

# Investment Policy

## Investment Policy as of June 30, 2015

The LAGERS Board of Trustees, operating within the “prudent person” framework, has adopted a Statement of Investment Policy and Objectives for the investment managers and others who serve in a fiduciary capacity to the Fund. A summary of that policy follows. For a complete copy of the investment policy, please contact the LAGERS office.

### Investment Goals

The goal of the Fund shall be to achieve a rate of return net of manager fees of at least 7.25% per annum as measured over a full market cycle. The Trustees and Investment Staff will use the Fund's asset allocation as the primary tool to achieve this goal. As this is a long-term projection and investments are subject to short-term volatility, the main investment review focus of the Trustees and Investment Staff will be towards the Total Fund. Each asset manager, individual investment and/or security selection will be judged on performance relative to its asset class and to its relative benchmark over a full market cycle, usually 3-5 years. With respect to the given purpose, the System's liquidity requirement, and the source and predictability of contributions, the Board elects to target portfolio risk of 10% standard deviation in pursuing the investment program. Thus, LAGERS actively seeks to lower/stabilize the cost of funding the System's pension promise by prudently taking on types of risk that best serves the long-run interest of the Fund and, therefore, of the System's participants.

The Trustees have established the following asset-mix guidelines for the Pension Fund:

- Equity Investments: 48.50%
- Fixed Income Investments: 25.00%
- Real Asset/Return Investments: 20.00%
- Strategic Investments: 6.50%

The Trustees have established the following liquidity guidelines for the Pension Fund:

- Short-Term (<1 week) 40.00%
- Medium-Term (1 wk – 3yrs) 20.00%
- Long-Term (>3 years) 40.00%

The Pension Fund's total return should exceed the total return of an index composed as follows:

- 22.25% Russell 3000 Index
- 19.00% MSCI All Country World Index ND (non-hedged)
- 5.00% MSCI All Country World Index ex US ND (non-hedged)
- 2.50% MSCI Emerging Markets Index ND (non-hedged)
- 7.50% Barclays US Aggregate Bond Index
- 5.00% Barclays Global Bond Index
- 5.00% Barclays Capital US 20+ Year Treasury Bond Index
- 2.50% Barclays Capital Global Inflation - Linked Bond Index
- 4.00% 40% EMBI Glob. Div./50% GBI-EM Glob. Div./10% CEMBI Broad Div.
- 4.00% Consumer Price Index (CPI) +4.0% (Timber)

- 7.50% Consumer Price Index (CPI) +4.0% (Real Estate)
- 2.50% Consumer Price Index (CPI) +4.0% (Other Real Assets)
- 4.00% Consumer Price Index (CPI) +5.0% (Strategic Portfolio)
- 6.50% Consumer Price Index (CPI) +5.0% (Private Equity)
- 2.75% Dow Jones UBS Commodity Index

## General Portfolio Guidelines

### Diversification

The diversification of securities among sectors and issuers is the responsibility of the investment manager and Investment Staff. Therefore, full discretion is delegated to the investment managers to carry out the Investment Policy within applicable general and specific guidelines agreed upon with Investment Staff for the managers' respective mandates. The Investment Staff has further diversification responsibility at the asset manager and asset class level and the Trustees have diversification responsibility at the total portfolio level. All investments made shall be subject to the quality and diversification restrictions established by Section 70.745, 70.746, 70.747, 105.688 105.689 and 105.690 of the Revised Statutes of Missouri.

### Liquidity

Individual assets and/or investment mandates will be grouped in to three different liquidity classifications. These classifications are based on the time frame it takes to liquidate the investment at prevailing market prices (i.e. not at a discount) and receive cash back. The classifications include short-term, medium-term, and long-term. Illiquid assets carry a theoretical liquidity premium that is demanded by investors for securities that cannot be easily converted into cash. Therefore, these assets that are more illiquid should earn a higher return. Consistent with LAGERS' liquidity requirements and long-term nature of the fund, LAGERS has established liquidity allocation ranges.

### Style Adherence

The most important feature any individual manager brings to a multi-manager portfolio is style adherence. At least quarterly, fundamental portfolio characteristics and style benchmark comparisons will be monitored for adherence to a manager's identified style. The Trustees and Investment Staff recognize that different maturity ranges and sectors within the broad market categories go in and out of favor. Therefore, short-term examination of each investment's performance will review style adherence relative to similar style or duration peer comparisons and style benchmarks whilst maintaining a focus on the long-term relative return objective relative to their respective style benchmark.

### Performance Objectives

Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations for the portfolio:

### Fixed Income

The benchmark for the fixed income composite portfolio is composed as follows:

- 35.00% Barclays Capital US Aggregate Bond Index
- 23.25% Barclays Capital Global Bond Index
- 23.25% Barclays Capital U.S. 20+ Year Treasury Bond Index

- 18.50% 40% JP Morgan EMBI Global Div/50% JP Morgan GBI-EM Global Div/10% JP Morgan CEMBI Broad Div

The total return of the fixed income composite, net of fees, should exceed the total return of the composite benchmark outlined above.

The total return of each underlying portfolio or mandate in the composite should exceed the total return of an index of similar mandate or style assigned. The Investment Staff will use benchmarks specific to each respective asset or manager's mandate on a quarter-by-quarter basis to monitor each investment. Currency management is at the discretion of the Non-US managers.

The goal of the fixed income composite portfolio shall be to achieve a total annualized real rate of return net of fees of at least 2.5% over the CPI as measured over a market cycle, usually 3-5 years.

## **Equity**

The benchmark for the equity composite portfolio is composed as follows:

- 40.00% Russell 3000 Index
- 34.50% MSCI All Country World Index ND (non-hedged)
- 9.00% MSCI All Country World Index ex US ND (non-hedged)
- 4.50% MSCI Emerging Markets Index ND (non-hedged)
- 12.00% CPI + 5% (Private Equity)

The total return of the fixed income composite, net of fees, should exceed the total return of the composite benchmark outlined above.

The total return of each underlying portfolio or mandate in the composite should exceed the total return of an index of similar mandate or style assigned. The Investment Staff will use benchmarks specific to each respective asset or manager's mandate on a quarter-by-quarter basis to monitor each investment. Currency management is at the discretion of the Non-US managers.

The goal of the fixed income composite portfolio shall be to achieve a total annualized real rate of return net of fees of at least 5% over the CPI as measured over a market cycle, usually 3-5 years.

## **Real Assets/Real Return**

The benchmark for the real asset/real return composite portfolio is composed as follows:

- 13.00% Barclays Capital Global Inflation-Linked Bond Index
- 20.75% CPI + 4% (Timber)
- 39.00% CPI + 4% (Real Estate)
- 13.00% CPI + 4% (Other Real Assets)
- 14.25% Dow Jones UBS Commodity Index

The total return of the real asset/real return composite, net of fees, should exceed the total return of the composite benchmark outlined above.

The total return of each underlying portfolio or mandate in the composite should exceed the total return of an index of similar mandate or style assigned. The Investment Staff will use benchmarks specific to each respective asset or manager's mandate on a quarter-by-quarter basis to monitor each investment. Currency management is at the discretion of the Non-US managers.

The goal of the real asset/real return composite portfolio shall be to achieve a total annualized real rate of return of at least 4% over the CPI as measured over a market cycle, usually 3-5 years.

## **Strategic Assets**

The benchmark for the strategic asset composite portfolio is CPI + 5%. The total return of the strategic asset composite, net of fees, should exceed the benchmark.

The total return of each underlying portfolio or mandate in the composite should exceed the total return of an index of similar mandate or style assigned. The Investment Staff will use benchmarks specific to each respective asset or manager's mandate on a quarter-by-quarter basis to monitor each investment. Currency management is at the discretion of the Non-US managers.

The goal of the strategic asset composite portfolio shall be to achieve a total annualized real rate of return of at least 5% over the CPI as measured over a market cycle, usually 3-5 years.

## **Securities Lending Guidelines**

A firm chosen to lend financial securities of the fund has full discretion over the selection of borrowers and shall continually review credit worthiness of potential borrowers through adequate analysis of all material provided to them. The securities lending program shall in no way inhibit the trading activities of the investment managers of the System. The securities lending agent and Investment Staff has created separate investment guidelines for the investment of cash collateral to adhere to the Statement of Investment Policy and Objectives. The Investment Staff will review, at least quarterly, the performance of the program and ensure that proper collateralization procedures are adhered to as stated in the investment guidelines.