METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY EMPLOYEE BENEFIT SYSTEM

February 27, 2024

Contents

I. Scope and Purpose

This investment policy (the "Policy") is binding on all persons and entities with authority over the assets of the Metropolitan Employee Benefit System Pension Plan, including, but not limited to, the Investments Committee, the Office of the Metropolitan Treasurer, External Investment Managers, External Investment Consultant, Service Providers, Master Custodians, and any other person who or entity that may have a fiduciary relationship with the pension plan.

The purpose of this Policy is to establish a clear understanding between the Investment Committee, the Office of the Metropolitan Treasurer, and the System's investment professionals (External Investment Managers, External Investment Consultant, Master Custodian, etc.) regarding the System's objectives and delegation of duties. It is intended that this Policy will provide meaningful guidance and the necessary flexibility to manage the assets of the System.

II. Introduction

The Metropolitan Employee Benefit System (the "System") Pension Plan (the "Plan") is a public employee defined benefit plan. The Investment Committee of the Metropolitan Employee Benefit Board (the "Committee" or "Investment Committee") is charged with the management, investment, and distribution of the funds in the Plan.

The Plan's assets are made up of seven fiduciary funds, but only Division A and Division B fall under the jurisdiction of the Committee:

Fiduciary Fund	Status
Davidson County Employees' Retirement (County)	Closed 1963
Employees' Pension and Insurance (County Education)	Closed 1963
City Plan (City)	Closed 1963
Teachers' Civil Service and Pension (City Education)	Closed 1963
Teachers' Retirement Plan (Metro Education)	Closed 1969
Metropolitan Employee Benefit Trust (Division A)	Closed 1995
Metropolitan Employee Benefit Trust (Division B)	Open

The Committee has been given the authority, in section 13.04 of the Metropolitan Charter, to regulate and determine all matters dealing with the investments of the funds committed to the System. The Committee shall have full and complete control over all investments, subject to the provisions of the Charter and of other applicable law. The Office of the

Metropolitan Treasurer will coordinate the day-to-day investment related activities on behalf of the Committee.

The Committee will engage the services of Investment Managers who possess the necessary specialized resources and expertise to assure that the System has the highest probability of achieving competitive results at appropriate levels of risk.

It is the intention of the Committee to allow Investment Managers, acknowledging fiduciary responsibility, full discretion within the scope of the Policy, the particular Investment Manager's specific strategy mandate, and all applicable laws.

This Policy allows for pooled investment vehicles (mutual funds and/or commingled funds) that are deemed to be suitable investments regarding the System’s assets. The Committee recognizes that pooled vehicles are formally governed by their respective guidelines, prospectuses, and investment contracts.

III. Investment Manager Role

i. The Investment Managers will be responsible for voting all proxies and corporate actions issued in connection with positions over which such Investment Managers have investment authority or control, unless directed otherwise by the Office of the Metropolitan Treasurer. Class action participation will be handled by the custodian unless the Office of the Metropolitan Treasurer directs a specific class action to be handled differently. The Committee may retain counsel on a flat retainer or contingency fee for advice on international securities litigation and other issues as needed. Corporate actions for direct Limited Partnerships and Fund of Funds are voted on by the Office of the Metropolitan Treasurer.

ii. The Investment Managers will not engage in investment transactions involving the following assets unless specifically authorized by the strategy mandate:
- precious metals
- commodities
- individual real estate holdings
- short sales
- purchases on margin
- derivative securities which provide leveraged exposure of the underlying index

The use of currency futures, options, or forward contracts to hedge international portfolio currencies is allowed. Covered call options are also allowable investments.

iii. An Investment Manager may not act or receive commissions or other fees as a broker, dealer, underwriter, or principal, whether directly or through a related or affiliated entity, with respect to any System asset.

iv. An Investment Manager may not assign or delegate any of his or her duties to another party without prior written approval.

v. Long only managers are not expected to use debt, futures, or options for the sole purpose of leveraging the portfolio unless explicitly permitted by the strategy and mandate.

vi. An Investment Manager shall not execute documentation for the benefit of lenders or any other third parties in connection with any Credit Facility without prior approval from the Office of the Metropolitan Treasurer, other than to acknowledge that the Metropolitan Employee Benefit System has a capital commitment, and that the partnership or fund may pledge such capital commitment to a lender as security for such Credit Facility.

vii. The Investment Managers are expected to communicate or meet with the Office of the Metropolitan Treasurer and Investment Consultant periodically to review the portfolio and to discuss investment results in the context of these guidelines. Notwithstanding, at all times, the Investment Managers are to have open communication with the Office of the Metropolitan Treasurer on all significant matters pertaining to the management of the System's assets.

viii. The Investment Managers shall promptly notify the Office of the Metropolitan Treasurer and Investment Consultant of any litigation against the Investment Manager, change in ownership or control of its organization or change in any key personnel.

IV. Investment Objectives

The System’s investment portfolio shall be managed with the following priorities:

i. Benefit Coverage: Provide long-term pension benefit payout to the beneficiaries of the Plan.

ii. Stability: Avoid undue risk which in the aggregate might reasonably impair the ability to achieve the investment objectives i and iii-iv. Actively align risk with Plan constraints, e.g., funding status, demographics, sponsor’s financial condition, and market cycle.

iii. Relative Outperformance: Exceed the Policy Benchmark over the long term.

iv. Capital Appreciation: Maximize long-term principal appreciation in order to provide an expanding capital base to achieve the needs of future beneficiaries by meeting or exceeding the most recent actuarial assumed rate of investment return, net of fees and pension expenses. Assuring that fees are appropriate and reasonable.

Performance will be measured on a net of fees basis, after expenses, against the policy benchmark.

Assessment of performance will be evaluated relevant to one whole business cycle but reviewed quarterly. Periodic performance will be calculated on the asset class level as detailed in the policy benchmark section for the purpose of aggregating the result into the plan’s periodic performance. However, private investments will also be evaluated based on IRR, multiples of capital and public market equivalent.

V. Investment Parameters

i. Risk Tolerance

Assessing the ability of the Plan to withstand portfolio volatility will be highly dependent on the actuarial assumptions and forecast. An asset/liability study, in conjunction with the annual Actuarial Reports are the basis for assessing the amount of risk that can be taken in the portfolio. Return expectations should always be considered commensurate with risk.

ii. Permissible Asset Classes

- Domestic Equity Securities
- International Equity Securities
- Fixed Income Securities
- Private Equity
- Private Debt
- Derivative Instruments
- Real Assets
- Real Estate
- Real Estate Debt
- Energy and Infrastructure Equity
- Energy and Infrastructure Debt
- Cash and Cash Equivalent

iii. Constraints

Transactions are expected to be done at best execution with consideration to the following constraints:

- Liquidity: At all times, the portfolio will have an allocation of assets that can quickly be converted to cash in an amount that equals the expected annual liability for benefit payments.
- Time: A long-term investment horizon should be considered when making investment decisions.
- Legal Factors: No investment shall be made except which at the time of making the investment is permitted by law for the investment of funds by fiduciaries in the State of Tennessee.
- Environmental, Social, and Governance (ESG): The Committee may consider ESG factors as part of the evaluation process, but investments will only be undertaken if they are shown to improve the overall risk-return profile of the Plan as compared to other similar investments. External Investment Managers may also consider ESG when making investments within the structure of their existing mandate.
- The Plan should diversify its Traditional Fixed Income investments by maintaining at least 50% of the fixed income portfolio in investment grade assets.
- Investment Managers are expected to vote all proxies in the best interests of the Plan's

participants.
- Securities Lending: Securities Lending is allowable with prudent collateral.

iv. <u>Standard of Prudence</u>
The standard of prudence to be applied to the investment of Plan's funds shall be the "Prudent Investor Rule" which states:

"Investments shall be made with judgment and care, under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

The Investment Committee shall also follow the TCA §§ 35-14-101. Investment Managers (either internal or external) shall act in accordance with this Policy or any other written procedures pertaining to the administration and management of the Plan's investments.

v. <u>Code of Ethics</u>
Investment Committee, staff of the Office of the Metropolitan Treasurer, Investment Consultants and Investment Managers must:
- Use reasonable care and exercise unbiased professional judgement when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Take only investment actions that are consistent with the stated objectives and constraints of that portfolio.
- Not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.
- Not engage in any professional conduct involving dishonesty, fraud, or deceit.
- Not act or cause others to act on material nonpublic information that could affect the value of an investment.
- Not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.
- Refuse to participate in any business relationship or accept gifts, benefits, compensation, or consideration that competes with or might reasonably be expected to create a conflict of interest or affect their independence, objectivity, or loyalty.
- Make reasonable efforts to ensure that anyone subject to their supervision or authority complies with applicable laws, rules, and regulations.
- Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.
- Develop and maintain appropriate records to support their investment analyses, recommendations, actions, and other investment-related communications.
- Distinguish between fact and opinion in the presentation of investment analysis and

recommendations.

- Make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties.
- Disclose any compensation, consideration, or benefit received from or paid to others for the recommendation of products or services.
- Use commissions generated from client trades to pay for only investment-related products or services that directly assist the Investment Manager in their investment decision-making process.
- Maximize portfolio value by seeking best execution for all transactions.
- Ensure that portfolio information provided to the Investment Committee by the Investment Manager is fair, accurate, relevant, timely, and complete.

VI. Portfolio Construction

i. Asset Allocation

- Futures contracts and Exchange Traded Funds may be used to implement portfolio strategies. Capital allocated or committed to private equity, private debt and real assets but not deployed will be invested with the rest of the portfolio.
- A global mandate may be used as part of the domestic or international allocation. The Committee may maintain a reserve that is invested in the Metropolitan Investment Pool to meet benefit payments. This will be considered part of the Cash Equivalent class.
- In placing portfolio transaction orders on behalf of the System, the Investment Managers will use their best efforts to obtain the best execution of orders. The Investment Managers shall disclose any consideration received from or paid to a party other than the System regarding the management of the System portfolio. Managers are required to follow Section 28(e) of the Securities Exchange Act of 1934.
- 50% of the traditional fixed income investments, other than short-term paper, shall be limited at purchase to investment grade as established by one or more of the nationally recognized bond rating services. Also, the use of futures, options and swaps is permitted if the particular investment manager's strategy or mandate allows for it.
- Common stock investments (both domestic and international) in any single company shall be limited to 10%, at market, of equity assets under management and 2% of the company's total outstanding equity. In the event that any company's Index weight exceeds ten percent (10%), investments in that company are allowable up to one hundred fifteen percent (115%) of the Index weight. Common stock is defined to include securities convertible into common stock.
- The international equity portfolio should maintain diversification across countries, industries, and companies.

ii. Policy Targets:

Asset Class	Target	Policy Range
Domestic Equity	17%	12% - 22%
International Equity	12%	7% - 17%
Fixed Income	25%	17% - 33%
Private Debt	17%	12% - 20%
Real Assets	9%	5% - 12%
Private Equity	20%	15% - 23%
Cash	0%	0 - 5%

- Policy Targets will be agreed upon on an annual basis as per the recommendation of the Office of the Metropolitan Treasurer and the Investment Consultant.

iii. Policy Benchmarks:

- Benchmarks will be set by the Committee based on industry standards, empirical information and recommendations from the Investment Consultant and the Office of the Metropolitan Treasurer.

Asset Class	Benchmark Index
Policy Benchmark	The Policy Benchmark is a weighted average of each asset class benchmark multiplied by its policy target weight
Total Domestic Equity	Russell 3000
International Equity	MSCI All Country World ex USA (net)
Fixed Income	Bloomberg Barclays U.S. Aggregate TR
Private Debt	Bank of America Merrill Lynch High Yield Master II
Real Estate	National Council of Real Estate Investment Fiduciaries Property Index (NCREIF)
Private Equity	Russell 2000
Cash	Financial Times Stock Exchange (FTSE) T-Bill 3 Months TR

VII. Expectations for Frequency of Review

This Policy may be changed from time to time by the Committee after consideration of the advice and recommendations of the Office of the Metropolitan Treasurer and the Investment Consultant. All modifications to this Policy shall be in writing and approved by the Committee.

Every three to five years the system will conduct a Policy and Procedures review and report the findings to the Investment Committee.

The Committee will review and approve this Policy every three years or whenever a major change is apparent or necessary. Such review may be caused by:

- A fundamental change in the design of the System
- Significant revisions to the expected long-term trade-off between risk and reward on key asset classes, dependent upon basic economic/political/social factors
- Shortcomings of the Policy that emerge in its practical operation or significant modifications that are recommended to the Committee by the Office of the Metropolitan Treasurer and the Investment Consultant
- Significant changes in the legal and/or regulatory environment

To review this Policy, the Committee will:

- Discuss investment strategy and reinforce the appropriateness of the investment strategy
- Inquire about any changes in objectives, risk tolerance, time horizon, liquidity needs, or external sources of cash flow
- Comparison of asset allocation to the target allocation

VIII. Portfolio Management

i. Discretionary Authority: The Committee has full discretion and authority over the assets and contracts entered in to as it pertains to management of the investments. Investment decisions acted upon without Committee approval shall be those that have been pre-approved through contract or delegated, as for example, separately managed accounts.

ii. Rebalancing: Rebalancing strategies used will be dependent on market conditions, returns and fees associated with the transaction. The Committee has elected not to rebalance based on time-based strategies. A threshold-based approach will be implemented. When an asset class exceeds its policy benchmark range (or is expected to), the Committee, Office of the Metropolitan Treasurer and the Investment Consultant will evaluate what the best course of action is given the circumstances.

iii. Implementation: Executing the management of the portfolio requires the approval of the Committee as fiduciary.

- New investment vehicles will be analyzed and reviewed by the Office of the Metropolitan Treasurer and Investment Consultant before presented to the Committee for approval.
- Office of the Metropolitan Treasurer may utilize an electronic trading platform to seek pricing and best execution when rebalancing or selling distributed stock or other positions.
- The international portion of the portfolio should be diversified based on geographic location and local currency. The benchmark index may drive the geographic and currency weights.

iv. Performance Standards: The portfolio shall be designed and managed with the objective of obtaining a return that is commensurate with the investment risk, constraints and cash flow needs of the Plan all while controlling for fees.
   - Pension performance shall be delivered at least quarterly to the Committee with returns net of fees, along with a comparison of the asset allocation compared to the target allocation.
   - Investment strategy will be discussed at least yearly for its appropriateness as it relates to market conditions and Plan constraints.

IX. Safekeeping and Custody

The "Authorized Representatives for Banking and Investment Activity" form specifies the extent of authority and identifies the individuals that may sign investment instructions on behalf of the System. At all times, there will be a two-signatory requirement with one being the Metropolitan Treasurer or the Assistant Metropolitan Treasurer.

From time to time, the System requests records and information from Investment Managers that such managers may deem confidential. To the extent permitted by applicable law, requested records and information will be kept confidential.

X. Reporting and Duties

In addition to the quarterly performance report, the Office of the Metropolitan Treasurer shall:

i. Maintain records in an easily accessible format for seven years post sale of an asset.
ii. Follow the Office of the Metropolitan Treasurer's business–continuity plan.
iii. Establish a pension asset liability management process, which focuses on financial risks created by the interaction of assets and liabilities.
iv. Ensure that the duration of the portfolio roughly matches that of the liabilities while also considering other factors such as interest rates and assumed rate of return. When assets and liabilities do not match, discuss why matching is not feasible in the asset liability management study as well as with the Committee.
v. Use fair-market prices to value pension holdings and apply third-party market quotation when available. If fair market prices are not available, use book value.
vi. Communicate with the Committee on an ongoing and timely basis at least monthly.
vii. Disclose the following to the Committee:
   - Conflicts of interests generated by any relationships with brokers or other entities, other client accounts, fee structures, or other matters
   - Regulatory or disciplinary action taken against an external manager or its personnel related to professional conduct
   - When making a new investment decision, include information regarding lock-up periods, strategies, risk factors, use of derivatives and leverage, and management fees and other investment costs charged to investors, including what costs are

included in the fees and the methodologies for determining fees and costs
- The amount of any soft or bundled commissions
- The performance of investments on a quarterly basis
- Valuation methods used to make investment decisions and value client holdings
- Shareholder voting policies that were enacted since the last meeting
- Trade allocation policies and changes
- Results of the review or audit of the fund and the Committee
- Significant personnel or organizational changes that have occurred at the Office of the Metropolitan Treasurer or outsourced investment manager services

XI. Evaluating the Success of the Plan

i. Achieving the Plan objective.
ii. The Committee should evaluate success by making sure process is consistent.
iii. Deviations from the Policy are reported and remediated or approved by the Committee.
iv. Evaluate whether downside risk is consistent with the Committee's risk tolerance.
v. A Plan review will be conducted every 3-5 years by a third-party investment consultant that can validate the strategy, benchmarks, and asset allocation.
vi. An asset liability management study will be completed every three years and reported to the Committee.
vii. An experience study to review actuarial assumptions will be conducted by an independent third party every 5 years.
viii. Investment Committee Members are required to complete at least 8 hours of Continuing Education per calendar year.

XII. Manager Selection

a. The selection of investment managers will utilize a robust process to ensure an open and competitive universe, proper evaluation and due diligence, and selection of candidates that are best able to demonstrate the characteristics sought in a specific search.
b. The Office of the Treasurer will maintain a document outlining the search process for managers specifically addressing traditional and private assets.
c. The Investment Committee will be presented with search results, a recommendation, benchmarks and any important considerations that affected the search.
d. A synopsis of fees, their competitiveness, and efforts to minimize fees for the plan will be discussed and summarized in the written report.
e. Considerations such as minimizing the number of managers in the system, familiarity with the manager and fee discounts/AUM breakpoints may affect the recommendation as long as the manager standards are not compromised.

XIII. Manager Monitoring

a. Investment managers will be continuously monitored and evaluated by the Office of the Treasurer and the Investment Consultant.
b. Investment Managers will be evaluated relative to strategy performance benchmarks but also evaluated with consideration to the amount of risk employed in the strategy take, and the strategy's intended role in the overall investment portfolio
c. The Office of the Treasurer and the Investment Consultant will document their monitoring efforts and report to the Investment Committee periodically.
d. Any materials concerns with a particular Investment Manager will be shared with the Investment Committee as soon as feasible for discussion and/or recommendation at future Investment Committee meetings.

XIV. Investment Costs

a. Investment costs will be monitored and minimized within the context of maximizing net return. The goal is not low fees, but rather maximum returns, net of fees
b. The opportunity for active manager risk-adjusted outperformance (alpha) is not uniformly distributed across asset classes or Investment Managers' strategies.
c. Active strategies are preferred when there is strong conviction that they can be expected to add alpha, net of fees.
d. Passive strategies should be considered if alpha expectations are unattractive.
e. Professional fees will be negotiated when feasible

The above Statement of Investment Policy was adopted on March 20, 2024 by the Investment Committee of the Metropolitan Employee Benefit System.

Michell Bosch

3/22/2024 | 7:38 AM CDT

Michell Bosch
Metropolitan Treasurer

Date

Kevin Crumbo

3/22/2024 | 7:09 AM PDT

Kevin Crumbo
Chair, Investment Committee

Date