



**AGENDA**

**November 06, 2018**

**6:00 p.m.—1201 S. Washington Ave.**

**Lansing, MI — REO Town Depot**

**Board of Water & Light Headquarters**

Call to Order

Roll Call

Public Comments on Agenda Items

- 1. Finance Committee Meeting Minutes of September 18, 2018.....**TAB 1**
- 2. September YTD Financial Summary.....**TAB 2**
- 3. Defined Contribution and Deferred Compensation Plan Updates
  - a) Executive Summary.....**TAB 3**
  - b) Defined Contribution Plan 1.....**TAB 4**
    - 1) Plan and Trust Excerpt Redline
    - 2) Plan and Trust Addendum
    - 3) Current Investment Policy Statement
    - 4) Proposed Plan Statement of Investment Policies, Procedures and Objectives
    - 5) Resolution
  - c) Defined Contribution Plan 2.....**TAB 5**
    - 1) Plan and Trust Excerpt Redline
    - 2) Plan and Trust Addendum
    - 3) Current Investment Policy Statement
    - 4) Proposed Plan Statement of Investment Policies, Procedures and Objectives
    - 5) Resolution
  - d) Deferred Compensation Plan.....**TAB 6**
    - 1) Plan and Trust Excerpt Redline
    - 2) Plan and Trust Addendum
    - 3) Current Investment Policy Statement
    - 4) Proposed Plan Statement of Investment Policies, Procedures and Objectives
    - 5) Resolution
- 4. Internal Audit Status Report.....**TAB 7**

Other

Adjourn

**FINANCE COMMITTEE  
Meeting Minutes  
September 18, 2018**

The Finance Committee of the Board of Water and Light (BWL) met at the BWL Headquarters – REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI on Tuesday, September 18, 2018.

Finance Committee Chair Ken Ross called the meeting to order at 7:14 p.m. and asked the Corporate Secretary to call the roll.

Present: Commissioners Ken Ross, Beth Graham, David Price, and Tony Mullen. Also present: Anthony McCloud, Tracy Thomas, and Sandra Zerkle; Non-Voting Commissioner William Long (East Lansing).

Absent: None

The Corporate Secretary declared a quorum.

**Public Comments**

None.

**Approval of Minutes**

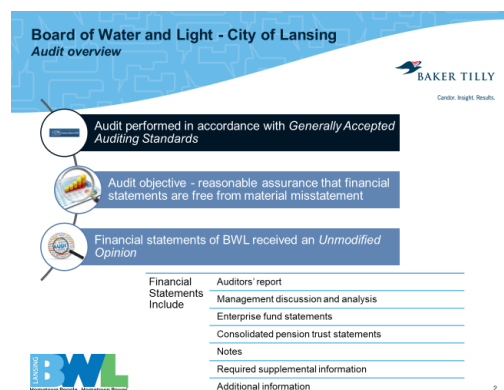
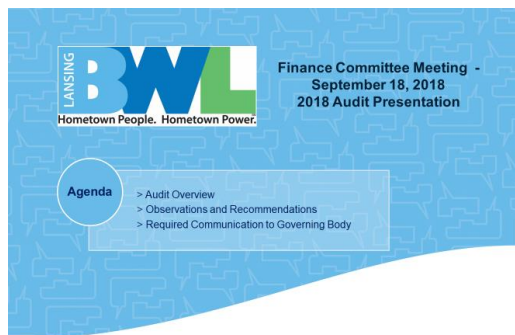
**Motion** by Commissioner Price, **Seconded** by Commissioner Mullen, to approve the Finance Committee meeting minutes of July 10, 2018.

**Action:** Motion Carried.

**Baker Tilly External Audit Report and Resolution**

Committee Chair Ross introduced external auditor Jodi Dobson, Partner at Baker Tilly Virchow Krause, LLP. Ms. Dobson presented and highlighted the external audit report which included an audit overview, observations and recommendations, and required government communications. BWL received an unmodified or clean opinion which is the highest level of assurance provided.

Ms. Dobson’s presentation was as follows:



**Board of Water and Light - City of Lansing**  
Audit overview



Audit assesses internal controls



"...a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources"



Controls must meet the goal and objectives of Operations, Reporting and Compliance



**Board of Water and Light - City of Lansing**  
Audit overview



Controls reviewed in key transaction areas

Disbursements

Payroll

Billings

Cash and investments

Capital assets

Information technology

Financial reporting



**Board of Water and Light - City of Lansing**  
Observations and recommendations  
Enterprise Fund



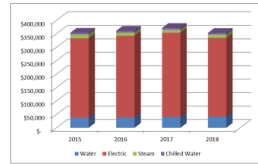
- > Reported net income of \$14,116,000
- > Bond coverage was met in 2018
- > There were no material weaknesses reported
- > Restated 2017 due to the implementation of GASB 75



**Board of Water and Light - City of Lansing**  
Observations and recommendations  
Enterprise Fund



Operating Revenues – Four-year Comparison (in thousands)



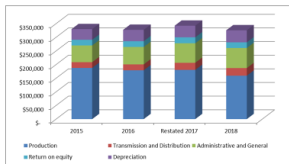
	2015	2016	2017	2018
Water	\$ 31,510	\$ 38,711	\$ 40,798	\$ 41,524
Electric	795,048	803,296	333,325	701,301
Steam	14,559	12,683	11,404	12,072
Chilled Water	5,168	6,279	5,363	6,135
Operating Revenue	\$ 846,285	\$ 960,969	\$ 891,890	\$ 961,032



**Board of Water and Light - City of Lansing**  
Observations and recommendations  
Enterprise Fund



Operating Expenses – Four-year Comparison (in thousands)



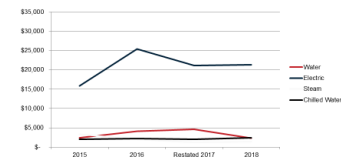
	2015	2016	Restated 2017	2018
Production	\$ 187,752	\$ 178,908	\$ 180,513	\$ 199,154
Transmission and Distribution	26,800	21,093	25,960	23,913
Administrative and General	61,298	64,807	71,418	71,609
Return on equity	26,840	21,084	21,862	26,162
Depreciation	30,104	41,542	42,598	44,755
Operating Expenses	\$ 322,864	\$ 327,134	\$ 362,351	\$ 385,523



**Board of Water and Light - City of Lansing**  
Observations and recommendations  
Enterprise Fund



Operating Income – Four-year Comparison (in thousands)



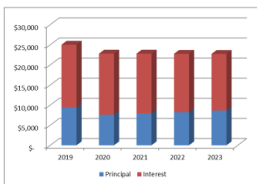
	2015	2016	Restated 2017	2018
Water	\$ 2,388	\$ 4,099	\$ 4,608	\$ 2,321
Electric	15,883	25,385	21,150	21,295
Steam	3,352	2,047	1,386	1,479
Chilled Water	7,018	2,771	3,005	2,465
Operating Income	\$ 23,621	\$ 31,802	\$ 29,058	\$ 27,560



**Board of Water and Light - City of Lansing**  
Observations and recommendations  
Enterprise Fund



Future Debt Service Requirements (in thousands)



	2019	2020	2021	2022	2023
Principal	\$ 9,410	\$ 7,609	\$ 7,942	\$ 8,247	\$ 8,624
Interest	15,598	15,183	14,848	14,496	14,094



Debt service after 2023 includes remaining principal payments of \$273,000,000 and interest payments of \$161,284,000.

**Board of Water and Light - City of Lansing**  
Observations and recommendations  
Pension Plans



- > Separate financial statements issued for each pension plan
- > All three plans received unmodified audit opinions



Future accounting standards

- > GASB Statement No. 83, *Certain Asset Retirement Obligations* – effective for fiscal year 2019
- > GASB Statement No. 87, *Leases* – effective for fiscal year 2021
- > GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct borrowings and Direct Placements* – effective for fiscal year 2019
- > GASB Statement No. 89, *Accounting for Interest Cost during the Period of Construction* – effective for fiscal year 2021

Area to be Communicated	Area to be Communicated
Our responsibility under Auditing Standards Generally Accepted in the United States	Other Information in Documents Containing Audited Financial Statements
Planned Scope and Timing of the Audit	Accounting Policies
Accounting Estimates	Financial Statement Disclosures
Difficulties Encountered in Performing the Audit	Corrected and Uncorrected Misstatements
Disagreements with Management	Consultations with Other Independent Accountants
Management Representations	Auditor Independence



**Contact Info**



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Commissioner Long inquired about the sewerage collection fees and receivables. General Accounting Manager Lori Pung responded that these fees are charged to the City of Lansing to provide the collection services for them and the receivables are what is received from the customers.

Commissioner Ross asked if the BWL was responsible for the uncollectables and Ms. Pung responded that BWL is not. Commissioner Ross commended the accounting department for the work they did with Baker Tilly.

**Motion** by Commissioner Price, **Seconded** by Commissioner Mullen, to forward to the Board Meeting the Acceptance of the Resolution for the 2018 Audited Financial Statements.

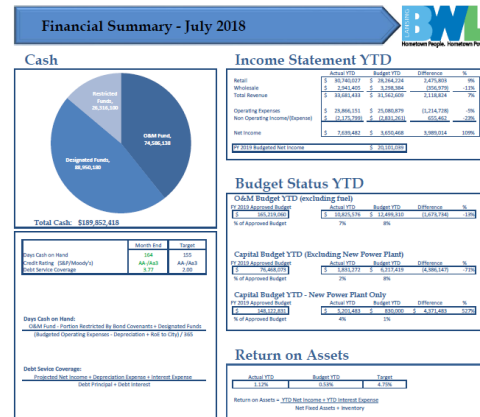
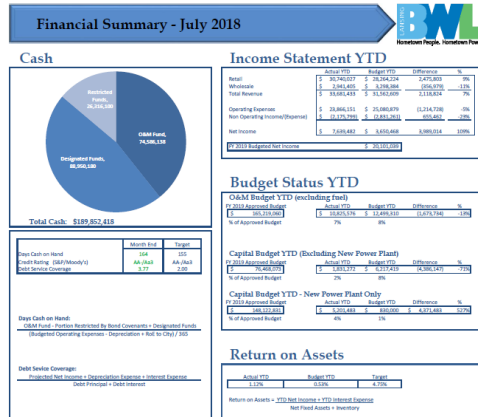
**Action:** Motion Carried.

Chief Financial Officer (CFO), Heather Shawa, introduced Ms. Lori Pung who spoke about the external audit. Ms. Pung stated that the audit was started in April which included prep work and onsite work by Baker Tilly. Ms. Pung thanked the Executive Staff and the accounting staff, including Josh Irving Scott Taylor, and Paul Eory, for their work and extra hours. Ms. Pung also noted that there were some challenges due to GASB 75 but they got through it.

Commissioner Price requested that a brief overview of the Baker Tilly audit be presented at the joint City of Lansing/BWL meeting in October 2018.

## July YTD Financial Summary

CFO Heather Shawa presented the July 2018 Year-to-date Financial Summary which indicated that the total Cash is over \$189M, Days Cash on hand is 164, and debt service coverage ratio is 3.77. Restricted funds decreased slightly due to annual debt service payment. Ms. Shawa stated that revenue was \$2 million over budget and the operating expenses were under budget, which resulted in net income of \$7.6 million compared to \$3.6 million budget. Ms. Shawa mentioned that four out of the five ratios are being met. Under employee data a full time equivalent factor has been added for contractors.



Commissioner Zerkle asked whether new tree trimmers would be added in 2018 or 2019. GM Peffley responded that one of two teams would be added as soon as they can be onboarded.

## Capital Project Exceedance Electric Annual Account – Resolution

CFO Shawa presented the following information on the Capital Project Exceedance Electric Annual Account and requested approval of the resolution.

- The projected final budget is \$2 million more than the approved budget.
- There was an increase in the cable fault replacements for system restoration.
- Other areas in need include five additional projects and outdoor city LED lighting

GM Peffley commented that there are 200 miles of service cable in the city and there is an increase in blue sky outages. Apprentices will be trained and the cable replacements will be a 30-year project. A plan is being constructed and it will be an annual project.

Commissioner Long asked whether the cable that needed repaired was underground and GM Peffley responded that 1800 miles of cable were underground, 600 miles of which is called URBS direct variable and is located in townships.

Commissioner Price inquired about the rate at which the cable will be replaced and GM Peffley responded that 100 feet of cable will be replaced per week and cable would be replaced first where there are the most faults.

Commissioner Long asked whether other municipalities in the city had projects and which projects had priority. GM Peffley responded that the projects are evaluated for priority in conjunction with the city and are completed accordingly.

**Motion** by Commissioner Price, **Seconded** by Commissioner Mullen, to accept as presented the Capital Project Exceedance Electric Annual Account Resolution and to forward to the Board Meeting for consideration.

**Action:** Motion Carried.

**Internal Auditor’s Revised Audit Plan for FY 2019**

Finance Committee Chair Ken Ross presented the revised audit plan for FY 2019 on behalf of Internal Auditor Phil Perkins who was not in attendance this evening. Finance Chair Ross ask the Committee to approve the revised Audit Plan by motion. The revised audit plan was requested by the CFO as a follow up to the 2017 COBIT audit.

Proposed FY 2019 Audit Plan – Revised Sep 2018

Planned Audits:	Estimated Hours
Follow-up – IT Change Management (incl OT)	300
IT Cybersecurity	300
COBIT Compliance Follow-up	200
Asset Management Program	300
Metering Services	300
Accounts Payable	300
Vegetation Management	300
Procurement	300
Project Engineering – Planned Projects	300
<b>Other Engagements:</b>	
Consulting – BSMART & Other Org Change Mgt	200
Consulting – Other (TBD)	200
Surprise Cash Count (2)/Time Rpt Rev (2)	200
<b>Total Required Hours</b>	<b>3,200</b>



**Motion** by Commissioner Price, **Seconded** by Commissioner Mullen, that the Committee approve the Revised Audit Plan for FY 2019.

**Action:** Motion Carried.

**Other**

None.

**Adjourn**

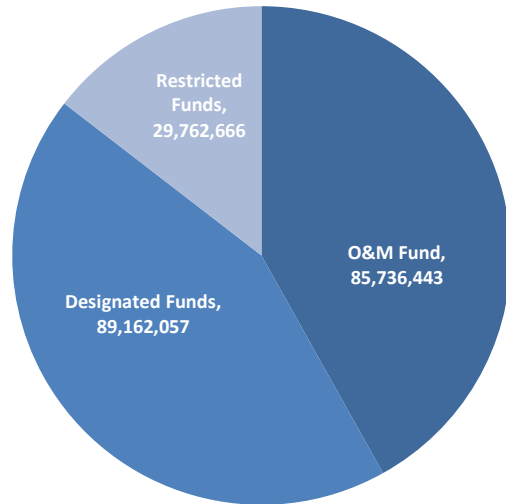
Chair Ken Ross adjourned the meeting at 7:35 p.m.

Respectfully submitted  
 Ken Ross, Chair  
 Finance Committee

# Financial Summary - September 2018



## Cash



**Total Cash: \$204,661,167**

	Month End	Target
Days Cash on Hand	178	155
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage	3.77	2.00

### Days Cash on Hand:

O&M Fund - Portion Restricted By Bond Covenants + Designated Funds  
 (Budgeted Operating Expenses - Depreciation + RoE to City) / 365

### Debt Service Coverage:

Projected Net Income + Depreciation Expense + Interest Expense  
 Debt Principal + Debt Interest

## Income Statement YTD

	Actual YTD	Budget YTD	Difference	%
Retail	\$ 94,344,100	\$ 89,419,358	4,924,742	6%
Wholesale	\$ 8,106,729	\$ 7,268,079	838,651	12%
<b>Total Revenue</b>	<b>\$ 102,450,829</b>	<b>\$ 96,687,436</b>	<b>5,763,393</b>	<b>6%</b>
Operating Expenses	\$ 75,892,559	\$ 79,870,301	(3,977,742)	-5%
Non Operating Income/(Expense)	\$ (8,260,410)	\$ (8,558,253)	297,843	-3%
<b>Net Income</b>	<b>\$ 18,297,861</b>	<b>\$ 8,258,882</b>	<b>10,038,978</b>	<b>122%</b>
<b>FY 2019 Budgeted Net Income</b>		<b>\$ 20,101,039</b>		

## Budget Status YTD

### O&M Budget YTD (excluding fuel)

FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 165,219,060	\$ 37,155,343	\$ 41,580,215	(4,424,872)	-11%
% of Approved Budget	22%	25%		

### Capital Budget YTD (Excluding New Power Plant)

FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 76,468,073	\$ 14,697,621	\$ 20,210,786	(5,513,165)	-27%
% of Approved Budget	19%	26%		

### Capital Budget YTD - New Power Plant Only

FY 2019 Approved Budget	Actual YTD	Budget YTD	Difference	%
\$ 148,122,831	\$ 10,741,585	\$ 16,272,293	\$ (5,530,708)	-34%
% of Approved Budget	7%	11%		

## Return on Assets

Actual YTD	Budget YTD	Target
2.77%	1.28%	4.75%

Return on Assets =  $\frac{\text{YTD Net Income} + \text{YTD Interest Expense}}{\text{Net Fixed Assets} + \text{Inventory}}$

# Financial Summary - September 2018



## Ratios

### Operating Ratio

O&M Expense	\$ 64,549,678	=	0.63	APPA Median 0.69
Revenue	\$ 102,450,829			

Measures the proportion of revenues to cover the operations and maintenance costs

### Current Ratio

Current Assets	\$ 196,585,434	=	3.22	APPA Median 1.57
Current Liabilities	\$ 61,048,597			

Measures whether current assets are sufficient to pay current liabilities within one year

### Debt to Total Assets

LT Debt + Accrued Liabilities	\$ 411,420,361	=	0.41	APPA Median 0.58
Total Assets	\$ 1,000,216,102			

Measures the ability to meet its current and long-term liabilities based on the availability of assets

### Days Sales Outstanding

Accounts Receivable	\$ 29,677,146	x 30 =	26	Prior Year 25
Average Sales	\$ 34,384,698			

Measures the average number of days it takes to collect payment after a sale is made

### Bad Debt

12 Month Rolling Bad Debt	\$ 1,707,348	=	0.47%	Prior Year 0.45%
12 Month Rolling Revenue	\$ 361,822,979			

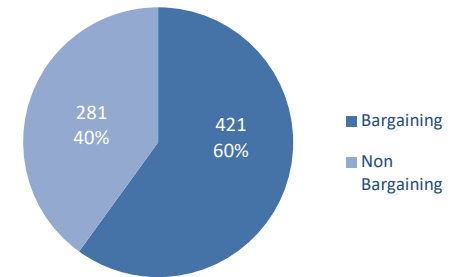
Measures the portion of each revenue dollar that will not be collected

## Employee Data

### Employee Count

Employee Count YTD	702
Budget YTD	754
Over/(Under) #	(52)

Full Time Equivalent	36
Temporary Employees	



### Payroll Data

	Actual YTD	Budget YTD	Difference	%	Prior Year
Regular	\$ 15,887,022	\$ 16,470,489	\$ (583,467)	-3.5%	\$ 48.23
Overtime	\$ 1,953,453	\$ 1,598,376	\$ 355,077	22.2%	
Total	\$ 17,840,475	\$ 18,068,865	\$ (228,390)	-1.3%	

Total Hours Worked	353,647
Labor \$/Hours Worked	\$ 50.45

### Benefits Cost

(Including Retirees)	Actual YTD	Budget YTD	Difference
Health	\$ 3,758,940	\$ 4,865,249	\$ (1,106,309)
RX	\$ 701,159	\$ 950,546	\$ (249,387)
Dental	\$ 337,521	\$ 363,153	\$ (25,632)
Life	\$ 87,965	\$ 87,753	\$ 212
FICA	\$ 1,317,276	\$ 1,312,598	\$ 4,677
Other	\$ (74,869)	\$ (88,709)	\$ 13,840
Total	\$ 6,127,993	\$ 7,490,591	\$ (1,362,598)



**To:** Board of Commissioners, Finance Committee

**From:** Heather Shawa, Chief Financial Officer

**Date:** November 6, 2018

**Re:** 401(a) and 457(b) Plan Amendments and Investment Policy Statement Revisions

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## EXECUTIVE SUMMARY

Included with the November 6, 2018 Finance Committee Packet are several documents which require the Board of Commissioners' approval:

1. Three Addendums related to both Lansing Board of Water and Light Defined Contribution 401(a) Plans ("Defined Contribution Plans") and the Lansing Board of Water and Light Deferred Compensation 457(b) Plan ("Deferred Compensation Plan");
2. Statements of Investment Policies, Procedures and Objectives for both Lansing Board of Water and Light Defined Contribution 401(a) Plans and the Lansing Board of Water and Light Deferred Compensation 457(b) Plan; and
3. Resolutions for both Lansing Board of Water and Light Defined Contribution 401(a) Plans and the Lansing Board of Water and Light Deferred Compensation 457(b) Plan;

The proposed Addendums do not change, or delegate authority to change, any current or future benefits. The primary objective of the Addendums is to clearly establish the Trustees ability to delegate certain investment authority to the Retirement Plan Committee ("RPC"). The Statements of Investment Policies, Procedures and Objectives provide an update to our current investment policy statement which was last updated in 2010 and is shared by all three plans. The update serves to more fully define the various plan fiduciary roles and responsibilities as well as the fund selection and performance evaluation process. The update will also separate the single, shared policy into three distinct policies.

### **Background:**

The Lansing Board of Water and Light sponsors two Defined Contribution Plans and a Deferred Compensation Plan. The General Manager, Chief Financial Officer, and certain staff members currently have authority to take and oversee actions associated with the investment of these plan assets (hereinafter known as the "Current Investment Structure") pursuant to resolutions previously approved by the Board of Commissioners.

Senior Management consulted with its outside investment advisor and legal counsel (both internal and external benefit expert) to formalize the Current Investment Structure with regard to both Defined Contribution Plan and Deferred Compensation Plan assets. After considering current industry practices and trends, Senior Management recommends formally documenting the Current Investment Structure so that the allocation of fiduciary responsibility relating to both Defined Contribution Plans and the Deferred Compensation Plan is clearly defined. To that end, and similar to the recent DB and VEBA plan restructuring, Senior Management's recommendation calls for the Board of Commissioners to clearly establish the ability for Trustees of both Defined Contribution Plans and the Deferred Compensation Plan to be able to delegate certain investment-related authority to the RPC. The included Addendums and

Statements of Investment Policies, Procedures and Objectives formalize the Current Investment Structure as more fully described below.

**The documents referenced above are further detailed as follows:**

1. The Addendums for the plans allow the Trustees to delegate the powers which have been granted to them in the plan and trust documents. In addition, the Addendums more clearly establish the official plan names.
2. The Statements of Investment Policies, Procedures and Objectives each enumerate the investment-related authority that the Trustees will delegate to the RPC related to the investment of the assets of each Plan. That delegation of authority will become effective when the Trustees meet in November 2018. Prior to that November meeting, the General Manager, Chief Financial Officer and appropriate staff members will continue to have the authority to make investment decisions, consistent with current practice.
3. The resolutions adopt the proposed Addendums, approve the proposed Statements of Investment Policies, Procedures and Objectives, and acknowledge that the Trustees intend, and have the ability to delegate certain investment authority related to these plans to the RPC.

**Summary Recommendation**

Senior Management recommends adoption of the Addendums and approval of the Statements of Investment Policies, Procedures and Objectives in order to formalize our Current Investment Structure. The RPC members consist of the Chief Financial Officer (Chair), Executive Director of Human Resources, and Manager of Finance.

## Excerpt from Section 6.02 of ICMA Retirement Corporation Governmental Money Purchase Plan & Trust Number 106696

**6.02 Investment Powers.** The trustee, or the Plan Administrator, acting solely in its capacity as agent for the trustee, shall have the powers listed in this Section with respect to the investment of Trust assets. The trustee may delegate to any other person(s) or entity all or any part of the trustee's powers, rights and duties that are described in this Section 6.02, but only to the extent that such delegation is permitted by the Plan's Investment Policy Statement that is approved from time to time by the Employer. Any such delegation must be reported promptly to the Employer. The delegation must be in writing (including by electronic mail) and must be kept with the trustee's permanent records. The powers of the trustee (and any delegatee) under this Section 6.02 are limited~~except~~ to the extent that the investment of Trust assets is controlled by Participants, pursuant to Sections 6.05 and 13.03.

**LANSING BOARD OF WATER AND LIGHT  
ICMA RETIREMENT CORPORATION  
GOVERNMENTAL MONEY PURCHASE PLAN & TRUST  
NUMBER 106696 ADDENDUM**

This Addendum amends the ICMA Retirement Corporation Governmental Money Purchase Plan & Trust Number 106696 by making the changes that are described below, effective November 13, 2018.

1. The first sentence of Section 6.02 of the ICMA Retirement Corporation Governmental Money Purchase Plan & Trust Number 106696 is replaced in its entirety with the following:

“The trustee, or the Plan Administrator acting solely in its capacity as agent for the trustee, shall have the powers listed in this Section with respect to the investment of Trust assets. The trustee may delegate to any other person(s) or entity all or any part of the trustee’s powers, rights and duties that are described in this Section 6.02, but only to the extent that such delegation is permitted by the Plan’s Investment Policy Statement that is approved from time to time by the Employer. Any such delegation must be reported promptly to the Employer. The delegation must be in writing (including by electronic mail) and must be kept with the trustee’s permanent records. The powers of the trustee (and any delegatee) under this Section 6.02 are limited to the extent that the investment of Trust assets is controlled by Participants pursuant to Sections 6.05 and 13.03.”

2. The name of the Plan is changed to “Lansing Board of Water and Light Defined Contribution Plan and Trust 1”.

LANSING BOARD OF WATER AND LIGHT

Dated: \_\_\_\_\_

By: \_\_\_\_\_

Its: Chair, Board of Commissioners

Trustees

Dated: \_\_\_\_\_

By: \_\_\_\_\_

Its: Authorized Representative

# **LANSING BOARD OF WATER AND LIGHT EMPLOYEES' DEFINED CONTRIBUTION PENSION PLAN INVESTMENT POLICY STATEMENT**

## **PART I - THE PLAN**

The Lansing Board of Water and Light (the "Employer") adopted the Lansing Board of Water and Light Employees' Defined Contribution Pension Plan (the "Plan") to provide funds for its Employees' retirement, and to provide funds for their Beneficiaries in the event of death. The plan shall be maintained for the exclusive benefit of eligible Employees and their Beneficiaries.

## **PART II - THE PURPOSE OF THE INVESTMENT POLICY STATEMENT**

The Investment Policy Statement is intended to assist the Employer in making investment-related decisions in a prudent manner. It outlines the underlying philosophies and processes for the selection, evaluation and monitoring of the funds utilized by the Plan. Specifically, the Investment Policy Statement:

- Defines investment objectives
- Defines investment offerings
- Defines criteria for investment selection
- Describes monitoring procedures

The Investment Policy Statement will be reviewed periodically, and, if appropriate, can be amended to reflect changes in the capital markets, plan participant objectives, or other factors relevant to the plan.

If there is a discrepancy between the Investment Policy Statement and the Plan or the related Trust Agreement, the Plan and the related Trust Agreement shall supersede.

## **PART III - INVESTMENT OBJECTIVES**

The Plan's funds will be selected to:

- Maximize return, on a risk adjusted basis, within each asset class
- Provide opportunity to create a well diversified portfolio
- Control administrative and management costs
- Comply with relevant Michigan and Federal law, including Michigan Public Employee Retirement System Investment Act 314 of 1965, as amended

## **PART IV – INVESTMENT OFFERINGS**

The Employer intends to provide an appropriate range of funds that will span the risk/return spectrum. Further, the Plan fund options will allow Plan participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons and tolerance for

risk. To ensure adequate diversification, the fund offerings must include a broad selection ranging in objective from capital preservation to capital appreciation and spanning the risk spectrum from conservative to aggressive. The fund offerings must include funds that have distinct and materially different risk and return characteristics enabling participants to achieve a portfolio with aggregate risk and return characteristics at any point within the range normally appropriate for the participant or beneficiary. Each fund's investment objective, style, risk-level and performance expectations should be understandable and clearly communicated.

Although the opportunity to create a well diversified portfolio is of high importance, multiple funds in any style or risk/return orientation may lead to participant confusion and unnecessarily high administrative and management fees. Accordingly, style duplication should be avoided where it adds little value for the participants and beneficiaries.

To provide adequate opportunity for diversification as described above, the Employer will provide offerings within the Plan that include the following fund types/classes:

- Stable Value Fund
- Core Bond Fund
- Balanced Fund
- Domestic Equity Funds – the following three main types:
  - Large Cap – the following three sub types:
    - Growth, Value, Blend
  - Mid Cap – the following three sub types:
    - Growth, Value, Blend
  - Small Cap – the following three sub types:
    - Growth, Value, Blend
- International Equity Fund

Additional funds that may be provided include, but are not limited to:

- Target Date Funds
- Index Funds
- Specialty Funds
- Self-directed brokerage program

The Employer has the discretion to establish and alter the fund offerings as deemed appropriate to meet the above stated guidelines.

Although the Employer will make substantial efforts to provide educational materials and discussions to help participants make informed decisions, the Plan allows each participant to direct the investment of the funds in his or her Plan account and the participants alone bear the risk of investment results from the funds they choose.

## **PART V - SELECTION OF INVESTMENTS**

Fund performance measures are set to provide guidance in the selection and retention of funds for the Plan. The measures serve to ensure that funds meet performance and risk expectations appropriate for successful retirement investing. The measures are as follows:

- Fund performance will be objectively measured against both peers and appropriate market benchmarks to ensure that each fund is performing in line with expectations for the pertinent asset class and style. Each fund's performance will be measured against:
  - a peer group that reflects the fund's asset class and style
    - The peer group will consist of like-style funds within its asset class as compiled and measured by an advisor or other third party such as Morningstar or other rating services.
    - The evaluation will consider performance over shorter and longer time periods, e.g. quarterly as well as one-, three- and five-year periods.
    - Fund performance is expected to exceed median peer performance over multiple periods.
  - a market benchmark that reflects the fund's asset class and style
    - The evaluation will consider performance over shorter and longer time periods, e.g., quarterly as well as one-, three- and five-year periods.
    - Fund performance is expected to exceed benchmark returns over multiple periods.
- Other non-investment performance factors will also be reviewed to determine the appropriateness of fund offerings. Such factors may include but are not limited to:
  - Company management, to ensure that the fund organization is stable and adequately supports fund management
  - Fund management, to ensure that portfolio management resources are stable and positioned to produce successful results in the future
  - Fund fees, to ensure that they are in line with peers and do not have an inordinate negative impact on net performance results.

## **PART VI - INVESTMENT MONITORING AND REPORTING**

Monitoring should occur on a regular basis (e.g., semiannually or quarterly) and utilize the same criteria that were the basis of the fund selection decision. While frequent change is neither expected nor desirable, the process of monitoring fund performance relative to specified measures is an on-going process.

If a period of underperformance or a negative non-performance event is identified as a result of monitoring, it generally will not result in the immediate closure or elimination of a fund. In cases where immediate fund closure or elimination are not initiated, the fund will be subjected to increased monitoring and evaluation measures which may include enhanced performance monitoring and discussions with the plan administrator. Upon determination that the fund performance is not reasonably expected to recover to a sufficient level, the fund will be eliminated or replaced with another fund within the same asset class that is meeting or exceeding the measures as defined in Part V of the Investment Policy Statement. Before such action is taken, full consideration will be given to the impact on participants including transition to another fund and timing of the change given administration and communication requirements.

***LANSING BOARD OF WATER AND LIGHT  
DEFINED CONTRIBUTION PLAN  
AND TRUST 1***

***STATEMENT OF INVESTMENT POLICIES, PROCEDURES  
AND OBJECTIVES***

Effective November 13, 2018, except as  
otherwise noted herein



## **TABLE OF CONTENTS**

	<b>Page</b>
<b><u>SUMMARY OF PURPOSE AND OBJECTIVES</u></b>	<b>1</b>
PLAN PURPOSE AND OBJECTIVES	1
PURPOSE OF THE STATEMENT	1
<b><u>ROLES AND RESPONSIBILITIES</u></b>	<b>2</b>
LANSING BOARD OF WATER AND LIGHT RETIREMENT PLAN COMMITTEE	2
INVESTMENT CONSULTANT	2
CUSTODIAN (DIRECTED TRUSTEE)	3
THIRD PARTY ADMINISTRATOR (TPA)/RECORD KEEPER	3
INVESTMENT MANAGERS	3
<b><u>INVESTMENT OPTION POLICIES</u></b>	<b>4</b>
SELECTION OF INVESTMENT OPTIONS	4
DEFAULT INVESTMENT	4
DESCRIPTION OF INVESTMENT OPTIONS	4
<b><u>PERFORMANCE OBJECTIVES</u></b>	<b>6</b>
TIME HORIZON	6
PERFORMANCE OBJECTIVES	6
<b><u>INVESTMENT OPTION SELECTION AND EVALUATION</u></b>	<b>7</b>
INVESTMENT OPTION SELECTION	7
PERFORMANCE EVALUATION AND REVIEW	7
<b><u>REVENUE SHARING POLICIES</u></b>	<b>8</b>

## SUMMARY OF PURPOSE AND OBJECTIVES

### Plan Purpose and Objectives

The Lansing Board of Water and Light (“BWL”) is a municipal utility providing drinking water, electricity, steam and chilled water services to the greater Lansing area in mid-Michigan.

This Statement of Investment Policies, Procedures and Objectives (“Statement”) is issued by the Commissioners of the Lansing Board of Water and Light (the “Commissioners”) for the Lansing Board of Water and Light Defined Contribution Plan and Trust 1 (the “Plan”).

The Plan covers the eligible employees of the BWL and its related entities according to the terms of the Plan document, with the objective of offering participants the opportunity to save, manage, accumulate and preserve retirement account assets.

The Trustees of the Plan are the eight appointed voting Commissioners of the Lansing Board of Water and Light. Non-voting Commissioners are not Trustees of the Plan. The Trustees have delegated certain responsibilities that are described in this Statement to the Retirement Plan Committee (the “Committee”), effective as of the date on which this Statement is acknowledged by the Trustees. As of that date, all provisions in this Statement relating to the Committee shall become operative.

Responsibility for selecting Investment Managers, Investment Consultants, and other investment service providers required for the management of the Plan’s assets and for evaluating overall investment results has been delegated to the Committee which shall report to the Trustees regarding selections made and investment performance. The Trustees must evaluate the Committee’s actions in light of the Committee’s responsibilities under the terms of this Statement, as updated from time to time by the Commissioners, and as communicated to the Trustees by the Commissioners in writing.

Decisions regarding investment options will be made in the sole interest of the participants and beneficiaries of the Plan. All Plan assets may be invested at the discretion of the participant, or if permitted, their beneficiary, in investment options selected from a group of alternatives made available by the Plan. The number and types of investment alternatives available and the Investment Managers retained to manage the alternatives are subject to change.

The provisions of the Statement are subject to the terms of the Plan and the agreement establishing the Trust maintained pursuant to the Plan. To the extent of any conflict between this Statement and the terms of the Plan, the terms of such Plan control. This Statement does not provide any additional rights to any party other than those that are described in those documents. Any investment advisory agreement that is entered into from time to time by the Committee must be subject to the terms of this Statement.

### Purpose of the Statement

The purpose of this Statement is to assist the Committee in effectively selecting, supervising, and evaluating the investment options provided under the Plan. The primary focus of this Statement is to:

1. Clearly describe and distinguish among the responsibilities of the Committee, the Investment Managers, the Third Party Administrator, the Custodian, the Trustee, the Investment Consultant, and any additional service providers.
2. Establish formal criteria to select and monitor the investment options under the Plan; and
3. Facilitate communication between the Committee and all service providers.

The Commissioners retain the authority to approve, revise and update this Statement as necessary to ensure that it is consistent with BWL's investment philosophy. Any revisions or

updates made to the Statement shall be communicated to the Trustees and the Committee from time to time in writing. The Trustees shall formally acknowledge any revisions or updates by communicating the same to the Commissioners in writing. It shall be the duty of the Trustees to act strictly in accordance with the Statement, and any changes therein, as so communicated to and acknowledged by the Trustees.

## **ROLES AND RESPONSIBILITIES**

### **Lansing Board of Water and Light Retirement Plan Committee**

The Committee is responsible for overseeing the administration of the Plan and investment of the Plan assets. Its duties include executing this Statement, hiring investment service providers, and monitoring and evaluating the performance of service providers in carrying out this Statement.

The responsibilities of the Committee, as delegated by the Trustees, include:

1. Establishing, monitoring, reviewing and modifying the number and types of investment options available to Plan participants, including default options for participants who fail to make investment elections.
2. Conducting appropriate due diligence in the selection of all investment service providers.
3. Retaining investment service providers as necessary, including, but not limited to investment advisors and consultants, and investment managers.
4. Establishing effective communication procedures among all investment service providers and the Committee.
5. Monitoring the success of the investment program in meeting established objectives - including appropriateness of funds offered and fund performance.
6. Ensuring that the Plan's investment options are appropriately communicated to participants by working with the Plan sponsor toward that goal.

### **Investment Consultant**

The primary role of the Investment Consultant is to assist the Retirement Plan Committee in fulfilling its responsibilities by providing information, analysis and a prudent process that contribute to the success of the investment program. Specifically, the responsibilities of the Investment Consultant are as follows:

1. Assisting the Retirement Plan Committee in selecting investment options that provide Plan participants with the ability to construct a diversified portfolio at the appropriate risk level.
2. Assisting in identifying appropriate market benchmarks and peer groups for the evaluation of each investment option.
3. Assisting in a prudent Investment Manager search process, identifying appropriate candidates for review and selection by the Retirement Plan Committee.
4. Monitoring the investment management firms and investment options on an on-going basis and informing the Retirement Plan Committee of material developments.
5. As requested, assisting in educating the Retirement Plan Committee on investment issues that might impact the Plan.
6. Assisting the Retirement Plan Committee in analyzing fees and summarizing fees paid to various service providers.
7. Keeping abreast of and updating the Committee on the legislative environment, industry trends, and Plan design options.

8. In addition to the above services, the Investment Consultant is responsible for any other services listed in the Investment Advisory Agreement.

### **Custodian (Directed Trustee)**

The Custodian provides the services listed below:

1. Adequate safekeeping services.
2. Accurate and timely pricing of securities.
3. Timely settlement of securities transactions.
4. Timely collection of income.
5. Suitable accounting services.
6. Appropriate data processing capabilities.
7. Communication with the Committee regarding any concerns or issues with respect to such services.
8. In addition to the above services, the Custodian is responsible for any other services listed in the Custodial Service Agreement.

### **Third Party Administrator (TPA)/Record Keeper**

The TPA provides the services listed below.

1. Suitable and accurate participant record keeping and administrative services.
2. Accurately and timely provide Plan data and reports to the Committee upon request.
3. Compliance testing and required form filing services, if applicable.
4. Participant services including quarterly statements, Voice Response Unit (VRU) access, access to phone representatives, and Web access to participant account information and transactions.
5. Notification to the Committee of any concerns or issues with respect to such services.
6. In addition to the above services, the TPA is responsible for any other services listed in the Third Party Service Agreement.

### **Investment Managers**

The specific duties and responsibilities of each Investment Manager are as follows:

1. To manage the Plan assets under its supervision in accordance with guidelines and objectives included in each Investment Manager's agreement, or in accordance with the prospectus for mutual funds and consistent with each Investment Manager's stated investment philosophy and style as presented to the Investment Consultant.
2. To exercise investment discretion in regard to buying, managing and selling assets held in the portfolio, subject to any limitations contained in this document and the Investment Manager's agreement or prospectus.

See Plan's quarterly investment monitoring report for listing of all Investment Managers.

## INVESTMENT OPTION POLICIES

### Selection of Investment Options

The Committee will determine, through an understanding of eligible participants, the most appropriate number and type of investment options to offer, and which specific Investment Manager to employ for each investment option. With the assistance of the Investment Consultant, the Committee has selected the asset classes and Investment Managers to represent the investment options shown in the Plan's quarterly investment monitoring report.

### Default Investment

The discretionary assets of participants who do not make an active selection among the available options will be placed in the Plan's default fund(s). Defaulted assets will be placed into the appropriate target date fund based on the age and assumed time to retirement of the participant.

### Description of Investment Options

In order to provide appropriate investment alternatives for participants, a diversified menu of investment options is to be made available under the Plan. The specific investment options available under the Plan are identified in the Plan's quarterly investment monitoring report. Below is a description of the asset classes that may be offered in the Plan:

#### *Money Market*

Investments in short term, high-quality securities with very limited principal risk (or risk commensurate with other money market funds). The interest rate for investments in this asset class will be a function of short-term rates for assets held.

#### *Stable Income*

The objective of this asset class is to preserve capital and to provide a reasonably predictable return that moves generally in the direction of prevailing interest rates.

#### *Defensive/Short-Term Bond*

The objective of this asset class is to limit volatility risk and loss of principal while achieving a competitive rate of return that will, over the long-term, be superior to money market returns. Funds in this asset class generally invest in a diversified portfolio of fixed income securities with an average maturity of less than 4 years.

#### *Broad/Intermediate-Term Bond*

The objective of this asset class is to provide a bond alternative that will have more interest rate risk and, hopefully, provide more return than defensive fixed income or money market options. Options in this asset class will generally invest in a diversified portfolio of fixed income securities with an average maturity of greater than four years (not to exceed 15 years) or inflation protected securities.

#### *High Yield Bond*

The objective of this asset class is to provide a bond alternative that will invest primarily in lower quality issues that offer higher yields than investment grade bonds. It is understood that there will also be an increased level of credit risk and volatility within this asset class when compared to higher quality bond asset classes. The average credit quality of options in this asset class should be below BBB and the average maturity should be less than 15 years.

#### *International Bond*

The objective of this asset class is to provide a bond alternative that will invest primarily in non-U.S. issuers. Options in this asset class should be diversified by geographic region and by individual issue. They may be denominated in U.S. dollars. The average maturity of options in this asset class should be less than 15 years.

*Multi-Sector Bond*

The objective of this asset class is to provide a bond alternative that will invest in a diversified portfolio of fixed income securities that may include both credit and government oriented issues, as well as U.S.- based issuers and non-U.S. issuers.

*Balanced/Asset Allocation*

The objective of this asset class is to provide varying levels of exposure in domestic and foreign common stocks and fixed-income securities.

*Target Date Investment*

The objective of this asset class is to provide options that vary in risk and return based on a target retirement date. The option is designed to provide those participants that want to make an investment decision based on their target retirement date the ability to do so. The portfolios will be reallocated with greater emphasis on more conservative investments as the participant nears the stated retirement date.

*Domestic Stock*

The objective of this asset class is to provide an alternative that has investment performance that is highly correlated to the U.S. stock markets. These investment options can be designed to utilize the expertise of a manager that can attempt to add value to overall U.S. stock market returns or designed as an index option that attempts to match the performance of an index. The Plan may utilize options with different investment styles (growth, value or index) and market capitalizations (large, medium, and small) to pursue returns equal to or greater than the broad markets. Risk is acceptable given the commitment to equity securities; however, risk (as measured by standard deviation) beyond the comparative broad market should be taken only if the reasonably anticipated incremental return justifies it over an appropriate comparable time frame. The median market capitalization of a fund within this category should be representative of a particular asset class (e.g., small company). Funds that invest in certain sectors of the market (e.g., REITS, healthcare, utilities, technology, etc.) are allowed as investment options under the Plan, but should be diversified in the number of securities owned. Before adding sector funds as investment options under the Plan, careful consideration should be given to the diversity of the existing investment options and the sophistication level of the Plan participants, as all participants would be allowed to invest in such a fund.

*Developed International Stock*

The objective of this asset class is to provide an option that generally invests in a diversified portfolio of non-U.S. companies in developed markets that are primarily denominated in foreign currencies. Risk is acceptable given the commitment to non-U.S. equity securities; however, risk (as measured by standard deviation) beyond the comparative broad market should be taken only if the reasonably anticipated incremental return justifies it over an appropriate comparable time frame.

*Emerging Markets International*

The objective of this asset class is to provide an option that invests in a diversified portfolio of non-U.S. companies, in emerging markets, that are primarily denominated in foreign currencies. Risk is acceptable given the commitment to equity securities of emerging countries; however, risk (as measured by standard deviation) beyond the comparative broad market should be taken only if the reasonably anticipated incremental return justifies it over an appropriate comparable time frame.

*Commodity*

The objective of this asset class is to provide an option that invests primarily in commodities either directly or through future contracts of commodities. Investing in commodities is offered to provide an asset that has generally lower correlation with the broad stock and bond markets, and to potentially provide a hedge against increased inflation. Risk is acceptable given the commitment to commodities; however, risk (as measured by standard deviation)

beyond the comparative broad commodity index should be taken only if the reasonably anticipated incremental return justifies it over an appropriate comparable time frame.

#### *Real Asset*

The objective of this asset class is to achieve positive long-term real returns, provide inflation protection by investing in a broadly diversified basket of assets with inflation-sensitive characteristics, and enhance portfolio diversification. Options in this asset class typically invest in a variety of asset classes that include, but may not be limited to, the following: inflation-indexed bonds (TIPS), floating rate debt, real estate investment trusts (REITs), commodity index-linked instruments, natural resource equities, master limited partnerships (MLPs), and publicly-listed infrastructure equities.

#### *Self-Directed Brokerage Account*

Self-Directed Brokerage Accounts (SDBA) allow participants to invest all or a portion of their Plan account balance into investment options available through the brokerage service. Some of the investment options that may be available to participants through the SDBA include stocks, bonds and mutual funds. Investment options within the SDBA are not monitored by BWL, the Committee, or the Investment Consultant. The Investment Consultant is not compensated on assets held within the SDBA.

## **PERFORMANCE OBJECTIVES**

### **Time Horizon**

The Committee acknowledges that securities markets are characterized by fluctuating rates of return, particularly during short-term time periods. Accordingly, the Committee focuses on time horizons of three years and greater (e.g. a full market cycle) in evaluating the asset class and investment option performance relative to established benchmarks.

### **Performance Objectives**

Based on the analysis that led to asset allocation and investment option decisions, the Committee has identified performance benchmarks for each investment option and the separate mandates within multiple manager options. The relevant benchmarks for specific investment options are listed in the Plan's quarterly investment monitoring report.

The Plan's investment options will be selected to:

1. Seek to maximize return within reasonable and prudent levels of risk.
2. Provide investment returns comparable to returns for investment options having similar investment objectives and risk profiles.
3. Provide a diverse portfolio of investment options covering a broad range of asset classes.
4. Control administrative and management costs.

## INVESTMENT OPTION SELECTION AND EVALUATION

### Investment Option Selection

The Plan is subject to the Internal Revenue Code and Michigan Public Act 314 of 1965, as amended. Therefore, the Committee's intent is to follow a process that embodies the principles of procedural due diligence. Accordingly, when selecting investment options, the Committee, with the assistance of the Investment Consultant, will employ a competitive search process, which includes the following steps:

1. Identification of qualified candidates from Investment Manager search databases used by the Investment Consultant.
2. Analysis of qualified candidates in terms of:
  - Quantitative characteristics, such as GIPS-compliant composite return data, risk-adjusted rates of return and relevant portfolio characteristics.
  - Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision-making process, and risk controls.
  - Organizational factors, such as type and size of firm, ownership structure, client-servicing capabilities, client growth and retention, and fees.
3. Selection of finalist candidates based on a due diligence process. Investment options should meet the following minimum criteria:
  - Investment options should correspond to the asset classes outlined in this Statement. For example, the domestic stock component of this Statement could be implemented with a stock mutual fund invested primarily in domestic stocks.
  - An Investment Manager should have been acting in a portfolio manager capacity for three years or more, or must have a long term track record managing assets with a similar style at another mutual fund or investment management firm.
  - The same investment strategy should have been followed by the fund for at least three consecutive years (or, where applicable, the Investment Manager should have followed the same investment strategy for at least three consecutive years with regard to whatever fund(s) he or she managed during that three consecutive year period).
  - Each investment option should have total net assets exceeding \$300 million.
  - Each investment option should have a net expense ratio that is lower than the median (50<sup>th</sup> percentile) of their peer group unless above median expenses are justified by superior risk adjusted performance.

### Performance Evaluation and Review

With the assistance of the Investment Consultant, the Committee will regularly evaluate the performance of each investment option. In evaluating each investment option, the Committee will consider qualitative factors likely to impact the future performance of the investment option in addition to current and historical rates of return.

The Committee has deemed it appropriate to establish objective standards for initiating a formal review of an Investment Manager. Any of the following three conditions may be considered cause to initiate a formal review:



1. *Organizational Disruption.* Examples of material organizational events that will be evaluated prior to a termination decision include:
  - Ownership changes (e.g., key people “cash out”)
  - Key people leave firm
  - Manager changes within the strategy
  - Investment management firm is involved in material litigation
  - Material client-servicing problems
2. *Long-term underperformance (defined as five years) in relation to an appropriate broad market index, the median of an appropriate peer group, and risk.* If an investment option fails to generate a return premium, net of fees, in excess of the designated index or indices, performs below the median (50<sup>th</sup> percentile) of its peer group, and/or has below average alpha (compared to its peer group), then, upon completion of appropriate due diligence, the Committee may decide to eliminate that investment option under the Plan.
3. *Shorter-term performance in relation to appropriate style index and the median of an appropriate peer group.* A due diligence review process, which may lead to termination, will be initiated if an investment option ranks in the 4<sup>th</sup> quartile over a one-year period.

A review process may include the following steps:

1. Communication with the Investment Manager and/or a representative from the investment management firm stating the reasons for the review, the steps of the review and the possible results (retain or terminate).
2. A quantitative analysis of the portfolio during the period of underperformance. The analysis will focus on attribution of returns and evaluation of characteristics of the portfolio relative to the investment option’s stated style and relative to the characteristics of portfolios that performed well during the period in question.
3. A conference call and/or meeting with representatives of the investment management firm to gain insights into any organizational and managerial staff changes.
4. A review of information gathered from the quantitative analysis and interview. The review may lead to a decision to retain the investment option in a normal capacity, retain subject to improvement over a six-month to one-year period, or terminate.

The Committee reserves the right to remove any investment option at its discretion. However, the decision to retain or remove an investment option cannot be made by a formula. It is a judgment that is dependent on the Committee’s confidence in future performance.

## **REVENUE SHARING POLICIES**

The Retirement Plan Committee, with the assistance of the Investment Consultant, will analyze disclosed total fees, including revenue sharing and all other disclosed forms of compensation, on an annual basis to determine reasonableness of aggregate fees for services provided. Related ongoing legal developments will be considered.

PROPOSED RESOLUTION

**Amendment of Defined Contribution Plan Number 106696;  
Revised Investment Policy Statement; and Delegation of Authority.**

WHEREAS, the Board of Water and Light (the “Sponsor”) sponsors the ICMA Retirement Corporation Governmental Money Purchase Plan & Trust Number 106696 (the “Defined Contribution Plan Number 106696”); and

WHEREAS, the Sponsor wants to amend Defined Contribution Plan Number 106696 for the purpose of enabling the Trustees to delegate certain investment authority to the Retirement Plan Committee (the “Committee”) of Defined Contribution Plan Number 106696, and for the purpose of changing the name of Defined Contribution Plan Number 106696.

THEREFORE, it is:

RESOLVED, that the Sponsor approves and adopts the Addendum Number 1 to Defined Contribution Plan Number 106696, effective as indicated therein.

FURTHER RESOLVED, that, after its review and based on a recommendation from management, the Sponsor adopts and approves the attached Lansing Board of Water and Light Defined Contribution Plan and Trust 1 Statement of Investment Policies, Procedures and Objectives.

FURTHER RESOLVED, that the Sponsor acknowledges that the Trustee (also known as Trustees) intends to delegate to the Lansing Board of Water and Light Retirement Plan Committee certain duties relating to the investment of Lansing Board of Water and Light Defined Contribution Plan and Trust 1 assets. The Sponsor does not delegate to the Committee authority to amend, freeze or terminate the Lansing Board of Water and Light Defined Contribution Plan and Trust 1.

FURTHER RESOLVED, that the Sponsor indemnifies and holds harmless each member of the Committee from and against all liability of any kind, including, without limitation, court costs, attorneys’ fees and other expenses that arise from any legal or administrative proceeding of any kind that is brought by any person, entity or government agency in connection with the Committee’s discharge of its duties relating to the Lansing Board of Water and Light Defined Contribution Plan and Trust 1; provided, however, that this indemnification shall not apply with regard to any proceeding in which a Committee member is found to have been grossly negligent or to have violated a law or committed a crime.

## Excerpt from Section 6.02 of ICMA Retirement Corporation Governmental Money Purchase Plan & Trust Number 108824

**6.02 Investment Powers.** The trustee, or the Plan Administrator, acting solely in its capacity as agent for the trustee, shall have the powers listed in this Section with respect to the investment of Trust assets. The trustee may delegate to any other person(s) or entity all or any part of the trustee's powers, rights and duties that are described in this Section 6.02, but only to the extent that such delegation is permitted by the Plan's Investment Policy Statement that is approved from time to time by the Employer. Any such delegation must be reported promptly to the Employer. The delegation must be in writing (including by electronic mail) and must be kept with the trustee's permanent records. The powers of the trustee (and any delegatee) under this Section 6.02 are limited~~except~~ to the extent that the investment of Trust assets is controlled by Participants, pursuant to Sections 6.05 and 13.03.

**LANSING BOARD OF WATER AND LIGHT  
ICMA RETIREMENT CORPORATION  
GOVERNMENTAL MONEY PURCHASE PLAN & TRUST  
NUMBER 108824 ADDENDUM**

This Addendum amends the ICMA Retirement Corporation Governmental Money Purchase Plan & Trust Number 108824 by making the changes that are described below, effective November 13, 2018.

1. The first sentence of Section 6.02 of the ICMA Retirement Corporation Governmental Money Purchase Plan & Trust Number 108824 is replaced in its entirety with the following:

“The trustee, or the Plan Administrator acting solely in its capacity as agent for the trustee, shall have the powers listed in this Section with respect to the investment of Trust assets. The trustee may delegate to any other person(s) or entity all or any part of the trustee’s powers, rights and duties that are described in this Section 6.02, but only to the extent that such delegation is permitted by the Plan’s Investment Policy Statement that is approved from time to time by the Employer. Any such delegation must be reported promptly to the Employer. The delegation must be in writing (including by electronic mail) and must be kept with the trustee’s permanent records. The powers of the trustee (and any delegatee) under this Section 6.02 are limited to the extent that the investment of Trust assets is controlled by Participants pursuant to Sections 6.05 and 13.03.”

2. The name of the Plan is changed to “Lansing Board of Water and Light Defined Contribution Plan and Trust 2”.

LANSING BOARD OF WATER AND LIGHT

Dated: \_\_\_\_\_

By: \_\_\_\_\_  
Its: Chair, Board of Commissioners

Trustees

Dated: \_\_\_\_\_

By: \_\_\_\_\_  
Its: Authorized Representative

# **LANSING BOARD OF WATER AND LIGHT EMPLOYEES' DEFINED CONTRIBUTION PENSION PLAN INVESTMENT POLICY STATEMENT**

## **PART I - THE PLAN**

The Lansing Board of Water and Light (the "Employer") adopted the Lansing Board of Water and Light Employees' Defined Contribution Pension Plan (the "Plan") to provide funds for its Employees' retirement, and to provide funds for their Beneficiaries in the event of death. The plan shall be maintained for the exclusive benefit of eligible Employees and their Beneficiaries.

## **PART II - THE PURPOSE OF THE INVESTMENT POLICY STATEMENT**

The Investment Policy Statement is intended to assist the Employer in making investment-related decisions in a prudent manner. It outlines the underlying philosophies and processes for the selection, evaluation and monitoring of the funds utilized by the Plan. Specifically, the Investment Policy Statement:

- Defines investment objectives
- Defines investment offerings
- Defines criteria for investment selection
- Describes monitoring procedures

The Investment Policy Statement will be reviewed periodically, and, if appropriate, can be amended to reflect changes in the capital markets, plan participant objectives, or other factors relevant to the plan.

If there is a discrepancy between the Investment Policy Statement and the Plan or the related Trust Agreement, the Plan and the related Trust Agreement shall supersede.

## **PART III - INVESTMENT OBJECTIVES**

The Plan's funds will be selected to:

- Maximize return, on a risk adjusted basis, within each asset class
- Provide opportunity to create a well diversified portfolio
- Control administrative and management costs
- Comply with relevant Michigan and Federal law, including Michigan Public Employee Retirement System Investment Act 314 of 1965, as amended

## **PART IV – INVESTMENT OFFERINGS**

The Employer intends to provide an appropriate range of funds that will span the risk/return spectrum. Further, the Plan fund options will allow Plan participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons and tolerance for

risk. To ensure adequate diversification, the fund offerings must include a broad selection ranging in objective from capital preservation to capital appreciation and spanning the risk spectrum from conservative to aggressive. The fund offerings must include funds that have distinct and materially different risk and return characteristics enabling participants to achieve a portfolio with aggregate risk and return characteristics at any point within the range normally appropriate for the participant or beneficiary. Each fund's investment objective, style, risk-level and performance expectations should be understandable and clearly communicated.

Although the opportunity to create a well diversified portfolio is of high importance, multiple funds in any style or risk/return orientation may lead to participant confusion and unnecessarily high administrative and management fees. Accordingly, style duplication should be avoided where it adds little value for the participants and beneficiaries.

To provide adequate opportunity for diversification as described above, the Employer will provide offerings within the Plan that include the following fund types/classes:

- Stable Value Fund
- Core Bond Fund
- Balanced Fund
- Domestic Equity Funds – the following three main types:
  - Large Cap – the following three sub types:
    - Growth, Value, Blend
  - Mid Cap – the following three sub types:
    - Growth, Value, Blend
  - Small Cap – the following three sub types:
    - Growth, Value, Blend
- International Equity Fund

Additional funds that may be provided include, but are not limited to:

- Target Date Funds
- Index Funds
- Specialty Funds
- Self-directed brokerage program

The Employer has the discretion to establish and alter the fund offerings as deemed appropriate to meet the above stated guidelines.

Although the Employer will make substantial efforts to provide educational materials and discussions to help participants make informed decisions, the Plan allows each participant to direct the investment of the funds in his or her Plan account and the participants alone bear the risk of investment results from the funds they choose.

## **PART V - SELECTION OF INVESTMENTS**

Fund performance measures are set to provide guidance in the selection and retention of funds for the Plan. The measures serve to ensure that funds meet performance and risk expectations appropriate for successful retirement investing. The measures are as follows:

- Fund performance will be objectively measured against both peers and appropriate market benchmarks to ensure that each fund is performing in line with expectations for the pertinent asset class and style. Each fund's performance will be measured against:
  - a peer group that reflects the fund's asset class and style
    - The peer group will consist of like-style funds within its asset class as compiled and measured by an advisor or other third party such as Morningstar or other rating services.
    - The evaluation will consider performance over shorter and longer time periods, e.g. quarterly as well as one-, three- and five-year periods.
    - Fund performance is expected to exceed median peer performance over multiple periods.
  - a market benchmark that reflects the fund's asset class and style
    - The evaluation will consider performance over shorter and longer time periods, e.g., quarterly as well as one-, three- and five-year periods.
    - Fund performance is expected to exceed benchmark returns over multiple periods.
- Other non-investment performance factors will also be reviewed to determine the appropriateness of fund offerings. Such factors may include but are not limited to:
  - Company management, to ensure that the fund organization is stable and adequately supports fund management
  - Fund management, to ensure that portfolio management resources are stable and positioned to produce successful results in the future
  - Fund fees, to ensure that they are in line with peers and do not have an inordinate negative impact on net performance results.

## **PART VI - INVESTMENT MONITORING AND REPORTING**

Monitoring should occur on a regular basis (e.g., semiannually or quarterly) and utilize the same criteria that were the basis of the fund selection decision. While frequent change is neither expected nor desirable, the process of monitoring fund performance relative to specified measures is an on-going process.

If a period of underperformance or a negative non-performance event is identified as a result of monitoring, it generally will not result in the immediate closure or elimination of a fund. In cases where immediate fund closure or elimination are not initiated, the fund will be subjected to increased monitoring and evaluation measures which may include enhanced performance monitoring and discussions with the plan administrator. Upon determination that the fund performance is not reasonably expected to recover to a sufficient level, the fund will be eliminated or replaced with another fund within the same asset class that is meeting or exceeding the measures as defined in Part V of the Investment Policy Statement. Before such action is taken, full consideration will be given to the impact on participants including transition to another fund and timing of the change given administration and communication requirements.

***LANSING BOARD OF WATER AND LIGHT  
DEFINED CONTRIBUTION PLAN  
AND TRUST 2***

***STATEMENT OF INVESTMENT POLICIES, PROCEDURES  
AND OBJECTIVES***

Effective November 13, 2018, except as  
otherwise noted herein



## TABLE OF CONTENTS

	Page
<b><u>SUMMARY OF PURPOSE AND OBJECTIVES</u></b>	1
PLAN PURPOSE AND OBJECTIVES	1
PURPOSE OF THE STATEMENT	1
<b><u>ROLES AND RESPONSIBILITIES</u></b>	2
LANSING BOARD OF WATER AND LIGHT RETIREMENT PLAN COMMITTEE	2
INVESTMENT CONSULTANT	2
CUSTODIAN (DIRECTED TRUSTEE)	3
THIRD PARTY ADMINISTRATOR (TPA)/RECORD KEEPER	3
INVESTMENT MANAGERS	3
<b><u>INVESTMENT OPTION POLICIES</u></b>	4
SELECTION OF INVESTMENT OPTIONS	4
DEFAULT INVESTMENT	4
DESCRIPTION OF INVESTMENT OPTIONS	4
<b><u>PERFORMANCE OBJECTIVES</u></b>	6
TIME HORIZON	6
PERFORMANCE OBJECTIVES	6
<b><u>INVESTMENT OPTION SELECTION AND EVALUATION</u></b>	7
INVESTMENT OPTION SELECTION	7
PERFORMANCE EVALUATION AND REVIEW	7
<b><u>REVENUE SHARING POLICIES</u></b>	8

## **SUMMARY OF PURPOSE AND OBJECTIVES**

### **Plan Purpose and Objectives**

The Lansing Board of Water and Light (“BWL”) is a municipal utility providing drinking water, electricity, steam and chilled water services to the greater Lansing area in mid-Michigan.

This Statement of Investment Policies, Procedures and Objectives (“Statement”) is issued by the Commissioners of the Lansing Board of Water and Light (the “Commissioners”) for the Lansing Board of Water and Light Defined Contribution Plan and Trust 2 (the “Plan”).

The Plan covers the eligible employees of the BWL and its related entities according to the terms of the Plan document, with the objective of offering participants the opportunity to save, manage, accumulate and preserve retirement account assets.

The Trustees of the Plan are the eight appointed voting Commissioners of the Lansing Board of Water and Light. Non-voting Commissioners are not Trustees of the Plan. The Trustees have delegated certain responsibilities that are described in this Statement to the Retirement Plan Committee (the “Committee”), effective as of the date on which this Statement is acknowledged by the Trustees. As of that date, all provisions in this Statement relating to the Committee shall become operative.

Responsibility for selecting Investment Managers, Investment Consultants, and other investment service providers required for the management of the Plan’s assets and for evaluating overall investment results has been delegated to the Committee which shall report to the Trustees regarding selections made and investment performance. The Trustees must evaluate the Committee’s actions in light of the Committee’s responsibilities under the terms of this Statement, as updated from time to time by the Commissioners, and as communicated to the Trustees by the Commissioners in writing.

Decisions regarding investment options will be made in the sole interest of the participants and beneficiaries of the Plan. All Plan assets may be invested at the discretion of the participant, or if permitted, their beneficiary, in investment options selected from a group of alternatives made available by the Plan. The number and types of investment alternatives available and the Investment Managers retained to manage the alternatives are subject to change.

The provisions of the Statement are subject to the terms of the Plan and the agreement establishing the Trust maintained pursuant to the Plan. To the extent of any conflict between this Statement and the terms of the Plan, the terms of such Plan control. This Statement does not provide any additional rights to any party other than those that are described in those documents. Any investment advisory agreement that is entered into from time to time by the Committee must be subject to the terms of this Statement.

### **Purpose of the Statement**

The purpose of this Statement is to assist the Committee in effectively selecting, supervising, and evaluating the investment options provided under the Plan. The primary focus of this Statement is to:

1. Clearly describe and distinguish among the responsibilities of the Committee, the Investment Managers, the Third Party Administrator, the Custodian, the Trustee, the Investment Consultant, and any additional service providers.
2. Establish formal criteria to select and monitor the investment options under the Plan; and
3. Facilitate communication between the Committee and all service providers.

The Commissioners retain the authority to approve, revise and update this Statement as necessary to ensure that it is consistent with BWL's investment philosophy. Any revisions or

updates made to the Statement shall be communicated to the Trustees and the Committee from time to time in writing. The Trustees shall formally acknowledge any revisions or updates by communicating the same to the Commissioners in writing. It shall be the duty of the Trustees to act strictly in accordance with the Statement, and any changes therein, as so communicated to and acknowledged by the Trustees.

## **ROLES AND RESPONSIBILITIES**

### **Lansing Board of Water and Light Retirement Plan Committee**

The Committee is responsible for overseeing the administration of the Plan and investment of the Plan assets. Its duties include executing this Statement, hiring investment service providers, and monitoring and evaluating the performance of service providers in carrying out this Statement.

The responsibilities of the Committee, as delegated by the Trustees, include:

1. Establishing, monitoring, reviewing and modifying the number and types of investment options available to Plan participants, including default options for participants who fail to make investment elections.
2. Conducting appropriate due diligence in the selection of all investment service providers.
3. Retaining investment service providers as necessary, including, but not limited to investment advisors and consultants, and investment managers.
4. Establishing effective communication procedures among all investment service providers and the Committee.
5. Monitoring the success of the investment program in meeting established objectives - including appropriateness of funds offered and fund performance.
6. Ensuring that the Plan's investment options are appropriately communicated to participants by working with the Plan sponsor toward that goal.

### **Investment Consultant**

The primary role of the Investment Consultant is to assist the Retirement Plan Committee in fulfilling its responsibilities by providing information, analysis and a prudent process that contribute to the success of the investment program. Specifically, the responsibilities of the Investment Consultant are as follows:

1. Assisting the Retirement Plan Committee in selecting investment options that provide Plan participants with the ability to construct a diversified portfolio at the appropriate risk level.
2. Assisting in identifying appropriate market benchmarks and peer groups for the evaluation of each investment option.
3. Assisting in a prudent Investment Manager search process, identifying appropriate candidates for review and selection by the Retirement Plan Committee.
4. Monitoring the investment management firms and investment options on an on-going basis and informing the Retirement Plan Committee of material developments.
5. As requested, assisting in educating the Retirement Plan Committee on investment issues that might impact the Plan.
6. Assisting the Retirement Plan Committee in analyzing fees and summarizing fees paid to various service providers.
7. Keeping abreast of and updating the Committee on the legislative environment, industry trends, and Plan design options.

8. In addition to the above services, the Investment Consultant is responsible for any other services listed in the Investment Advisory Agreement.

### **Custodian (Directed Trustee)**

The Custodian provides the services listed below:

1. Adequate safekeeping services.
2. Accurate and timely pricing of securities.
3. Timely settlement of securities transactions.
4. Timely collection of income.
5. Suitable accounting services.
6. Appropriate data processing capabilities.
7. Communication with the Committee regarding any concerns or issues with respect to such services.
8. In addition to the above services, the Custodian is responsible for any other services listed in the Custodial Service Agreement.

### **Third Party Administrator (TPA)/Record Keeper**

The TPA provides the services listed below.

1. Suitable and accurate participant record keeping and administrative services.
2. Accurately and timely provide Plan data and reports to the Committee upon request.
3. Compliance testing and required form filing services, if applicable.
4. Participant services including quarterly statements, Voice Response Unit (VRU) access, access to phone representatives, and Web access to participant account information and transactions.
5. Notification to the Committee of any concerns or issues with respect to such services.
6. In addition to the above services, the TPA is responsible for any other services listed in the Third Party Service Agreement.

### **Investment Managers**

The specific duties and responsibilities of each Investment Manager are as follows:

1. To manage the Plan assets under its supervision in accordance with guidelines and objectives included in each Investment Manager's agreement, or in accordance with the prospectus for mutual funds and consistent with each Investment Manager's stated investment philosophy and style as presented to the Investment Consultant.
2. To exercise investment discretion in regard to buying, managing and selling assets held in the portfolio, subject to any limitations contained in this document and the Investment Manager's agreement or prospectus.

See Plan's quarterly investment monitoring report for listing of all Investment Managers.

## INVESTMENT OPTION POLICIES

### Selection of Investment Options

The Committee will determine, through an understanding of eligible participants, the most appropriate number and type of investment options to offer, and which specific Investment Manager to employ for each investment option. With the assistance of the Investment Consultant, the Committee has selected the asset classes and Investment Managers to represent the investment options shown in the Plan's quarterly investment monitoring report.

### Default Investment

The discretionary assets of participants who do not make an active selection among the available options will be placed in the Plan's default fund(s). Defaulted assets will be placed into the appropriate target date fund based on the age and assumed time to retirement of the participant.

### Description of Investment Options

In order to provide appropriate investment alternatives for participants, a diversified menu of investment options is to be made available under the Plan. The specific investment options available under the Plan are identified in the Plan's quarterly investment monitoring report. Below is a description of the asset classes that may be offered in the Plan:

#### *Money Market*

Investments in short term, high-quality securities with very limited principal risk (or risk commensurate with other money market funds). The interest rate for investments in this asset class will be a function of short-term rates for assets held.

#### *Stable Income*

The objective of this asset class is to preserve capital and to provide a reasonably predictable return that moves generally in the direction of prevailing interest rates.

#### *Defensive/Short-Term Bond*

The objective of this asset class is to limit volatility risk and loss of principal while achieving a competitive rate of return that will, over the long-term, be superior to money market returns. Funds in this asset class generally invest in a diversified portfolio of fixed income securities with an average maturity of less than 4 years.

#### *Broad/Intermediate-Term Bond*

The objective of this asset class is to provide a bond alternative that will have more interest rate risk and, hopefully, provide more return than defensive fixed income or money market options. Options in this asset class will generally invest in a diversified portfolio of fixed income securities with an average maturity of greater than four years (not to exceed 15 years) or inflation protected securities.

#### *High Yield Bond*

The objective of this asset class is to provide a bond alternative that will invest primarily in lower quality issues that offer higher yields than investment grade bonds. It is understood that there will also be an increased level of credit risk and volatility within this asset class when compared to higher quality bond asset classes. The average credit quality of options in this asset class should be below BBB and the average maturity should be less than 15 years.

#### *International Bond*

The objective of this asset class is to provide a bond alternative that will invest primarily in non-U.S. issuers. Options in this asset class should be diversified by geographic region and by individual issue. They may be denominated in U.S. dollars. The average maturity of options in this asset class should be less than 15 years.

*Multi-Sector Bond*

The objective of this asset class is to provide a bond alternative that will invest in a diversified portfolio of fixed income securities that may include both credit and government oriented issues, as well as U.S.- based issuers and non-U.S. issuers.

*Balanced/Asset Allocation*

The objective of this asset class is to provide varying levels of exposure in domestic and foreign common stocks and fixed-income securities.

*Target Date Investment*

The objective of this asset class is to provide options that vary in risk and return based on a target retirement date. The option is designed to provide those participants that want to make an investment decision based on their target retirement date the ability to do so. The portfolios will be reallocated with greater emphasis on more conservative investments as the participant nears the stated retirement date.

*Domestic Stock*

The objective of this asset class is to provide an alternative that has investment performance that is highly correlated to the U.S. stock markets. These investment options can be designed to utilize the expertise of a manager that can attempt to add value to overall U.S. stock market returns or designed as an index option that attempts to match the performance of an index. The Plan may utilize options with different investment styles (growth, value or index) and market capitalizations (large, medium, and small) to pursue returns equal to or greater than the broad markets. Risk is acceptable given the commitment to equity securities; however, risk (as measured by standard deviation) beyond the comparative broad market should be taken only if the reasonably anticipated incremental return justifies it over an appropriate comparable time frame. The median market capitalization of a fund within this category should be representative of a particular asset class (e.g., small company). Funds that invest in certain sectors of the market (e.g., REITS, healthcare, utilities, technology, etc.) are allowed as investment options under the Plan, but should be diversified in the number of securities owned. Before adding sector funds as investment options under the Plan, careful consideration should be given to the diversity of the existing investment options and the sophistication level of the Plan participants, as all participants would be allowed to invest in such a fund.

*Developed International Stock*

The objective of this asset class is to provide an option that generally invests in a diversified portfolio of non-U.S. companies in developed markets that are primarily denominated in foreign currencies. Risk is acceptable given the commitment to non-U.S. equity securities; however, risk (as measured by standard deviation) beyond the comparative broad market should be taken only if the reasonably anticipated incremental return justifies it over an appropriate comparable time frame.

*Emerging Markets International*

The objective of this asset class is to provide an option that invests in a diversified portfolio of non-U.S. companies, in emerging markets, that are primarily denominated in foreign currencies. Risk is acceptable given the commitment to equity securities of emerging countries; however, risk (as measured by standard deviation) beyond the comparative broad market should be taken only if the reasonably anticipated incremental return justifies it over an appropriate comparable time frame.

*Commodity*

The objective of this asset class is to provide an option that invests primarily in commodities either directly or through future contracts of commodities. Investing in commodities is offered to provide an asset that has generally lower correlation with the broad stock and bond markets, and to potentially provide a hedge against increased inflation. Risk is acceptable given the commitment to commodities; however, risk (as measured by standard deviation)

beyond the comparative broad commodity index should be taken only if the reasonably anticipated incremental return justifies it over an appropriate comparable time frame.

*Real Asset*

The objective of this asset class is to achieve positive long-term real returns, provide inflation protection by investing in a broadly diversified basket of assets with inflation-sensitive characteristics, and enhance portfolio diversification. Options in this asset class typically invest in a variety of asset classes that include, but may not be limited to, the following: inflation-indexed bonds (TIPS), floating rate debt, real estate investment trusts (REITs), commodity index-linked instruments, natural resource equities, master limited partnerships (MLPs), and publicly-listed infrastructure equities.

*Self-Directed Brokerage Account*

Self-Directed Brokerage Accounts (SDBA) allow participants to invest all or a portion of their Plan account balance into investment options available through the brokerage service. Some of the investment options that may be available to participants through the SDBA include stocks, bonds and mutual funds. Investment options within the SDBA are not monitored by BWL, the Committee, or the Investment Consultant. The Investment Consultant is not compensated on assets held within the SDBA.

## **PERFORMANCE OBJECTIVES**

### **Time Horizon**

The Committee acknowledges that securities markets are characterized by fluctuating rates of return, particularly during short-term time periods. Accordingly, the Committee focuses on time horizons of three years and greater (e.g. a full market cycle) in evaluating the asset class and investment option performance relative to established benchmarks.

### **Performance Objectives**

Based on the analysis that led to asset allocation and investment option decisions, the Committee has identified performance benchmarks for each investment option and the separate mandates within multiple manager options. The relevant benchmarks for specific investment options are listed in the Plan's quarterly investment monitoring report.

The Plan's investment options will be selected to:

1. Seek to maximize return within reasonable and prudent levels of risk.
2. Provide investment returns comparable to returns for investment options having similar investment objectives and risk profiles.
3. Provide a diverse portfolio of investment options covering a broad range of asset classes.
4. Control administrative and management costs.

## INVESTMENT OPTION SELECTION AND EVALUATION

### Investment Option Selection

The Plan is subject to the Internal Revenue Code and Michigan Public Act 314 of 1965, as amended. Therefore, the Committee's intent is to follow a process that embodies the principles of procedural due diligence. Accordingly, when selecting investment options, the Committee, with the assistance of the Investment Consultant, will employ a competitive search process, which includes the following steps:

1. Identification of qualified candidates from Investment Manager search databases used by the Investment Consultant.
2. Analysis of qualified candidates in terms of:
  - Quantitative characteristics, such as GIPS-compliant composite return data, risk-adjusted rates of return and relevant portfolio characteristics.
  - Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision-making process, and risk controls.
  - Organizational factors, such as type and size of firm, ownership structure, client-servicing capabilities, client growth and retention, and fees.
3. Selection of finalist candidates based on a due diligence process. Investment options should meet the following minimum criteria:
  - Investment options should correspond to the asset classes outlined in this Statement. For example, the domestic stock component of this Statement could be implemented with a stock mutual fund invested primarily in domestic stocks.
  - An Investment Manager should have been acting in a portfolio manager capacity for three years or more, or must have a long term track record managing assets with a similar style at another mutual fund or investment management firm.
  - The same investment strategy should have been followed by the fund for at least three consecutive years (or, where applicable, the Investment Manager should have followed the same investment strategy for at least three consecutive years with regard to whatever fund(s) he or she managed during that three consecutive year period).
  - Each investment option should have total net assets exceeding \$300 million.
  - Each investment option should have a net expense ratio that is lower than the median (50<sup>th</sup> percentile) of their peer group unless above median expenses are justified by superior risk adjusted performance.

### Performance Evaluation and Review

With the assistance of the Investment Consultant, the Committee will regularly evaluate the performance of each investment option. In evaluating each investment option, the Committee will consider qualitative factors likely to impact the future performance of the investment option in addition to current and historical rates of return.

The Committee has deemed it appropriate to establish objective standards for initiating a formal review of an Investment Manager. Any of the following three conditions may be considered cause to initiate a formal review:



1. *Organizational Disruption.* Examples of material organizational events that will be evaluated prior to a termination decision include:
  - Ownership changes (e.g., key people “cash out”)
  - Key people leave firm
  - Manager changes within the strategy
  - Investment management firm is involved in material litigation
  - Material client-servicing problems
2. *Long-term underperformance (defined as five years) in relation to an appropriate broad market index, the median of an appropriate peer group, and risk.* If an investment option fails to generate a return premium, net of fees, in excess of the designated index or indices, performs below the median (50<sup>th</sup> percentile) of its peer group, and/or has below average alpha (compared to its peer group), then, upon completion of appropriate due diligence, the Committee may decide to eliminate that investment option under the Plan.
3. *Shorter-term performance in relation to appropriate style index and the median of an appropriate peer group.* A due diligence review process, which may lead to termination, will be initiated if an investment option ranks in the 4<sup>th</sup> quartile over a one-year period.

A review process may include the following steps:

1. Communication with the Investment Manager and/or a representative from the investment management firm stating the reasons for the review, the steps of the review and the possible results (retain or terminate).
2. A quantitative analysis of the portfolio during the period of underperformance. The analysis will focus on attribution of returns and evaluation of characteristics of the portfolio relative to the investment option’s stated style and relative to the characteristics of portfolios that performed well during the period in question.
3. A conference call and/or meeting with representatives of the investment management firm to gain insights into any organizational and managerial staff changes.
4. A review of information gathered from the quantitative analysis and interview. The review may lead to a decision to retain the investment option in a normal capacity, retain subject to improvement over a six-month to one-year period, or terminate.

The Committee reserves the right to remove any investment option at its discretion. However, the decision to retain or remove an investment option cannot be made by a formula. It is a judgment that is dependent on the Committee’s confidence in future performance.

## **REVENUE SHARING POLICIES**

The Retirement Plan Committee, with the assistance of the Investment Consultant, will analyze disclosed total fees, including revenue sharing and all other disclosed forms of compensation, on an annual basis to determine reasonableness of aggregate fees for services provided. Related ongoing legal developments will be considered.

PROPOSED RESOLUTION

**Amendment of Defined Contribution Plan 108824;  
Revised Investment Policy Statement; and Delegation of Authority.**

WHEREAS, the Board of Water and Light (the “Sponsor”) sponsors the ICMA Retirement Corporation Governmental Money Purchase Plan & Trust Number 108824 (the “Defined Contribution Plan Number 108824”); and

WHEREAS, the Sponsor wants to amend Defined Contribution Plan Number 108824 for the purpose of enabling the Trustees to delegate certain investment authority to the Retirement Plan Committee (the “Committee”) of Defined Contribution Plan Number 108824, and for the purpose of changing the name of Defined Contribution Plan Number 108824.

THEREFORE, it is:

RESOLVED, that the Sponsor approves and adopts the Addendum Number 1 to Defined Contribution Plan Number 108824, effective as indicated therein.

FURTHER RESOLVED, that, after its review and based on a recommendation from management, the Sponsor adopts and approves the attached Lansing Board of Water and Light Defined Contribution Plan and Trust 2 Statement of Investment Policies, Procedures and Objectives.

FURTHER RESOLVED, that the Sponsor acknowledges that the Trustee (also known as Trustees) intends to delegate to the Lansing Board of Water and Light Retirement Plan Committee certain duties relating to the investment of Lansing Board of Water and Light Defined Contribution Plan and Trust 2 assets. The Sponsor does not delegate to the Committee authority to amend, freeze or terminate the Lansing Board of Water and Light Defined Contribution Plan and Trust 2.

FURTHER RESOLVED, that the Sponsor indemnifies and holds harmless each member of the Committee from and against all liability of any kind, including, without limitation, court costs, attorneys’ fees and other expenses that arise from any legal or administrative proceeding of any kind that is brought by any person, entity or government agency in connection with the Committee’s discharge of its duties relating to the Lansing Board of Water and Light Defined Contribution Plan and Trust 2; provided, however, that this indemnification shall not apply with regard to any proceeding in which a Committee member is found to have been grossly negligent or to have violated a law or committed a crime.

**Excerpt from Section 6.02 of ICMA Retirement Corporation 457 Governmental  
Deferred Compensation Plan and Trust Number 300435**

**6.02 Investment Powers.** The trustee, or the Plan Administrator acting solely in its capacity as agent for the trustee, shall have the powers listed in this Section with respect to the investment of Trust assets. The trustee may delegate to any other person(s) or entity all or any part of the trustee's powers, rights and duties that are described in this Section 6.02, but only to the extent that such delegation is permitted by the Plan's Investment Policy Statement that is approved from time to time by the Employer. Any such delegation must be in writing (including by electronic mail) and must be kept with the trustee's permanent records. The powers of the trustee (and any delegatee) under this Section 6.02 are limited~~except~~ to the extent that the investment of Trust assets is directed by Participants, pursuant to Section 6.05 or to the extent that such powers are restricted by applicable law.

**LANSING BOARD OF WATER & LIGHT  
457 DEFERRED COMPENSATION PLAN ADDENDUM**

This Addendum amends the Lansing Board of Water & Light 457 Deferred Compensation Plan by making the changes that are described below, effective November 13, 2018.

1. The first sentence of Section 6.02 of the Lansing Board of Water & Light 457 Deferred Compensation Plan is replaced in its entirety with the following:

“The trustee, or the Plan Administrator acting solely in its capacity as agent for the trustee, shall have the powers listed in this Section with respect to the investment of Trust assets. The trustee may delegate to any other person(s) or entity all or any part of the trustee’s powers, rights and duties that are described in this Section 6.02, but only to the extent that such delegation is permitted by the Plan’s Investment Policy Statement that is approved from time to time by the Employer. Any such delegation must be reported promptly to the Employer. The delegation must be in writing (including by electronic mail) and must be kept with the trustee’s permanent records. The powers of the trustee (and any delegatee) under this Section 6.02 are limited to the extent that the investment of Trust assets is controlled by Participants pursuant to Section 6.05 or to the extent that such powers are restricted by applicable law.”

2. The name of the Plan is changed to “Lansing Board of Water and Light 457 Deferred Compensation Plan and Trust”.

**LANSING BOARD OF WATER AND LIGHT**

Dated: \_\_\_\_\_

By: \_\_\_\_\_  
Its: Chair, Board of Commissioners

Trustees

Dated: \_\_\_\_\_

By: \_\_\_\_\_  
Its: Authorized Representative

# **LANSING BOARD OF WATER AND LIGHT EMPLOYEES' DEFINED CONTRIBUTION PENSION PLAN INVESTMENT POLICY STATEMENT**

## **PART I - THE PLAN**

The Lansing Board of Water and Light (the "Employer") adopted the Lansing Board of Water and Light Employees' Defined Contribution Pension Plan (the "Plan") to provide funds for its Employees' retirement, and to provide funds for their Beneficiaries in the event of death. The plan shall be maintained for the exclusive benefit of eligible Employees and their Beneficiaries.

## **PART II - THE PURPOSE OF THE INVESTMENT POLICY STATEMENT**

The Investment Policy Statement is intended to assist the Employer in making investment-related decisions in a prudent manner. It outlines the underlying philosophies and processes for the selection, evaluation and monitoring of the funds utilized by the Plan. Specifically, the Investment Policy Statement:

- Defines investment objectives
- Defines investment offerings
- Defines criteria for investment selection
- Describes monitoring procedures

The Investment Policy Statement will be reviewed periodically, and, if appropriate, can be amended to reflect changes in the capital markets, plan participant objectives, or other factors relevant to the plan.

If there is a discrepancy between the Investment Policy Statement and the Plan or the related Trust Agreement, the Plan and the related Trust Agreement shall supersede.

## **PART III - INVESTMENT OBJECTIVES**

The Plan's funds will be selected to:

- Maximize return, on a risk adjusted basis, within each asset class
- Provide opportunity to create a well diversified portfolio
- Control administrative and management costs
- Comply with relevant Michigan and Federal law, including Michigan Public Employee Retirement System Investment Act 314 of 1965, as amended

## **PART IV – INVESTMENT OFFERINGS**

The Employer intends to provide an appropriate range of funds that will span the risk/return spectrum. Further, the Plan fund options will allow Plan participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons and tolerance for

risk. To ensure adequate diversification, the fund offerings must include a broad selection ranging in objective from capital preservation to capital appreciation and spanning the risk spectrum from conservative to aggressive. The fund offerings must include funds that have distinct and materially different risk and return characteristics enabling participants to achieve a portfolio with aggregate risk and return characteristics at any point within the range normally appropriate for the participant or beneficiary. Each fund's investment objective, style, risk-level and performance expectations should be understandable and clearly communicated.

Although the opportunity to create a well diversified portfolio is of high importance, multiple funds in any style or risk/return orientation may lead to participant confusion and unnecessarily high administrative and management fees. Accordingly, style duplication should be avoided where it adds little value for the participants and beneficiaries.

To provide adequate opportunity for diversification as described above, the Employer will provide offerings within the Plan that include the following fund types/classes:

- Stable Value Fund
- Core Bond Fund
- Balanced Fund
- Domestic Equity Funds – the following three main types:
  - Large Cap – the following three sub types:
    - Growth, Value, Blend
  - Mid Cap – the following three sub types:
    - Growth, Value, Blend
  - Small Cap – the following three sub types:
    - Growth, Value, Blend
- International Equity Fund

Additional funds that may be provided include, but are not limited to:

- Target Date Funds
- Index Funds
- Specialty Funds
- Self-directed brokerage program

The Employer has the discretion to establish and alter the fund offerings as deemed appropriate to meet the above stated guidelines.

Although the Employer will make substantial efforts to provide educational materials and discussions to help participants make informed decisions, the Plan allows each participant to direct the investment of the funds in his or her Plan account and the participants alone bear the risk of investment results from the funds they choose.

## **PART V - SELECTION OF INVESTMENTS**

Fund performance measures are set to provide guidance in the selection and retention of funds for the Plan. The measures serve to ensure that funds meet performance and risk expectations appropriate for successful retirement investing. The measures are as follows:

- Fund performance will be objectively measured against both peers and appropriate market benchmarks to ensure that each fund is performing in line with expectations for the pertinent asset class and style. Each fund's performance will be measured against:
  - a peer group that reflects the fund's asset class and style
    - The peer group will consist of like-style funds within its asset class as compiled and measured by an advisor or other third party such as Morningstar or other rating services.
    - The evaluation will consider performance over shorter and longer time periods, e.g. quarterly as well as one-, three- and five-year periods.
    - Fund performance is expected to exceed median peer performance over multiple periods.
  - a market benchmark that reflects the fund's asset class and style
    - The evaluation will consider performance over shorter and longer time periods, e.g., quarterly as well as one-, three- and five-year periods.
    - Fund performance is expected to exceed benchmark returns over multiple periods.
- Other non-investment performance factors will also be reviewed to determine the appropriateness of fund offerings. Such factors may include but are not limited to:
  - Company management, to ensure that the fund organization is stable and adequately supports fund management
  - Fund management, to ensure that portfolio management resources are stable and positioned to produce successful results in the future
  - Fund fees, to ensure that they are in line with peers and do not have an inordinate negative impact on net performance results.

## **PART VI - INVESTMENT MONITORING AND REPORTING**

Monitoring should occur on a regular basis (e.g., semiannually or quarterly) and utilize the same criteria that were the basis of the fund selection decision. While frequent change is neither expected nor desirable, the process of monitoring fund performance relative to specified measures is an on-going process.

If a period of underperformance or a negative non-performance event is identified as a result of monitoring, it generally will not result in the immediate closure or elimination of a fund. In cases where immediate fund closure or elimination are not initiated, the fund will be subjected to increased monitoring and evaluation measures which may include enhanced performance monitoring and discussions with the plan administrator. Upon determination that the fund performance is not reasonably expected to recover to a sufficient level, the fund will be eliminated or replaced with another fund within the same asset class that is meeting or exceeding the measures as defined in Part V of the Investment Policy Statement. Before such action is taken, full consideration will be given to the impact on participants including transition to another fund and timing of the change given administration and communication requirements.

***LANSING BOARD OF WATER AND LIGHT  
457 DEFERRED COMPENSATION PLAN  
AND TRUST***

***STATEMENT OF INVESTMENT POLICIES, PROCEDURES  
AND OBJECTIVES***

Effective November 13, 2018, except as  
otherwise noted herein



## TABLE OF CONTENTS

	Page
<b><u>SUMMARY OF PURPOSE AND OBJECTIVES</u></b>	1
PLAN PURPOSE AND OBJECTIVES	1
PURPOSE OF THE STATEMENT	1
<b><u>ROLES AND RESPONSIBILITIES</u></b>	2
LANSING BOARD OF WATER AND LIGHT RETIREMENT PLAN COMMITTEE	2
INVESTMENT CONSULTANT	2
CUSTODIAN (DIRECTED TRUSTEE)	3
THIRD PARTY ADMINISTRATOR (TPA)/RECORD KEEPER	3
INVESTMENT MANAGERS	3
<b><u>INVESTMENT OPTION POLICIES</u></b>	4
SELECTION OF INVESTMENT OPTIONS	4
DEFAULT INVESTMENT	4
DESCRIPTION OF INVESTMENT OPTIONS	4
<b><u>PERFORMANCE OBJECTIVES</u></b>	6
TIME HORIZON	6
PERFORMANCE OBJECTIVES	6
<b><u>INVESTMENT OPTION SELECTION AND EVALUATION</u></b>	7
INVESTMENT OPTION SELECTION	7
PERFORMANCE EVALUATION AND REVIEW	7
<b><u>REVENUE SHARING POLICIES</u></b>	8

## SUMMARY OF PURPOSE AND OBJECTIVES

### Plan Purpose and Objectives

The Lansing Board of Water and Light (“BWL”) is a municipal utility providing drinking water, electricity, steam and chilled water services to the greater Lansing area in mid-Michigan.

This Statement of Investment Policies, Procedures and Objectives (“Statement”) is issued by the Commissioners of the Lansing Board of Water and Light (the “Commissioners”) for the Lansing Board of Water and Light 457 Deferred Compensation Plan and Trust (the “Plan”).

The Plan covers the eligible employees of the BWL and its related entities according to the terms of the Plan document, with the objective of offering participants the opportunity to save, manage, accumulate and preserve retirement account assets.

The Trustees of the Plan are the eight appointed voting Commissioners of the Lansing Board of Water and Light. Non-voting Commissioners are not Trustees of the Plan. The Trustees have delegated certain responsibilities that are described in this Statement to the Retirement Plan Committee (the “Committee”), effective as of the date on which this Statement is acknowledged by the Trustees. As of that date, all provisions in this Statement relating to the Committee shall become operative.

Responsibility for selecting Investment Managers, Investment Consultants, and other investment service providers required for the management of the Plan’s assets and for evaluating overall investment results has been delegated to the Committee which shall report to the Trustees regarding selections made and investment performance. The Trustees must evaluate the Committee’s actions in light of the Committee’s responsibilities under the terms of this Statement, as updated from time to time by the Commissioners, and as communicated to the Trustees by the Commissioners in writing.

Decisions regarding investment options will be made in the sole interest of the participants and beneficiaries of the Plan. All Plan assets may be invested at the discretion of the participant, or if permitted, their beneficiary, in investment options selected from a group of alternatives made available by the Plan. The number and types of investment alternatives available and the Investment Managers retained to manage the alternatives are subject to change.

The provisions of the Statement are subject to the terms of the Plan and the agreement establishing the Trust maintained pursuant to the Plan. To the extent of any conflict between this Statement and the terms of the Plan, the terms of such Plan control. This Statement does not provide any additional rights to any party other than those that are described in those documents. Any investment advisory agreement that is entered into from time to time by the Committee must be subject to the terms of this Statement.

### Purpose of the Statement

The purpose of this Statement is to assist the Committee in effectively selecting, supervising, and evaluating the investment options provided under the Plan. The primary focus of this Statement is to:

1. Clearly describe and distinguish among the responsibilities of the Committee, the Investment Managers, the Third Party Administrator, the Custodian, the Trustee, the Investment Consultant, and any additional service providers.
2. Establish formal criteria to select and monitor the investment options under the Plan; and
3. Facilitate communication between the Committee and all service providers.

The Commissioners retain the authority to approve, revise and update this Statement as necessary to ensure that it is consistent with BWL's investment philosophy. Any revisions or

updates made to the Statement shall be communicated to the Trustees and the Committee from time to time in writing. The Trustees shall formally acknowledge any revisions or updates by communicating the same to the Commissioners in writing. It shall be the duty of the Trustees to act strictly in accordance with the Statement, and any changes therein, as so communicated to and acknowledged by the Trustees.

## **ROLES AND RESPONSIBILITIES**

### **Lansing Board of Water and Light Retirement Plan Committee**

The Committee is responsible for overseeing the administration of the Plan and investment of the Plan assets. Its duties include executing this Statement, hiring investment service providers, and monitoring and evaluating the performance of service providers in carrying out this Statement.

The responsibilities of the Committee, as delegated by the Trustees, include:

1. Establishing, monitoring, reviewing and modifying the number and types of investment options available to Plan participants, including default options for participants who fail to make investment elections.
2. Conducting appropriate due diligence in the selection of all investment service providers.
3. Retaining investment service providers as necessary, including, but not limited to investment advisors and consultants, and investment managers.
4. Establishing effective communication procedures among all investment service providers and the Committee.
5. Monitoring the success of the investment program in meeting established objectives - including appropriateness of funds offered and fund performance.
6. Ensuring that the Plan's investment options are appropriately communicated to participants by working with the Plan sponsor toward that goal.

### **Investment Consultant**

The primary role of the Investment Consultant is to assist the Retirement Plan Committee in fulfilling its responsibilities by providing information, analysis and a prudent process that contribute to the success of the investment program. Specifically, the responsibilities of the Investment Consultant are as follows:

1. Assisting the Retirement Plan Committee in selecting investment options that provide Plan participants with the ability to construct a diversified portfolio at the appropriate risk level.
2. Assisting in identifying appropriate market benchmarks and peer groups for the evaluation of each investment option.
3. Assisting in a prudent Investment Manager search process, identifying appropriate candidates for review and selection by the Retirement Plan Committee.
4. Monitoring the investment management firms and investment options on an on-going basis and informing the Retirement Plan Committee of material developments.
5. As requested, assisting in educating the Retirement Plan Committee on investment issues that might impact the Plan.
6. Assisting the Retirement Plan Committee in analyzing fees and summarizing fees paid to various service providers.
7. Keeping abreast of and updating the Committee on the legislative environment, industry trends, and Plan design options.

8. In addition to the above services, the Investment Consultant is responsible for any other services listed in the Investment Advisory Agreement.

### **Custodian (Directed Trustee)**

The Custodian provides the services listed below:

1. Adequate safekeeping services.
2. Accurate and timely pricing of securities.
3. Timely settlement of securities transactions.
4. Timely collection of income.
5. Suitable accounting services.
6. Appropriate data processing capabilities.
7. Communication with the Committee regarding any concerns or issues with respect to such services.
8. In addition to the above services, the Custodian is responsible for any other services listed in the Custodial Service Agreement.

### **Third Party Administrator (TPA)/Record Keeper**

The TPA provides the services listed below.

1. Suitable and accurate participant record keeping and administrative services.
2. Accurately and timely provide Plan data and reports to the Committee upon request.
3. Compliance testing and required form filing services, if applicable.
4. Participant services including quarterly statements, Voice Response Unit (VRU) access, access to phone representatives, and Web access to participant account information and transactions.
5. Notification to the Committee of any concerns or issues with respect to such services.
6. In addition to the above services, the TPA is responsible for any other services listed in the Third Party Service Agreement.

### **Investment Managers**

The specific duties and responsibilities of each Investment Manager are as follows:

1. To manage the Plan assets under its supervision in accordance with guidelines and objectives included in each Investment Manager's agreement, or in accordance with the prospectus for mutual funds and consistent with each Investment Manager's stated investment philosophy and style as presented to the Investment Consultant.
2. To exercise investment discretion in regard to buying, managing and selling assets held in the portfolio, subject to any limitations contained in this document and the Investment Manager's agreement or prospectus.

See Plan's quarterly investment monitoring report for listing of all Investment Managers.

## INVESTMENT OPTION POLICIES

### Selection of Investment Options

The Committee will determine, through an understanding of eligible participants, the most appropriate number and type of investment options to offer, and which specific Investment Manager to employ for each investment option. With the assistance of the Investment Consultant, the Committee has selected the asset classes and Investment Managers to represent the investment options shown in the Plan's quarterly investment monitoring report.

### Default Investment

The discretionary assets of participants who do not make an active selection among the available options will be placed in the Plan's default fund(s). Defaulted assets will be placed into the appropriate target date fund based on the age and assumed time to retirement of the participant.

### Description of Investment Options

In order to provide appropriate investment alternatives for participants, a diversified menu of investment options is to be made available under the Plan. The specific investment options available under the Plan are identified in the Plan's quarterly investment monitoring report. Below is a description of the asset classes that may be offered in the Plan:

#### *Money Market*

Investments in short term, high-quality securities with very limited principal risk (or risk commensurate with other money market funds). The interest rate for investments in this asset class will be a function of short-term rates for assets held.

#### *Stable Income*

The objective of this asset class is to preserve capital and to provide a reasonably predictable return that moves generally in the direction of prevailing interest rates.

#### *Defensive/Short-Term Bond*

The objective of this asset class is to limit volatility risk and loss of principal while achieving a competitive rate of return that will, over the long-term, be superior to money market returns. Funds in this asset class generally invest in a diversified portfolio of fixed income securities with an average maturity of less than 4 years.

#### *Broad/Intermediate-Term Bond*

The objective of this asset class is to provide a bond alternative that will have more interest rate risk and, hopefully, provide more return than defensive fixed income or money market options. Options in this asset class will generally invest in a diversified portfolio of fixed income securities with an average maturity of greater than four years (not to exceed 15 years) or inflation protected securities.

#### *High Yield Bond*

The objective of this asset class is to provide a bond alternative that will invest primarily in lower quality issues that offer higher yields than investment grade bonds. It is understood that there will also be an increased level of credit risk and volatility within this asset class when compared to higher quality bond asset classes. The average credit quality of options in this asset class should be below BBB and the average maturity should be less than 15 years.

#### *International Bond*

The objective of this asset class is to provide a bond alternative that will invest primarily in non-U.S. issuers. Options in this asset class should be diversified by geographic region and by individual issue. They may be denominated in U.S. dollars. The average maturity of options in this asset class should be less than 15 years.

*Multi-Sector Bond*

The objective of this asset class is to provide a bond alternative that will invest in a diversified portfolio of fixed income securities that may include both credit and government oriented issues, as well as U.S.- based issuers and non-U.S. issuers.

*Balanced/Asset Allocation*

The objective of this asset class is to provide varying levels of exposure in domestic and foreign common stocks and fixed-income securities.

*Target Date Investment*

The objective of this asset class is to provide options that vary in risk and return based on a target retirement date. The option is designed to provide those participants that want to make an investment decision based on their target retirement date the ability to do so. The portfolios will be reallocated with greater emphasis on more conservative investments as the participant nears the stated retirement date.

*Domestic Stock*

The objective of this asset class is to provide an alternative that has investment performance that is highly correlated to the U.S. stock markets. These investment options can be designed to utilize the expertise of a manager that can attempt to add value to overall U.S. stock market returns or designed as an index option that attempts to match the performance of an index. The Plan may utilize options with different investment styles (growth, value or index) and market capitalizations (large, medium, and small) to pursue returns equal to or greater than the broad markets. Risk is acceptable given the commitment to equity securities; however, risk (as measured by standard deviation) beyond the comparative broad market should be taken only if the reasonably anticipated incremental return justifies it over an appropriate comparable time frame. The median market capitalization of a fund within this category should be representative of a particular asset class (e.g., small company). Funds that invest in certain sectors of the market (e.g., REITS, healthcare, utilities, technology, etc.) are allowed as investment options under the Plan, but should be diversified in the number of securities owned. Before adding sector funds as investment options under the Plan, careful consideration should be given to the diversity of the existing investment options and the sophistication level of the Plan participants, as all participants would be allowed to invest in such a fund.

*Developed International Stock*

The objective of this asset class is to provide an option that generally invests in a diversified portfolio of non-U.S. companies in developed markets that are primarily denominated in foreign currencies. Risk is acceptable given the commitment to non-U.S. equity securities; however, risk (as measured by standard deviation) beyond the comparative broad market should be taken only if the reasonably anticipated incremental return justifies it over an appropriate comparable time frame.

*Emerging Markets International*

The objective of this asset class is to provide an option that invests in a diversified portfolio of non-U.S. companies, in emerging markets, that are primarily denominated in foreign currencies. Risk is acceptable given the commitment to equity securities of emerging countries; however, risk (as measured by standard deviation) beyond the comparative broad market should be taken only if the reasonably anticipated incremental return justifies it over an appropriate comparable time frame.

*Commodity*

The objective of this asset class is to provide an option that invests primarily in commodities either directly or through future contracts of commodities. Investing in commodities is offered to provide an asset that has generally lower correlation with the broad stock and bond markets, and to potentially provide a hedge against increased inflation. Risk is acceptable given the commitment to commodities; however, risk (as measured by standard deviation)

beyond the comparative broad commodity index should be taken only if the reasonably anticipated incremental return justifies it over an appropriate comparable time frame.

#### *Real Asset*

The objective of this asset class is to achieve positive long-term real returns, provide inflation protection by investing in a broadly diversified basket of assets with inflation-sensitive characteristics, and enhance portfolio diversification. Options in this asset class typically invest in a variety of asset classes that include, but may not be limited to, the following: inflation-indexed bonds (TIPS), floating rate debt, real estate investment trusts (REITs), commodity index-linked instruments, natural resource equities, master limited partnerships (MLPs), and publicly-listed infrastructure equities.

#### *Self-Directed Brokerage Account*

Self-Directed Brokerage Accounts (SDBA) allow participants to invest all or a portion of their Plan account balance into investment options available through the brokerage service. Some of the investment options that may be available to participants through the SDBA include stocks, bonds and mutual funds. Investment options within the SDBA are not monitored by BWL, the Committee, or the Investment Consultant. The Investment Consultant is not compensated on assets held within the SDBA.

## **PERFORMANCE OBJECTIVES**

### **Time Horizon**

The Committee acknowledges that securities markets are characterized by fluctuating rates of return, particularly during short-term time periods. Accordingly, the Committee focuses on time horizons of three years and greater (e.g. a full market cycle) in evaluating the asset class and investment option performance relative to established benchmarks.

### **Performance Objectives**

Based on the analysis that led to asset allocation and investment option decisions, the Committee has identified performance benchmarks for each investment option and the separate mandates within multiple manager options. The relevant benchmarks for specific investment options are listed in the Plan's quarterly investment monitoring report.

The Plan's investment options will be selected to:

1. Seek to maximize return within reasonable and prudent levels of risk.
2. Provide investment returns comparable to returns for investment options having similar investment objectives and risk profiles.
3. Provide a diverse portfolio of investment options covering a broad range of asset classes.
4. Control administrative and management costs.

## INVESTMENT OPTION SELECTION AND EVALUATION

### Investment Option Selection

The Plan is subject to the Internal Revenue Code and Michigan Public Act 314 of 1965, as amended. Therefore, the Committee's intent is to follow a process that embodies the principles of procedural due diligence. Accordingly, when selecting investment options, the Committee, with the assistance of the Investment Consultant, will employ a competitive search process, which includes the following steps:

1. Identification of qualified candidates from Investment Manager search databases used by the Investment Consultant.
2. Analysis of qualified candidates in terms of:
  - Quantitative characteristics, such as GIPS-compliant composite return data, risk-adjusted rates of return and relevant portfolio characteristics.
  - Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision-making process, and risk controls.
  - Organizational factors, such as type and size of firm, ownership structure, client-servicing capabilities, client growth and retention, and fees.
3. Selection of finalist candidates based on a due diligence process. Investment options should meet the following minimum criteria:
  - Investment options should correspond to the asset classes outlined in this Statement. For example, the domestic stock component of this Statement could be implemented with a stock mutual fund invested primarily in domestic stocks.
  - An Investment Manager should have been acting in a portfolio manager capacity for three years or more, or must have a long term track record managing assets with a similar style at another mutual fund or investment management firm.
  - The same investment strategy should have been followed by the fund for at least three consecutive years (or, where applicable, the Investment Manager should have followed the same investment strategy for at least three consecutive years with regard to whatever fund(s) he or she managed during that three consecutive year period).
  - Each investment option should have total net assets exceeding \$300 million.
  - Each investment option should have a net expense ratio that is lower than the median (50<sup>th</sup> percentile) of their peer group unless above median expenses are justified by superior risk adjusted performance.

### Performance Evaluation and Review

With the assistance of the Investment Consultant, the Committee will regularly evaluate the performance of each investment option. In evaluating each investment option, the Committee will consider qualitative factors likely to impact the future performance of the investment option in addition to current and historical rates of return.

The Committee has deemed it appropriate to establish objective standards for initiating a formal review of an Investment Manager. Any of the following three conditions may be considered cause to initiate a formal review:



1. *Organizational Disruption.* Examples of material organizational events that will be evaluated prior to a termination decision include:
  - Ownership changes (e.g., key people “cash out”)
  - Key people leave firm
  - Manager changes within the strategy
  - Investment management firm is involved in material litigation
  - Material client-servicing problems
2. *Long-term underperformance (defined as five years) in relation to an appropriate broad market index, the median of an appropriate peer group, and risk.* If an investment option fails to generate a return premium, net of fees, in excess of the designated index or indices, performs below the median (50<sup>th</sup> percentile) of its peer group, and/or has below average alpha (compared to its peer group), then, upon completion of appropriate due diligence, the Committee may decide to eliminate that investment option under the Plan.
3. *Shorter-term performance in relation to appropriate style index and the median of an appropriate peer group.* A due diligence review process, which may lead to termination, will be initiated if an investment option ranks in the 4<sup>th</sup> quartile over a one-year period.

A review process may include the following steps:

1. Communication with the Investment Manager and/or a representative from the investment management firm stating the reasons for the review, the steps of the review and the possible results (retain or terminate).
2. A quantitative analysis of the portfolio during the period of underperformance. The analysis will focus on attribution of returns and evaluation of characteristics of the portfolio relative to the investment option’s stated style and relative to the characteristics of portfolios that performed well during the period in question.
3. A conference call and/or meeting with representatives of the investment management firm to gain insights into any organizational and managerial staff changes.
4. A review of information gathered from the quantitative analysis and interview. The review may lead to a decision to retain the investment option in a normal capacity, retain subject to improvement over a six-month to one-year period, or terminate.

The Committee reserves the right to remove any investment option at its discretion. However, the decision to retain or remove an investment option cannot be made by a formula. It is a judgment that is dependent on the Committee’s confidence in future performance.

## **REVENUE SHARING POLICIES**

The Retirement Plan Committee, with the assistance of the Investment Consultant, will analyze disclosed total fees, including revenue sharing and all other disclosed forms of compensation, on an annual basis to determine reasonableness of aggregate fees for services provided. Related ongoing legal developments will be considered.

PROPOSED RESOLUTION

**Amendment of Lansing Board of Water & Light 457 Deferred Compensation Plan;  
Revised Investment Policy Statement; and Delegation of Authority.**

WHEREAS, the Board of Water and Light (the “Sponsor”) sponsors the ICMA Retirement Corporation 457 Governmental Deferred Compensation Plan and Trust Number 300435 (the “457 Plan”); and

WHEREAS, the Sponsor wants to amend the 457 Plan for the purpose of enabling the Trustees to delegate certain investment authority to the Retirement Plan Committee (the “Committee”) of the 457 Plan Trust, and for the purpose of changing the name of the 457 Plan.

THEREFORE, it is:

RESOLVED, that the Sponsor approves and adopts the Addendum Number 1 to the 457 Plan, effective as indicated therein.

FURTHER RESOLVED, that, after its review and based on a recommendation from management, the Sponsor adopts and approves the attached Lansing Board of Water and Light 457 Deferred Compensation Plan and Trust Statement of Investment Policies, Procedures and Objectives.

FURTHER RESOLVED, that the Sponsor acknowledges that the Trustee (also known as Trustees) intends to delegate to the Lansing Board of Water and Light Retirement Plan Committee certain duties relating to the investment of 457 Plan assets. The Sponsor does not delegate to the Committee authority to amend, freeze or terminate the 457 Plan.

FURTHER RESOLVED, that the Sponsor indemnifies and holds harmless each member of the Committee from and against all liability of any kind, including, without limitation, court costs, attorneys’ fees and other expenses that arise from any legal or administrative proceeding of any kind that is brought by any person, entity or government agency in connection with the Committee’s discharge of its duties relating to the 457 Plan; provided, however, that this indemnification shall not apply with regard to any proceeding in which a Committee member is found to have been grossly negligent or to have violated a law or committed a crime.



# Internal Audit Status Report

Presented by:  
Phil Perkins, Director of Internal Audit  
Finance Committee Meeting  
November 2018

# Overview

- FY 2019 Audit Plan Progress Report
- Continuing Professional Education Status

# FY 2019 Audit Plan Progress Report

## Engagements Completed:

1. Physical Security Audit (FY18 carryover)
2. Contract Signature Authority Compliance Audit (FY18 carryover)
3. Customer Arrangements & Third Party Payments Audit (FY18 carryover)
4. Surprise Cash Count #1
5. Employee Time Reporting Review #1

# FY 2019 Audit Plan Progress Report, cont'd

## Engagements in Progress:

1. Change Management Follow-up Audit – 75% complete
2. Metering Services Audit - 25% complete
3. COBIT Compliance Follow-up Audit – 25% complete
4. Asset Management Consulting – underway, ongoing.

## Upcoming Engagements:

1. Accounts Payable Audit – start December 2018
2. Project Engineering Audit – start January 2019

# FY 2019 Audit Plan Progress Report, Cont'd

## Remaining Engagements:

1. IT Cybersecurity Audit
2. Vegetation Management Audit
3. Procurement Audit
4. BSMART and Other Organizational Change Management – Consulting
5. Surprise Cash Count #2
6. Time Reporting Review #2

# Continuing Professional Education/ Certification Status

## 1. Director of Internal Audit:

- On target to complete all CPE requirements for CPA, CIA and CISA designations this year.
- CPE will be reported to proper authorities so that certifications (and in the case of CPA, licensure) will be maintained through 2018 and beyond.

## 2. Senior Internal Auditor:

- On target to complete annual CPE requirements for CPA designation.
- In progress toward completing requirements for Certified Information Systems Auditor (CISA) designation.