior, particularly with regard to the trade-off between total rate of return and investment risk.
3) Maintain data on the universe of available investments and managers, and categorize (as to investment style and discipline) and evaluate the qualifications of the individual investments and management firms.
4) Analyze and evaluate the Retirement System's investment performance, and the performance of their investments.

5) Make specific and timely recommendations for the consideration of the Board during each phase of the investment process.
6) Monitor the investment of Retirement System assets for compliance with Act 314.

Making Recommendations

Investment Policy

The Investment Consultant shall be responsible for recommending an appropriate investment policy that will meet the Retirement System's needs. This includes establishing investment objectives and guidelines that adhere to the Retirement System's goals and tolerance for risk. The Investment Consultant shall also provide an appropriate model of asset allocation to meet the established objectives.

Investment Selection

The Investment Consultant shall recommend the best qualified and most appropriate investments for implementing the Retirement System's established investment policy. The Investment Consultant shall utilize a well established and objective system to select qualified investments.

Performance Measurement

The Investment Consultant shall provide the Retirement System with performance and ongoing quality control reports of the Retirement System's investments to assure that the Retirement System's standards and investment objectives are maintained.

C. INVESTMENT MANAGERS. It is the intention of the Board to utilize mutual or other commingled funds ("Funds"), including exchange traded funds, in addition to separately managed accounts to implement the investment strategy of the Retirement System. In such event, the prospectus (or Trust documents) of the Fund(s) will govern the investment policies of the investments. The following guidelines apply to separately managed accounts:

1. Appointment

The Board shall appoint one or more investment managers (hereinafter referred to as "managers" or "investment managers") to invest and manage the System's assets.

2. Qualifications

Each investment manager shall meet one of the following requirements:

a. be a registered advisor under the Investment Advisers Act of 1940 or the Michigan Uniform Securities Act of 1965, as amended.

b. be a bank as defined under the Investment Advisers Act of 1940.

c. be an insurance company qualified under section 16(3) of the Public Act 314 of 1965 as amended.

3. General Responsibilities

The investment managers, in recognition of their role as fiduciaries of the System, must assume the following responsibilities as they pertain to:

a. Adherence to Policy Guidelines and Objectives

The investment managers shall manage the assets of the System in accordance with the policy guidelines and objectives expressed herein or expressed in a separate written agreement when deviation is deemed prudent and desirable. Assets shall be invested in strict compliance with state law (Public Act 314 of 1965, as amended).

b. Discretionary Authority

The investment managers are expected, within the limitation of the account size, to diversify the portfolio to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to so diversify. The managers shall invest the assets of the System with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person, would use in the conduct of an enterprise of a like character the Board, with suggested strategy which might be changed or adopted to better suit the investment guidelines adopted by the Board.

c. Communication

The investment managers are responsible for communicating with the Board regarding all significant matters pertaining to the investment of the System's assets. The Board shall be kept apprised of substantive changes in investment strategy, asset mix, portfolio structure, and market value of the System's assets.

d. Reporting

The investment managers are expected to provide:

i. INITIALLY,

written statement (per management agreement) acknowledging their acceptance of the guidelines and performance standards herein stated.

ii. AT LEAST QUARTERLY,

a portfolio composition report to the Board of the funds under their management. The report shall contain, as a minimum, the following data:

(a) Investment Review Report:

(i) Account Characteristics.

(ii) Investment Summary to include asset description, cost, date and market value, percent of market, current yield and estimated annual income.

(iii) Investment analysis to include, description, cost, unit value, market value, unrealized gains/losses, estimated annual income and current yield by category of investment.

(iv) Maturity schedule to include year due and percent of total.

(b) Summary and statement of assets under management.

(c) The names of the System's investment fiduciaries.

(d) The major changes in the managers' investment outlook.

(e) Any significant changes in ownership, organizational structure, financial conditions, or senior personnel staffing at each investment management organization.

iii. ANNUALLY, and thereafter at the request of the Board, participation in a review meeting, the agenda to include but not restricted to:

(a) A review and re-appraisal of the herein contained

Statement.

(b) A brief review of the recent capital market environment to include discussion of any event particularly pertinent to the management of this portfolio.

(c) A commentary of investment results in light of the appropriate standards of performance as stated herein.

(d) A synopsis of key investment decisions made by the managers, their underlying rational, and how those decisions could impact future results.

(e) Recommendations as to changes in goals or standards based upon material and sustained changes in the capital markets.

iv. UPON WRITTEN OR ORAL REQUEST

(a) Copies of all documentation in support of any investment activity.

(b) A summary of receipts and disbursements.

(c) A listing of assets acquired and disposed of.

(d) Evidence of suitable insurance coverage of the investment managers' fiduciary responsibilities.

v. MISCELLANEOUS

(a) Notice of material changes in the managers' outlook, policy and tactics.

(b) Notice of material changes in ownership, organizational structure, financial conditions, senior staffing and management of the investment management organization.

vi. In addition to the foregoing reporting requirements, the System shall be subject to the applicable accounting and reporting requirements contained in the following Michigan statutes:

(a) the Uniform Budgeting and Accounting Act, being Michigan Compiled Laws section 141.421 to 141.440a

(b) the Uniform System of Accounting, being Michigan Compiled Laws section 21.41 to 21.53.

(c) the Executive Organization Act of 1965, being Michigan Compiled Laws section 16.191.

4. Additional Responsibilities

The investment managers shall also have the same responsibilities as the Board, as set forth in Section II A. of this Statement.

III. INVESTMENT PHILOSOPHY

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

IV. INVESTMENT POLICY

The Retirement System is maintained to provide retirement benefits for the participants. The System is established in accordance with the laws of the State of Michigan whereby it is controlled, as to its investments, by Act 314 of the Public Acts of 1965 and its amendments, a copy of which is included as part of this document.

The Board is authorized and permitted by the plan document and under Michigan law to engage the service of investment consultant and managers and to set the direction for the investments. The Board requires that the investment consultant and managers comply with all applicable laws, rules and regulations.

V. INVESTMENT OBJECTIVES

A. <u>General Objectives</u>

In accordance with the Prudent Person Rule, the assets of the System shall be invested with the care, skill, prudence, and diligence under the circumstances prevailing from time to time that a prudent person acting in a similar capacity and familiar with such matters would use in the investment of a fund of like character and with like aims and with due consideration given to the tax exempt status of the System.

The broad investment objectives of the System, ranked in order of priority are:

1. To avoid financial risk (default or compromise of the financial integrity of the issuers of a security) which is not to be confused with market risk (upward or downward movement of a security prices due to normal market fluctuations).

2. Seek to earn an investment return (capital appreciation plus interest plus dividends) at least equal to the current actuarial investment yield assumption. The current actuarial assumption as determined by the Board's actuary is 5.0% (Amended 3/12/2015).

3. To preserve capital through the establishment of prudent investment quality standards and diversification to cushion the assets against any losses in value. Assets should be diversified both by general types of securities and by individual issues in order to avoid undue exposure to any single type of security or individual issue.

4. To provide for inflation protection, seeking to maintain a reasonable balance preserving purchasing power and preserving capital.

5. To maintain portfolio assets in highly marketable form:

    a. To provide for unforeseen cash requirements of the System.

    b. To allow basic restructuring of the System's portfolio needs for change over time.

    c. To manage the portfolio so as to optimize the long-term total rate of return on assets.

6. To invest only in issues of companies of sufficient strength to ensure adequate liquidity.

7. To obtain a competitive rate of return equal to or better than other tax exempt funds with similar constraints and objectives.

8. To allow the System to experience growth in assets that will allow the market value to exceed the present value of vested and nonvested liabilities over time.

9. To allow the System to reach a point in time when further contributions will not be required due to favorable investment experience.

10. To provide an investment program should assist the System in maintaining a reasonable benefit level for its participants.

11. The assets of the System shall be invested in a manner consistent with the State of Michigan Public Act 314 of 1965 as amended, and although consistent with the fiduciary standards of the Employee Retirement Income Security Act of 1974 (ERISA); namely (a) the safeguards and diversity to which a prudent investor would adhere must be present, and (b) all transactions undertaken on behalf of the System must be for the sole interest of the plan participants and their beneficiaries, to provide benefits in a prudent manner. In case of any conflict between a state statute and a federal statute, the Board will decide any issues after consultation with the Board's legal counsel.

B. Specific Objectives

The Board will use the following specific objectives over a three to five year moving time period (market cycle) to measure the performance of its investments:

1. The goal of the System is to achieve an average annual total return (income plus/minus realized and unrealized gains/losses) which equals the market return plus **1%**. The market return is considered to be a blend of 50% Standard & Poor's 500 Index and 50% Barclays Government Corporate Intermediate Bond Index.

2. Relative to inflation, the System's total return goal should exceed the increase in the Consumer Price Index by at least 4% on an annual basis.

C. Risk

The Board recognizes the impact of market declines on the value of the System's assets and the possible consequences of such declines in growth of the principal of the System. Knowing the Board understands that fluctuating rates of return are characteristic of the securities market, the greatest concern should be long-term appreciation of the System's assets and consistency of total portfolio return. Although it does not wish to establish an arbitrary loss-containment level, the Board believes that its investments will attempt to limit the System's relative loss during declining markets.

VI. INVESTMENT GUIDELINES

The Board believes that the System's assets should be managed in a manner which reflects the following statements:

A. Asset Allocation

The Board expects the System's asset allocation policies to reflect, and be consistent with, the investment objectives and risk tolerance expressed throughout this Statement. Although dynamic capital markets may cause fluctuating risk/return opportunities (over a three to five year period) (market cycle), the following guidelines will be used to evaluate the asset allocation mix (as measured at market values):

Asset Class	**Minimum**	**Target Average**	**Maximum**
Total Equity	30%	50%	75%
Large/Medium Cap U.S. Stocks	30%	40%	65%
Small Cap Stocks	0%	10 %	10%
International Stocks	0%	10%	20%
Total Fixed Income	20%	45%	60%
Domestic Fixed Income	15%	35%	50%
High Yield Fixed Income	0%	0%	5%
International Fixed Income	0%	10%	15%
Alternative	0%	5%	5%
Real Estate	0%	0%	5%

The Board understands that, at times, dynamic market conditions may cause the market values of the asset classes to temporarily drift outside the ranges defined above. Because security market conditions can vary greatly throughout a market cycle, the Board grants the investment consultant full discretion to change the System's asset mix within the above ranges for the purposes of increasing investment returns and/or reducing risks. The Board believes that market timing is not an objective, but rather a consequence of shifting the asset mix between the appropriate ranges indicated above. If certain conditions justify exceeding the allocation exposure constraints, such allocation constraints may be exceeded only with the Board's written consent.

B. Fixed Income Investments

Fixed Income Investments, including investments in bonds, should be actively managed. Active management is meant to include shifting sector emphasis as well as affecting other prudent strategies which enhance the portfolio or decrease the volatility or exposure to capital depreciation. The diversification of fixed income securities by maturity, quality, sector, coupon, and geography is the responsibility of the managers.

1. Guidelines. Fixed income investments, shall be governed by the following guidelines:

   a. Fixed income investments must satisfy the requirements of Public Act 314 of 1965, as amended, of the State of Michigan.

   b. Fixed income assets selected for the System must have a readily ascertainable market value and must be readily marketable.

   c. Bond and corporate debt obligation maturities may not exceed 30 years.

   d. Adequate diversification across individual holdings should be maintained. The investment managers may not:

      i. Invest more than 15% of the assets taken at cost in any one industry or group of related industries.

      ii. Invest more than 5% of the assets taken at cost in any one company.

      iii. Invest more than 5% of the assets taken at cost in any one issue. (U.S. Government guaranteed issues and its agencies are excluded from these limitations.)

2. Restrictions

   The following restrictions, in addition to those set out above, shall henceforth apply to purchases of fixed income securities:

   a. U.S. Government Obligations, including fully-guaranteed Federal Agencies.

i. No specific limitations except as otherwise set forth in Public Act 314 of 1965, as amended.

b. Commercial Paper (including Trust Demand Notes).

i. Must be rated within the two highest classifications by at least two national rating services as determined by the State Treasurer.

ii. Must mature within 270 days of issue.

iii. Pre-tax coverage must equal at least 1 ½ times fixed charges of the issuing company.

c. U.S. Government-sponsored Agency Obligations (not fully guaranteed).

i. No specific limitations except as otherwise set forth in Public Act 314 of 1965, as amended.

d. Corporate Debt Obligations.

i. Must be rated, at time of purchase, "BBA" or better by Moody's Investor Services, Inc. or "BBB" or better by Standard & Poor's Ratings Group.

ii. Pre-tax coverage must equal at least 1 ½ times fixed charges of the issuing company during 3, including 1 of the last 2, of the last 5 years, or the investment must be of investment grade.

e. Preferred Stocks.

i. Must be rated, at time of purchase "B" or better by Moody's Investor Services, Inc. or Standard & Poor's Ratings Group, and be backed up by an "A" rated bond.

f. Cash Equivalents.

It is desirable that the managers use interest bearing money market funds, FDIC insured certificates of deposit, U.S. Treasury Bills, and other cash equivalent securities with the highest rating by Standard & Poor's Ratings Group. A commitment to any federally insured institution shall not exceed $90,000.00.

C. Equity Investments – Stocks

All equity investments will be made within the guidelines of the Prudent Person Rule and other governing legal statutes. In keeping with the general philosophy of the Board, the investments are expected to maintain the equity portion of the portfolio at a rick level roughly equivalent to that of the equity market as a whole (i.e. the Standard & Poor's 500 Index).

1. Guidelines

The following guidelines on stock investments shall apply:

a. Any stock (including common or preferred stock) purchased shall:

i. Be registered on a national securities exchange (excluding common stocks of insurance, banks, or trust companies).

ii. Be on the national association of securities dealers automated quotation system or a successor to this System.

iii. Be issued pursuant to rule 144a under the Securities Act of 1933, being 17 C.F.R. 230.144a.

iv. Not exceed more than 5% of the outstanding stock of any one company.

v. Not exceed more than 5% of the System's assets in any one corporation.

2. Restrictions – Common Stock Investments

The Board will not authorize transactions or investment in the following classes of securities, nor will it allow the employment of any of the following market techniques without the Board's written approval.

a. Purchase Tax-Exempt Securities without Board Approval.

b. Purchase unregistered or restricted stock.

c. Deal in naked options; covered option writing is permitted as are options utilized in a hedging program designed to protect portfolio values.

d. Purchase on margin or with borrowed funds or sell short except as relates to financial futures.

e. Purchase private placement debt – except as may be positioned in a commingled fund which does not specifically emphasize private placements.

f. Deal in pooled real estate funds or direct purchase of real estate.

g. Mortgage, pledge, hypothecate, or in any manner transfer, as security for indebtedness, any securities owned or held by the System.

h. Purchase Conditional Sales Contracts or Lease-Backs.

D. Investments in Investment Companies

The System's assets may be invested in investment companies registered under the Investment Company Act of 1940, being 15 U.S.C. §80a-1 to 80a-64. The investment adviser of the investment company shall have been in operation for at least 5 years and shall have assets under management of more than $500,000,000.00. An investment in an investment company shall be considered an investment in the underlying assets for all purposes of this Statement.

VII. STANDARDS OF PERFORMANCE

A. Equity Investments

The objectives for investments of the equity portfolio are to:

1. Seek to achieve an absolute return which over the long-term shall exceed the Standard & Poor's 500 Index.

2. Seek to achieve a minimum long term rate of return which shall exceed the inflation rate by 5% as measured by the Consumer Price Index.

3. Seek to achieve the above, over a market cycle of 3-5 years.

B. Fixed Income Investments

The objective for investments of the fixed income portfolio are:

1. Preserve capital and provide a high level of income on a consistent basis.

2. Seek to earn an average annual return from income and capital

appreciation which exceeds the Barclays Government Corporate Intermediate Bond Index.

3. Seek to achieve a minimum long-term rate of return which shall exceed the inflation rate by 2%.

4. Seek to achieve the above, over a market cycle of 3-5 years.

VIII. ADMINISTRATIVE AND REVIEW PROCEDURES

A. Review of Policies

All investment policies and investment management guidelines will be reviewed annually by the Board, or whatever circumstances change to the extent that the policies are ineffective or inappropriate.

B. Tenure

While the relationship with investment consultant and managers is expected to be ongoing, the Board reserves the right to terminate its relationship with any retained investment consultant or managers at any time it deems appropriate.

C. Conclusion

It is in the intent of this Statement to impart an attitude and/or philosophy which will guide the managers toward the performance desired. It is further intended that these objectives be sufficiently specific to be meaningful but sufficiently flexible and practicable.

It is the opinion of the Board that these limitations and guidelines will not prevent the investment consultant or managers from achieving the objectives set forth.

AGREED TO BY:

BOARD OF TRUSTEES OF THE
MACOMB TOWNSHIP ACT 345 FIRE
RETIREMENT SYSTEM