

**STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES  
FOR  
THE EMPLOYEES' RETIREMENT SYSTEM OF  
KANSAS CITY, MISSOURI**

**STATEMENT OF INVESTMENT POLICY, OBJECTIVES AND GUIDELINES FOR TOTAL FUND**

**I. Purpose and Objectives**

The primary objective of the Employees' Retirement System of Kansas City, Missouri (Plan) is to provide eligible employees with retirement benefits. Assets will be invested in a diversified portfolio to achieve attractive real rates of return. Following prudent standards for preservation of capital, the goal is to achieve the highest possible rate of return consistent with the Plan's tolerance for risk as determined by the Board of Trustees (Board) in its role as fiduciary. Plan assets must be managed effectively and prudently within the constraints of the Employee Retirement Income Security Act of 1974 (ERISA).

**II. Investment Objectives and Guidelines**

**A. Policies**

1. Diversification of assets will ensure that adverse or unexpected results from one asset class will not have an excessively detrimental impact on the entire portfolio. Diversification includes diversification by asset class, by characteristic and by number of investments as well as by investment styles of the management organizations.
2. Investment management will be delegated to external professional organizations. The managers will operate within their respective guidelines, objectives and constraints which are attached hereto.

**B. Asset Allocation, Asset Class Structure, and Rebalancing**

The Board has adopted the asset allocation policy shown on the following page for the Plan assets. Target percentages have been determined for each asset class along with allocation ranges. It is the intent to rebalance the assets back to target allocation when the allocations fall outside the stated minimum and maximum ranges. Percentage allocations are intended to serve as guidelines; the Board will not be required to remain strictly within the designated ranges. Market conditions or an investment transition (asset class or manager) may require an interim investment strategy and therefore a temporary imbalance in asset mix.

Mandate	Asset Allocation Target	Permissible Ranges
U.S. Equity	21.5%	19% to 24%
Non-U.S. Equity	7%	5% to 9%
Global Equity	19%	17% to 21%
Emerging Markets Equity	3%	1% to 5%
Opportunistic	12%	10% to 14%
Fixed Income	26.5%	23% to 30%
Real Assets	10%	7% to 13%
Cash	1%	0% to 5%

KCERS employs a variety of investment managers, which can include multiple managers with complementary styles within a single asset class. A current listing of the investment managers and strategies utilized is found in Appendix A of the Investment Policy Statement. The Board has the ability to make investment manager changes at its discretion; ipso facto Appendix A may be modified over time. The targeted allocations by mandate within each asset class are as follows:

<b>U.S. Equity</b>	<b>Target</b>
Large Cap Passive	5.40%
Large Cap Value	3.30%
Large Cap Growth	3.30%
Small Cap Value	2.75%
Small Cap Growth	2.75%
Emerging Manager-of-Manager	4.00%
<b>Non-U.S. Equity</b>	
Large Cap	5.60%
Small Cap	1.40%
<b>Global Equity</b>	
Global Growth	9.50%
Global Top Down	9.50%
<b>Emerging Markets Equity</b>	
All Cap	3.00%
<b>Fixed Income</b>	
Core (Passive)	10.60%
Core (Active)	10.60%
Absolute Return	5.30%
<b>Opportunistic</b>	
GTAA	6.00%
Risk-Parity	3.00%
Alternative Beta	3.00%

<b>Real Assets</b>	
Core Real Estate	3.75%
Core-Plus Real Estate	3.75%
Infrastructure	2.50%
<b>Cash</b>	
Cash	1.00%

KCERS shall, on an ongoing basis in accordance with market fluctuations, rebalance the investment portfolio so as to remain within the permissible ranges around the asset allocation targets specified on the previous pages. It is recognized that a strategic long-term asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of investment performance. As a result, a systematic rebalancing procedure shall be implemented as discussed below.

- The KCERS Board delegates to the staff and investment consultant the responsibility for monitoring the plan's asset allocation. Staff will be responsible for implementing rebalancing, and reporting the rebalancing activities to the Board at regular meetings.
- The staff will make monthly observations of the market values of each asset class and sub-asset class and rebalance each back to their respective target allocations whenever that asset class falls outside the permissible range.
- Rebalancing will be implemented using normal cash flows whenever possible. When normal cash flows are insufficient, rebalancing will be implemented via a reallocation of assets among asset classes and sub-asset classes. Staff will raise necessary cash, focusing on 1% increments and on asset classes or sub-asset classes above or below target. Rebalancing efforts may be impaired by the real assets and opportunistic portfolios, due to liquidity terms of the products utilized.

### III. Performance Objectives

The Fund's total return will be expected to provide equal or superior results, using a three-year rolling return, relative to the following benchmarks:

- A. A minimum long-term objective is to attain a rate of return of 7.5% (current actuarial rate).
- B. A relative return objective of 21.5% Russell 3000 Index, 7% MSCI EAFE IMI Index, 3% MSCI EM Free, 19% MSCI All Country World Index, 26.5% Barclays Aggregate Bond Index, 12% Opportunistic Allocation Performance Benchmark (weighted average of benchmarks of opportunistic strategies), 10% Real Assets benchmark (weighted average of underlying strategy benchmarks), and 1% T-bills.

- C. The performance of the Fund will be measured relative to the stated benchmark over a market cycle (typically three to five years).

#### **IV. Annual Review of Current Guidelines**

Due to rapid changes within the capital markets and investment management techniques, these guidelines will be reviewed by the Board on an annual basis. Exceptions to these guidelines will be reviewed by the Board on an annual basis. Exceptions to these guidelines may be made anytime with the approval of the Board. Managers will be held responsible and accountable to achieve the objectives stated within this document and the separate manager guideline documents. While it is not anticipated that the limitations contained in this document will hamper managers, they should request modifications, as necessary. Where specific manager style implementation conflicts with this written document, the manager should communicate those conflicts to the Board and Staff.

#### **V. Accountabilities (Optional)**

A. Board of Trustees

1. Carry out duties established in their role as a plan fiduciary:
  - Review the Plan's performance.
  - Establish policy and asset mix and monitor performance against both.
  - Establish guidelines for investment managers.
  - Select and remove managers.
  - Select and remove custodian.
  - Select and remove investment consultant.
  - Select and remove legal counsel.
  - Establish proxy voting policy.
  - Monitor adequacy of the funding ratio.

B. Plan Administrator

- Implement asset allocation discipline, including regular review of target allocations and rebalancing as necessary.
- Monitor compliance with proxy voting policy.
- Monitor custodian.
- Monitor consultant.

C. Investment Managers

- Will have full discretion in the management of assets allocated to their organizations, subject to the investment guidelines set by the Board.

- Serve as fiduciaries responsible for specific securities decisions, including proxy voting.
- Will abide by duties, responsibilities and guidelines detailed in any specific investment manager agreement.

D. Custodian

- Accepts possession of securities for safekeeping, collect and disburse income, collect principal of sold, matured, or called items, provides periodic accounting statements and processes and maintains securities lending program.
- Meets as required with the Plan Administrator and makes reports relative to the status of the Plan.
- Invests assets not allocated to investment managers.
- Disburses assets of fund as required by plan terms.
- Administers securities lending program

E. Investment Consultant

- Assists Board in developing investment policy guidelines, including asset class choices, asset allocation targets, and risk diversification.
- Provides the Board with objective information on a broad spectrum of investment management specialists and helps construct a portfolio of superior investment managers.
- Provides monthly and quarterly reporting on the performance of the Fund, its asset classes, and investment managers.

Monitors the performance and stability of the investment managers utilized within the Plan and monitors quarterly compliance with investment guidelines. Monitoring includes meetings with investment managers in the consultant's and manager's office.

- Reports conclusions and recommendations to the Board as requested on investment related topics.
- Conduct a search for a custodian as needed.
- Prepares asset liability studies and findings to the Board as needed.

- Review and suggest changes to the Investment Policy Statement at least annually.

## VI. Investment Philosophy

The purpose of this section is to articulate the key thoughts and philosophies which support the Employees' Retirement System of Kansas City investment policy and methods of implementation.

### ***Asset Allocation***

**Asset Classes:** The portfolio is currently invested in assets across the capitalization spectrum within the global marketplace. Asset classes include equity, fixed income, real assets, cash, and liquid alternatives (classified as Opportunistic). The Board will routinely examine the appropriateness of asset classes that are not currently included in the portfolio.

**Long-Term Allocation:** The Board accepts a long-term outlook on the strategic evaluation of the plan. The portfolio is structured to benefit from the long-term superior returns of equities with diversification in down markets through fixed income and real assets exposure. The current target allocation is 70% risky assets such as equities/30% stable assets such as fixed income.

### ***Asset Class Implementation***

**Equities:** Stock exposure is diversified between domestic, international (developed and emerging market) and global equity managers. The portfolio's equity exposure is designed to include exposures to small, mid, and large capitalization companies and growth and value style sectors across U.S. and non-U.S. markets. The Board generally favors active management over passive management in equities. All international and global equity mandates are managed actively, as is approximately three quarters of the domestic equity allocation. The domestic equity allocation includes an allocation to an emerging manager-of-managers program, per the Board's direction.

**Fixed Income:** 80% of the bond portfolio is designed to track (passive) or resemble the aggregate domestic fixed income market, as measured by the Barclays Aggregate Bond Index. The remaining 20% is allocated to an absolute return bond strategy, which is designed to serve as a hedge in a rising interest rate environment.

**Opportunistic:** The Total Fund has a 12% allocation to Opportunistic investments. This segment of the portfolio is designed to house investments that do not fit within the traditional stock/bond/real asset portions of the asset allocation policy. Additionally, the allocation is designed to allow the Board to take advantage of unique opportunities that may present themselves in the marketplace.

**Real Assets:** The Total Fund has a 10% allocation to real assets. Currently, the real assets component includes allocations to core real estate, core-plus real estate, and infrastructure.

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## Appendix A – Listing of Investment Managers and Benchmarks

Investment Manager	Benchmark
<b>U.S. Equity</b>	
Westfield Capital Management Company	Russell 1000 Growth Index
LSV Asset Management	Russell 1000 Value Index
Smith Graham & Co.	Russell 2000 Value Index
Riverbridge Partners	Russell 2500 Growth Index
Northern Trust (Emerging MoM)	Russell 3000 Index
Northern Trust (Passive)	Russell 1000 Index
<b>Non-U.S. Equity (Developed)</b>	
BlackRock	MSCI EAFE Index
Templeton (Franklin Resources, Inc.)	MSCI All Country World ex-U.S. Small Cap Index
<b>Non-U.S. Equity (Emerging)</b>	
LSV Asset Management	MSCI Emerging Markets Index
<b>Global Equity</b>	
Grantham, Mayo, Van Otterloo & Co (GMO)	MSCI All Country World Index
American Century Investments	MSCI All Country World Index
<b>Fixed Income</b>	
Northern Trust	Barclays Aggregate Index
Dodge & Cox	Barclays Aggregate Index
Wellington Management Company	Citigroup 90-Day T-Bills Index
<b>Opportunistic</b>	
Mellon Capital Management Corporation	Mellon Custom Benchmark*
BlackRock	Citigroup 90-Day T-Bills Index + 5%
AQR Capital Management	HFRI Fund-of-Funds Composite Index
<b>Real Assets</b>	
J.P. Morgan Investment Management (Core)	NCREIF Property Index
J.P. Morgan Investment Management (Core-Plus)	NCREIF Property Index
J.P. Morgan Investment Management (Infrastructure)	CPI + 4%

\*Currently a mix of 60% MSCI All Country World IMI / 40% Citigroup GDP-Weighted World Government Bond Index