

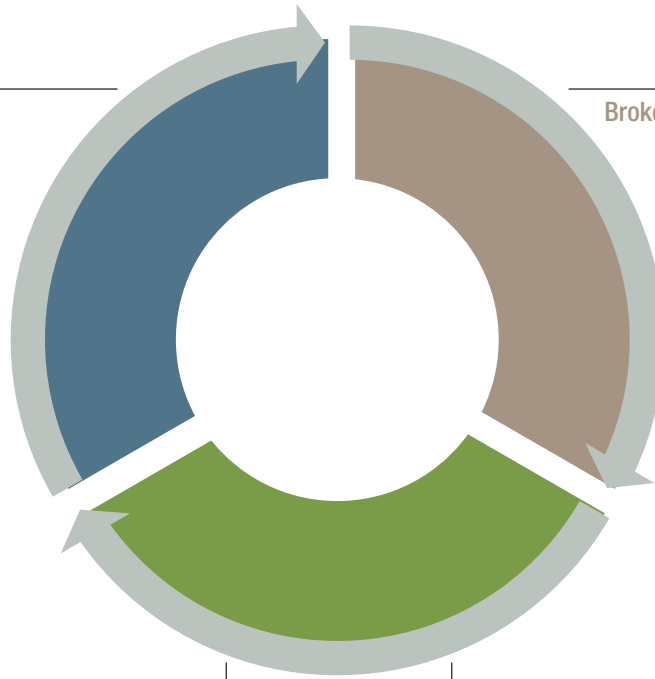
# Investment Policy Statement: Participant Directed Accounts & Institutional Funds

Board Approved on November 12, 2015

## MERS Retirement Strategies (PDA only)

2005 Retirement Strategy  
2010 Retirement Strategy  
2015 Retirement Strategy  
2020 Retirement Strategy  
2025 Retirement Strategy  
2030 Retirement Strategy  
2035 Retirement Strategy  
2040 Retirement Strategy  
2045 Retirement Strategy  
2050 Retirement Strategy  
2055 Retirement Strategy  
2060 Retirement Strategy

Self Directed  
Brokerage Account (457 & DC only)  
TD Ameritrade



## Premium Select Options

*Portfolios Built for You (Stocks/Bonds)*  
MERS Total Market Portfolio  
MERS Global Stock Portfolio (100/0)  
MERS Capital Appreciation Portfolio (80/20)  
MERS Established Market Portfolio (60/40)  
MERS Balanced Income Portfolio (40/60)  
MERS Capital Preservation Portfolio (20/80)  
MERS Diversified Bond Portfolio (0/100)

*Funds to Build Your Own Portfolio*  
Large Cap Stock Index  
Mid Cap Stock Index  
Small Cap Stock Index  
Emerging Market Stock  
International Stock Index  
Real Estate Stock\*  
Bond Index\*  
High-Yield Bond\*  
Short-Term Income  
Stable Value (DC Only)

\* PDA Only

## MISSION STATEMENT

The Municipal Employees' Retirement System of Michigan (MERS) exists to provide quality retirement and related services with cost-effective plan administration for members and beneficiaries.

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Participant Directed Accounts & Institutional Funds



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## I. INTRODUCTION

The Municipal Employees' Retirement System of Michigan (MERS) is a statutory public corporation, and an agent, multiple employer, public employee governmental pension plan trust, tax qualified under Internal Revenue Code sections 401(a), 457(b), and 501(a). MERS is plan administrator of the MERS 401(a) Plan, the MERS 457(b) Supplemental Retirement Program Plan and Trust (Deferred Compensation), MERS Health Care Savings Program, Retiree Health Funding Vehicle, and Investment Service Program (Plans). The operation of the Plans is governed under the MERS Plan Documents. This Investment Policy Statement (IPS) has been adopted by the Retirement Board (Board), the fiduciary and trustee of the retirement system, to provide guidelines for the investment options offered to participants of the Plans. The Plans are intended to provide eligible participants with long-term accumulation of retirement savings through a combination of employee and employer contributions to individual participant accounts.

- All transactions undertaken on behalf of the Plans shall be for the sole interest of the Plans' participants and beneficiaries.
- Participants will be provided the opportunity to obtain sufficient information to make informed decisions with regard to investment alternatives under the Plans.

## II. PURPOSE

The purpose of this IPS is to set forth the general policies which the Board judges to be appropriate and prudent, in consideration of the needs of the Plans. The IPS is intended to assist the Plans fiduciaries by ensuring that they make investment-related decisions in a prudent manner. It outlines the underlying philosophies and process for the selection, monitoring, and evaluation of the investment choices and investment managers utilized by the Plans.

The IPS will be reviewed annually and if appropriate, amended to reflect changes in the capital markets, plan participant objectives, or other factors relevant to the Plans.

## III. RESPONSIBILITIES OF THE BOARD

To govern the management of Plans assets the Board will do the following:

- Prepare, maintain, monitor, and amend the IPS;
- Establish and maintain guidelines for the Plans;
- Approve any material changes to the Plans including, but not limited to, the hiring and termination of the record keeper, custodian, and third party administrator;
- Direct the MERS staff to provide Plan(s) participants investment education and communication materials intended to enable participants to make informed decisions with respect to the investment of his/her accounts;
- Such other responsibilities as may be specified in the Plan(s) documents; and
- The Board grants full authority to the Chief Executive Officer (CEO) and Chief Investment Officer (CIO) to execute contracts on behalf of the Plans.
- Beyond these guidelines, the Board delegates to the Office of Investments all other decisions related to the Plans' investment options.



## IV. RESPONSIBILITIES OF THE OFFICE OF INVESTMENTS

The CEO is directly responsible for all activities and duties of the fund. The CEO has delegated to the Office of Investments authority to manage MERS pension funds, other trust assets, and direct all investment management activities. In compliance with its fiduciary obligations the Office of Investments shall act with the care, skill, prudence, and diligence that a prudent person acting in a similar capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with similar aims, will do the following:

- Determine the overall number and types of options offered to participants of the Plans so that each participant has the opportunity to diversify his/her accounts given his/her individual investment circumstances;
- Establish due diligence procedures for selecting, monitoring, and eliminating investment choices offered to participants of the Plans;
- Select and appoint outside attorneys, auditors, consultants, or specialists as may be considered desirable from time to time;
- Monitor and supervise all service vendors;
- Respond to requests for information from the Board in a timely manner;
- Provide the Board with adequate information to carry out its fiduciary duty;
- Provide periodic reports to the Board on the activity and results of the Plans investments, including investment performance, investment choice additions/subtractions, and relevant industry issues;
- Review general adherence to the IPS;
- Select, review, and evaluate the investment options available under the Plans;
- Avoid prohibited transactions and conflicts of interest; and
- Arrange for a periodic review by an independent third party vendor of the reasonableness of the fees and expenses incurred by the Plans for record keeping, investment management, and custodial services.

## V. RESPONSIBILITIES OF PLAN PARTICIPANTS

The Plans' participants are responsible for all investment decisions and should do the following:

- Read investment education and communication materials provided by MERS;
- Determine his/her individual risk tolerance based upon his/her investment objective, time horizon, investment philosophy, and other individual circumstances;
- Educate him/herself on the available investment options;
- Design an investment plan from the available investment options that best meets his/her individual requirements and risk tolerance;
- Manage his/her own investments by allocating assets and future contributions to the various investment options available through the Plans; and
- Reallocate his/her investments as his/her personal circumstances and risk tolerance change.



## VI. INVESTMENT OBJECTIVE

The objectives of the Plans are to accommodate the varying needs of the Plans' participants by providing appropriate and diversified investment options. The investment options will include several different asset classes, including stocks, bonds, and cash. The investment options will accommodate the different risk tolerances of the Plans' participants and will offer competitive risk-adjusted returns at a reasonable cost. The Plans will encourage participants to take an active role in saving and selecting among investment options for his/her retirement by providing education and information so they can make informed investment decisions.

## VII. INVESTMENT CHOICES

The Plans offer a combination of investment options including MERS proprietary portfolios and external investment funds. The investment choices available in each Plan is determined based on the purpose of the Plan and the investment objective of each investment choice. Please refer to Appendix I for a list of the current investment choices offered by each Plan.

- Target-date Funds – which will serve as the Plans' default choice, as long as the US Department of Labor considers them to be Qualified Default Investment Alternative (QDIA);
- Short-term Cash Investments (cash);
- Fixed Income Securities (bonds);
- Equity Securities (stocks-U.S. and non-U.S.); and
- Risk-based Balanced Funds (a mix of stocks and fixed income).
- Brokerage Window

## VIII. SELECTION CRITERIA FOR INVESTMENT OPTIONS

### Proprietary Funds

The Office of Investments creates MERS proprietary portfolios to offer participants the ability to benefit from economies of scale due to the defined benefit portfolio. The proprietary funds offer with attractive risk-adjusted returns at a below market fee. The Office of Investments manages MERS proprietary portfolios pursuant to the MERS Defined Benefit Investment Guidelines and Investment Policy Statement.

The following investment options are included under MERS proprietary funds:

- MERS Total Market Portfolio
- MERS Global Stock Portfolio (100/0)
- MERS Capital Appreciation Portfolio (80/20)
- MERS Established Market Portfolio (60/40)
- MERS Balanced Income Portfolio (40/60)
- MERS Capital Preservation Portfolio (20/80)
- MERS Diversified Bond Portfolio (0/100)
- Large Cap Stock Index
- Mid Cap Stock Index
- Small Cap Stock Index
- Emerging Market Stock
- Short-Term Income



### External Investment Options

In some instances, an investment option is needed and MERS proprietary portfolios do not offer a solution. External investment managers may be utilized, with a preference for index based investments. If an index is not available or is determined to be an inadequate choice, an active fund may be selected. MERS will utilize the lowest cost share class available for its asset level. The Office of Investments will select any externally managed active investment option based on the following minimum criteria:

- Investment style;
- Performance exceeding the 50th percentile of its peer group universe over a variety of time periods;
- Lower risk compared to its peers if similar returns are achieved;
- Expense Ratio lower than peer average;
- Relatively consistent investment performance over time;
- Consistent investment style over time;
- Stability of the investment management team; and
- Reputation of the fund company.

The following investment options are included under External Investment Options:

- International Stock Index
- Bond Index
- Real Estate Stock
- High-Yield Bond
- Stable Value

## IX. MONITORING OF INVESTMENT POLICY AND INVESTMENT PERFORMANCE

The Office of Investments will periodically review the overall investment policy and monitor each of the investment options. Specifically, it will examine the investment options' risk adjusted performance, risks, style consistency, performance consistency, legal and regulatory issues, expenses, and portfolio characteristics. Other factors will be considered as well, such as manager changes and asset growth and size. Investment options that drift from stated investment style, experience management or organizational changes, or have relative declines in either performance or risk rankings, may be recommended for removal. Alternatively, an investment option could be placed on a "Watch List" until a final decision is made. The Office of Investments may place an investment option on a "Watch List" if any of the following occurs:

- The investment option's net performance has underperformed its benchmark over the trailing five-year period;
- The investment option's rolling three year returns underperform its benchmark for three of the most recent four calendar quarters;
- The investment option's investment strategy and/or portfolio characteristics have materially shifted from its designated style;
- An adverse change in the investment option's management team;
- A downgrade in the investment option's Morningstar rating; and
- Material legal or regulatory allegations or findings.



### **X. INVESTMENT POLICY STATEMENT REVIEW**

The IPS should be reviewed periodically for necessary modifications. The IPS shall remain in effect until revised or amended by the Board. All decisions regarding investment options, administrative issues, and communication efforts must be made for the exclusive purpose of benefiting the Plans' participants.

### **XI. LEGAL AND TAX CONSIDERATIONS**

The Board shall endeavor to ensure that all investment activity will be in compliance with the Michigan Uniform Securities Act, 2008 PA 551, MCL 451.2101 to 451.2703, as may be amended, and the Michigan Public Employee Retirement System Investment Act, 1965 PA 314, MCL 38.1132 to 38.1140m, as may be amended. All activity for the Plans' will be carried out in conformity with MERS' Plan Documents and guidelines established by the Board. The tax-qualified section 401(a) and 457(b) Plans are tax exempt under Internal Revenue Code section 501(a). The Board shall not engage in prohibited transactions as defined by the Internal Revenue Code Section 503(b) and related Treasury regulations. The mandatory contributions of Plan participants are pre-tax with the exception of Roth contributions under section 457(b).

### **XII. CODE OF ETHICS**

The Office of Investments will conduct its affairs in a manner that reflects the highest standards of ethical conduct. The Office of Investments is expected to comply with CFA Institute Code of Ethics and Standards of Professional Conduct. A copy of the Code and Standards is included as Appendix II.



## MERS INVESTMENT MENU

### Participant Directed Accounts

#### 1 Retirement Strategies<sup>1</sup>

- 2005 Retirement Strategy
- 2010 Retirement Strategy
- 2015 Retirement Strategy
- 2020 Retirement Strategy
- 2025 Retirement Strategy
- 2030 Retirement Strategy
- 2035 Retirement Strategy
- 2040 Retirement Strategy
- 2045 Retirement Strategy
- 2050 Retirement Strategy
- 2055 Retirement Strategy
- 2060 Retirement Strategy

#### 2 Premium Select Options

##### *Portfolios Built for You (Stocks/Bonds)*

- MERS Total Market Portfolio
- MERS Global Stock Portfolio (100/0)
- MERS Capital Appreciation Portfolio (80/20)
- MERS Established Market Portfolio (60/40)<sup>2</sup>
- MERS Balanced Income Portfolio (40/60)
- MERS Capital Preservation Portfolio (20/80)
- MERS Diversified Bond Portfolio (0/100)

##### *Funds to Build Your Own Portfolio*

- Large Cap Stock Index
- Mid Cap Stock Index
- Small Cap Stock Index
- Emerging Market Stock
- International Stock Index
- Real Estate Stock
- Bond Index
- High-Yield Bond
- Short-Term Income
- Stable Value (DC Only)

#### 3 Self-Directed Brokerage Account

- TD Ameritrade (DC & 457 Only)

### Institutional Funds

##### *Portfolios Built for You*

- MERS Total Market Portfolio<sup>3</sup>
- MERS Global Stock Portfolio (100/0)
- MERS Capital Appreciation Portfolio (80/20)
- MERS Established Market Portfolio (60/40)
- MERS Balanced Income Portfolio (40/60)
- MERS Capital Preservation Portfolio (20/80)
- MERS Diversified Bond Portfolio (0/100)

##### *Funds to Build Your Own Portfolio*

- Large Cap Stock Index
- Mid Cap Stock Index
- Small Cap Stock Index
- Emerging Market Stock
- International Stock Index
- Short-Term Income

Note: <sup>1</sup> Default investment option for DC and 457.

<sup>2</sup> Default investment option for HCSP.

<sup>3</sup> Default investment option for RHFV and ISP.





## 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 measuring 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:
    - a. 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.
    - b. 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.
    - c. 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:
1. The information concerns illegal activities on the part of the client or prospective client,
  2. Disclosure is required by law, or
  3. 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:
1. Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
  2. 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:
1. 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.
  2. Disclose to clients and prospective clients significant limitations and risks associated with the investment process.
  3. 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.
  4. 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.