

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS
INVESTMENT POLICIES
June 19, 2017

Rule XIV. - Investment Policies

Section 1. General

- a. This Rule provides guidance to fiduciaries, including investment managers ("Managers") and the Board of Trustees ("Trustees") of the Public School Retirement System of the City of St. Louis ("System"), in the course of investing the retirement funds ("Fund") of the System. Specifically, this Rule:
 - (1) briefly outlines the investment-related responsibility of the Trustees and the Managers they retain to manage assets of the System,
 - (2) provides a framework for regular constructive communication between the System and its Managers, and
 - (3) authorizes the establishment of formal, yet flexible, Investment and Operating Guidelines that incorporate prudent asset allocation and realistic total return goals and create standards of investment performance by which the Managers agree to be measured over a reasonable time period.
- b. This Rule may be amended or modified from time to time by the Trustees, in the manner provided in the System's Rules and Regulations, upon consideration of the advice and recommendations of retained professionals, including the System's actuary, accountant, Manager(s), investment consultant, and attorney. It is also expected that this Rule and the related Investment and Operating Guidelines will be reviewed at least once a year to insure their relevance to the System's needs and to communicate any material changes thereto to the Managers.

Section 2. Responsibilities - Board of Trustees

Upon consideration of the advice and recommendations of retained professionals, the Trustees' responsibilities include:

- a. complying with the provisions of pertinent federal, state and local laws, regulations and rulings,
- b. developing investment goals and policies that are consistent with the needs of the System and adopting written investment guidelines for use by the System's staff and professional advisors in the day-to-day management and supervision of the System's Managers,
- c. evaluating and appointing Managers to invest and manage the System's assets,
- d. determining how the System's assets should be allocated across and within various asset classes,
- e. establishing monitoring procedures for the System's Managers,
- f. reviewing and evaluating the results of the Managers in context with established standards of performance, and
- g. evaluating and selecting qualified investment consultants to assist in implementing and carrying out the System's investment policies and related investment guidelines.

Section 3. Investment Goals

- a. Assets of the System shall be invested in a manner designed to preserve and enhance principal over the long term, both in real and nominal terms.
- b. Total return, consistent with prudent investment management, is the primary goal of the System. Total return, as used herein, includes income less expenses plus realized and unrealized gains and losses in the System's assets.
- c. The Trustees will establish, in the Investment and Operating Guidelines, both real and nominal long-term target rates of return for the Fund that are projected to provide a high probability of achieving the System's long-term investment objectives within acceptable risk levels.
- d. The Trustees shall establish, in the Investment and Operating Guidelines, additional performance expectations for the Fund as a whole and for each asset classification within the Fund.
- e. Total Fund risk exposure and risk adjusted returns will be regularly evaluated and compared to such peer group or groups that the Trustees and investment consultant may from time to time select.

Section 4. Permissible Investments

In fulfilling the investment objectives of the Fund, the Trustees may invest the System's assets in the following types of investments.

- a. *Domestic Equity Investments* are permitted and may include domestic common stocks traded over-the-counter or on a domestic stock exchange. Convertible bonds, preferred stocks, warrants and rights may be purchased as equity substitutes so long as the underlying equity meets applicable standards. American Depositary Receipts (ADRs), which are dollar-denominated negotiable certificates traded on domestic U.S. stock exchanges, and non-U.S. incorporated stocks traded in U.S. dollars on U.S. stock exchanges may be held by each domestic stock Manager to a maximum of 20%. The aforementioned limitation would not apply to U.S. companies that transfer their registration to reduce their U.S. tax liability.
- b. *Domestic Fixed Income Securities* are permitted and may include obligations issued or guaranteed by the U.S. Government or any agency or instrumentality thereof, corporate bonds, asset-backed securities, agency guaranteed mortgage pass-through securities, and low-risk collateralized mortgage obligations. Domestic fixed income Managers may also invest in U.S. dollar-denominated issues of international agencies, foreign governments and foreign corporations, i.e., Eurodollar and Yankee bonds.
- c. *International Investments* are permitted and may include equity and fixed-income securities. International investments shall only be entered into through the selection of qualified investment management organizations as consistent with fiduciary responsibilities.
- d. *Cash Equivalents* and other short-term funds are permitted and may be invested in direct U.S. Government obligations such as U.S. Treasury Bills or repurchase agreements, which are fully collateralized by U.S. Treasury issues. Unless expressly prohibited by the Trustees, excess cash may be invested in the Short Term Investment Fund (STIF) of the Custodian Bank(s) or negotiable certificates of deposit, or other short term investment vehicles deemed prudent by the investment Manager. Funds may be invested in U.S. dollar denominated commercial paper rated no less than P-1 by Moody's or A-1 by Standard and Poor's or equivalent ratings using similar credit criteria. International managers of segregated portfolios may invest excess cash in the STIF fund or deposit accounts of the Custodian or sub-custodian banks, subject to these same criteria.

- e. *Real Estate Investments*, both debt and equity, are permitted, but new purchases after the adoption of this Rule, shall be limited to pooled funds managed by institutions that are experienced and widely recognized.
- f. Upon recommendation of investment consultant and approval by the Trustees, covered call *options* may be written on eligible securities.
- g. *Private Capital Market Investments*, such as venture capital, leveraged buyouts, mezzanine debt, may be included among the System's equity investments, provided such investments remain within the limits authorized by the Trustees. Private markets amounts that exceed the target allocation, as a result of partial or full liquidation of positions or the receipt of income from investments, may be reallocated to the System's under-allocated asset classes or used to meet cash flow needs.
- h. *Market Neutral* (long/short strategies) and certain hedge funds with appropriate transparency and liquidity (e.g. merger/convertible arbitrage, fund of funds) may be selected for investment.
- i. *Futures Contracts* or forward currency options may be written against securities in the international portfolio by an investment Manager who has authority to manage such portfolios.
- j. *Commingled* funds and/or institutional mutual funds may be used as investment vehicles. The Trustees recognize that they cannot give specific policy directives to such funds (whose policies are already established); therefore, the Trustees shall direct the investment consultant to assess and monitor the investment policies of such funds to ascertain that their policies are reasonably comparable to the System's policies.
- k. The System may establish a Securities Lending Program subject to restrictions established by the Trustees, and consistent with Legal Statutes.
- l. *Commodities* included in funds where money managers use forward exchange contracts (“FX forwards”) or “swaps” on currency to help cure risk volatility as opposed to risk leveraging.

Section 5. Asset Allocation Policy

- a. As a part of this Rule, the Trustees shall adopt an asset allocation policy that is based on a liability-driven approach that tailors the System’s asset allocation to its long-term liabilities. This process will establish long-term target return goals and the expected portfolio asset mix required to achieve those goals expressed as a percent of the Fund.
- b. The Trustees shall review the asset allocation policy on a regular basis, at least semi-annually, to determine if the asset allocation is consistent with the exposure range established for the Fund.
- c. The asset allocation policy adopted by the Trustees is to be pursued by the System on a long-term basis but will be revised if significant changes occur within the economic and/or capital market environments. A change in the System's liability structure or funded status may also trigger a revision of the asset allocation policy.

Section 6. Investment & Operating Guidelines

In consultation with the System's investment consultant and subject to the approval of the Investment Committee of the Trustees, staff shall implement the procedures set forth in the Investment and Operating Guidelines. These guidelines shall be consistent with the achievement of the investment goals of the System, shall incorporate the asset allocation policy, and shall provide for the customary oversight of investment

Managers by the System's staff and investment consultants. The Investment and Operating Guidelines shall reflect the following considerations:

- a. the manner in which investment Managers are expected to carry out their assignments,
- b. expected diversification within each asset class, rates of turnover, quality ratings, types of instruments, issue size, country weightings, as appropriate, and asset holdings,
- c. risk control measures such as annual average beta or other statistical measures of risk, portfolio quality and maturity,
- d. procedures for monitoring the Fund and its Managers and proxy voting guidelines.
- e. Compliance with all guidelines must be monitored by the Managers on a regular basis (monthly, or more frequently when unusual market conditions warrant) and must be based on then-current market values. In the event a portfolio moves out of compliance with this Rule or the Investment and Operating Guidelines (as identified in the Manager's regular review of the portfolio) through market conditions or other changes outside the control of the Manager, the Manager must bring the portfolio composition back into compliance with the Investment Policy Statement within the earliest time frame the Manager considers prudent and promptly inform the Trustees, staff and investment consultant that the Investment Policy Statement has been breached, and of the Manager's plan for addressing the issue (and/or steps already taken to address the issue).
- f. Managers shall make all portfolio transactions on a "best execution" basis. Arrangements to direct commissions shall only be implemented by specific written authorization of the Trustees and shall be in compliance with the provisions of ERISA as described in Department of Labor ERISA Technical Release No. 86-1 and other applicable releases.
- g. The Investment and Operating Guidelines may contain such other policies, procedures and limitations as are necessary, advisable or appropriate for the management of the Fund or any asset class component of the Fund.
- h. Disbursements shall be made from a disbursement account which in turn will be funded by the necessary transfers from the Fund's investment Managers. Such transfers shall be determined by the Executive Director and approved by the Trustees every six months. The disbursement account shall normally have no more than two month's toward any disbursements.

Section 7. Prohibited Investments

Unless specifically approved by the Trustees, certain securities, strategies and investments are ineligible for inclusion within the Fund. Among these are:

- a. lettered, legend or other so-called restricted stock,
- b. uncovered short or leveraged positions,
- c. margin purchases,
- d. direct physical commodities,
- e. straight preferred stocks and tax-preferenced securities, unless pricing anomalies in the marketplace suggest the likelihood of near-term capital gains when normal spread relationships resume,
- f. investments in private placements (except marketable, liquid securities issued under Rule 144A), real estate, oil and gas, and venture capital, unless approved by the Trustees in advance of their purchase.