

# STATE OF MICHIGAN INVESTMENT BOARD MEETING

## November 27, 2018

State of Michigan Retirement Systems  
Special Meeting



Nick A. Khouri, State Treasurer  
Prepared by Bureau of Investments  
Michigan Department of Treasury

# STATE OF MICHIGAN INVESTMENT BOARD MEETING

## SPECIAL MEETING

NOVEMBER 27, 2018

### Agenda



1:00 p.m. Call to Order and Opening Remarks

#### Action Items

- Investment Policy Statement
- Code of Ethics
- Target Allocation

Public Comment

Closing Remarks

Adjournment



#### 2018 Meeting Schedule

Tuesday, December 11, 2018

#### 2019 Meeting Schedule

Thursday, March 7, 2019

Thursday, June 6, 2019

Thursday, September 12, 2019

Thursday, December 12, 2019

All meetings start at 9:30 a.m.

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State of Michigan Retirement Systems

# INVESTMENT POLICY STATEMENT

State of Michigan Investment Board Special Meeting  
November 27, 2018



Jon M. Braeutigam  
Chief Investment Officer  
Bureau of Investments

**STATE OF MICHIGAN INVESTMENT BOARD**  
**RESOLUTION AUTHORIZING INVESTMENT POLICY STATEMENT**

**Resolution 2018-1**

WHEREAS, pursuant to Executive Order 2018-10 (the “Order”), the State of Michigan Investment Board (the “Board”) is required to adopt an Investment Policy Statement;

WHEREAS, the Investment Policy Statement is intended to set guidelines and expectations with respect to the prudent management and investment of the assets of the State of Michigan’s defined benefit retirement systems (the “DB Plan”) and the oversight of changes to the investment manager lineup for the State of Michigan’s 401(k) and 457 plans (the “DC Plans”);

WHEREAS, pursuant to the Order, the Board is empowered to delegate power to or otherwise authorize to the Bureau of Investments within the Department of Treasury (the “BOI”) to invest and prudently managed the assets of the DB Plans and to aid the Board in the oversight of the investment manager line up of the DC Plans, or to otherwise cause the BOI to take certain actions; and

WHEREAS, the Investment Policy Statement is intended to duly delegate all powers and authority contained therein to the BOI.

NOW, THEREFORE, BE IT RESOLVED, the Board determines that it hereby approves and adopts the Investment Policy Statement and all delegations contained therein, attached hereto as Exhibit A;

BE IT FURTHER RESOLVED, that all delegations contained in the Investment Policy Statement are effective concurrent with the adoption of this resolution and shall remain in effect until the Board takes formal action to revoke such delegation; and

BE IT FURTHER RESOLVED, that the BOI shall adhere to the Investment Policy Statement.

Ayes:

Nays:

Recused:

East Lansing, Michigan

November 27, 2018

# INVESTMENT POLICY STATEMENT

## STATE OF MICHIGAN INVESTMENT BOARD

### I. Introduction

This Investment Policy Statement (the “Policy”), effective upon the date this Policy is signed below, provides the framework for the investment activities carried out by the State of Michigan Investment Board (the “Board”). Pursuant to state law and Executive Order 2018-10 (the “Order”), the Board is the investment fiduciary for each of the systems which comprise the component units of the State of Michigan Retirement System: the Michigan Public School Employees’ Retirement System; the Michigan State Employees’ Retirement System, the Michigan State Police Retirement System; the Michigan Judges Retirement System; the Military Retirement System; and Other Post-Employment Benefit funds associated with each of the component units (the “OPEB”, and together with each of the component units listed above, the “DB Plan”). The Bureau of Investments (the “BOI”) – an operating bureau within the Michigan Department of Treasury – is delegated the responsibility, pursuant to the Order and this Policy, to invest and manage the assets of the DB Plan on behalf of the Board. The Board is responsible for approving changes to the investment manager lineup for the State of Michigan’s 401(k) and 457 plans (the “DC Plans”) upon recommendation from the BOI. The authority of the BOI to act on behalf of the Board in carrying out investments is grounded in the Public Employee Retirement System Investment Act, 1965 Public Act 314 (“Public Act 314”), the Order, and other applicable laws of this state (with Public Act 314 and the Order, the “Authorizing Statutes”) and as delegated by this Policy.

The DB Plan assets shall be invested with a long-term horizon in mind. This Policy and its objectives are intended to allow the BOI to invest over, and account for, the long-term while also having sufficient flexibility in the investment management process to take advantage of investment opportunities, yet provide parameters that will ensure prudence and care in the execution of the investment program. The Board and the BOI, with such authority as delegated pursuant to the Order and this Policy, shall act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with these matters would use in the conduct of an enterprise with similar aims, in accordance with the Authorizing Statutes, specifically Section 13(3) of Public Act 314, and other applicable state laws.

The investment divisions of the BOI are generally divided into the asset classes described below. With the approval of the Board, the Chief Investment Officer (“CIO”) of the BOI may add additional asset classes based on market changes and the overall investment landscape, with such changes presented to the Board for discussion and approval:

- Domestic Equity Division (DED)
- Fixed Income Division (FID)
- International Equity Division (IED)

- Private Equity Division (PED)
- Real Estate & Infrastructure Division (REID)
- Real, Opportunistic and Absolute Return Division (ROAD)
- Venture Capital Division (VCD)

The BOI also houses the following divisions:

- Defined Contribution, Trusts & Agencies Division (DCTA)<sup>1</sup>
- Trust Accounting Division (TAD)
- Compliance & Corporate Governance Division (CCGD)

## **II. BOI Structure and Responsibilities**

The BOI is alone authorized to invest the DB Plan assets. All such investment of the DB Plan assets shall be in accordance with the fiduciary duties established (i) by Public Act 314, the Order, and other applicable state statutes and (ii) pursuant to this Policy. The exclusive authority to invest the assets of the DB Plan includes the power to execute all contracts, agreements, or other such legal documents necessary to effectuate the investment, protection, and management of funds, and the authority to delegate all applicable powers and duties, including the powers and authorities conferred upon the CIO under this Policy, to BOI staff, pursuant to all applicable laws and this Policy.

- A. Pursuant to the Order, the job specification as set by the Michigan Civil Service Commission (the “Civil Service”), and this Policy, the CIO serves as the senior executive administrator of the BOI and the chief investment officer of the DB Plan pension funds, reporting directly to the State Treasurer within the Department of Treasury. No other deputy treasurer, senior staff, other employee of the Department of Treasury not employed by the BOI, or employee of any other state agency, unless explicitly stated otherwise under statute or delegated by the Board, shall be authorized as an investment fiduciary over DB Plan funds. The CIO shall be an appointing authority for the BOI and shall develop and implement the goals for the BOI as well as direct all investment and non-investment operations in compliance with statutory requirements, prudent investment principles, Civil Service rules, sound business practices, and this Policy; the CIO may delegate power or authority to the staff of the BOI to effectuate the prudent investment, protection, and management of the DB Plan assets.
- B. Approval from the Board is required for new investments made by (i) REID, PED, ROAD, VCD, IED, and FID in amounts greater than 1% of DB Plan assets, or (ii) DED in amounts greater than 1.5% of DB Plan assets; in each case, such investment shall be measured against the DB Plan’s most recent combined quarter-ending market value of the assets. Approval from the State Treasurer is required for new private market investments in amounts greater than 0.65% of DB Plan assets. The Board’s or State Treasurer’s approval

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<sup>1</sup> DCTA is tasked with overseeing the lineup of the DC Plans in addition to directing the investment activity of this State of Michigan’s non-retirement funds, trusts, and agency funds.

shall not be required for any public market investments being made in a neutrally weighted market index position. Regardless of the investment amount, Board or State Treasurer approval shall not be required for purchases of United States Treasury securities or other such obligations issued, assumed, or guaranteed by the United States, its agencies, or United States government-sponsored enterprises. Investment decisions for amounts which are less than the percentages stated in this paragraph are delegated to the BOI and shall not require Board or State Treasurer approval.

- C. The total value of the securities lending program entered into pursuant to Public Act 314 and Article III, Paragraph B. 9 of this Policy shall not exceed eight percent (8%) of the total market value of the DB Plan's portfolio, unless the Board votes to approve a value that exceeds such percentage limitation.
- D. The BOI is permitted to commit or invest DB Plan assets and is permitted to create legal entities to facilitate a commitment or investment, in public or private market investments through partnerships, limited liability companies, or other legal structures, consistent with Public Act 314, to add return and diversification profiles to the DB Plan portfolio.
- E. For the DB Plan funds, the BOI shall report investment returns and strategy quarterly to the Board for review in conjunction with the Board's quarterly meeting.
- F. Pursuant to the Order, the Board shall approve any recommended changes to the investment options of the DC Plans and review the performance of the investment options of the DC Plans, which shall be incorporated into the Board's quarterly information reports. The Board delegates the authority to create, and amend as conditions necessitate, in consultation with the Michigan Office of Retirement Services, a specific investment policy for the DC Plans to BOI. Individual participants in the DC Plans will continue to have the authority and responsibility to direct contributions, and any accumulated balances in their DC Plan accounts, to any of the investment options offered by the DC Plans.
- G. The CIO, on behalf of and under the direction of the Board, shall do the following for the DB Plan:
  - 1. Conduct, or cause to be conducted, asset liability studies approximately every two years for the DB Plan component units and present study results to the Board for discussion of asset allocation changes, if any.
  - 2. Review the fund's long-term asset allocation targets and ranges, which are approved by the Board in a separate document from this Policy (the "Asset Allocation Strategy"), approximately every two years. Tactical shifts in allocations, but within the approved ranges, may be the result of short-term market fluctuations or due to identified market opportunities. Any material tactical shift shall be reported to the Board at its next quarterly meeting. An Asset Allocation Strategy remains in effect until a new strategy can be approved by the Board, including if the Board determined no changes should be made following a review. However, if changes are deemed prudent following an asset allocation review, a revised Asset Allocation Strategy shall be implemented upon the Board's approval. If market or other conditions result

in the DB Plan's asset allocation to fall outside of the ranges approved by the Board, the BOI is not required to immediately bring the allocations within the target ranges; rather, the BOI shall (i) continue to prudently manage the assets in light of the then-current circumstances, and (ii) present the current asset allocation to the Board for its review and discussion at the next scheduled public meeting and, if instructed by the Board, endeavor to prudently bring the allocation within the approved target ranges within a reasonable period of time.

3. By means of this Policy and any updates hereto, establish delegation of authority and investment responsibility to the BOI for the proper investment, protection, and management of the DB Plan assets.

H. Pursuant to the Order and this Policy, the BOI shall be exclusively responsible to:

1. Collect the principal and interest or other income and dividends of investments when due and payable and pay the principal and interest or other income and dividends, when so collected, into the appropriate fund as directed by the applicable Authorizing Statutes.
2. Account for all principal, interest, other income and dividends, and expenses of and related to investment of the DB Plan's assets and other funds that the Board invests;
3. Negotiate with, select, and retain: investment managers and service providers; portfolio systems services; consultants; investment information resources; and any other sources of expertise, research, or services necessary to conduct investment activities, protect the assets of the DB Plan, or to otherwise support the management of assets of the DB Plan, in accordance with applicable state law, prudent business practices, and this Policy.
4. Exercise any shareholder or other voting rights arising from an investment.
5. Perform necessary due diligence to source new investment opportunities and monitor existing investments, which may include on-site meetings with current or potential investment managers and investment funds, on-site inspection of physical assets, or on-site investor meetings necessary for the proper management of the assets of the DB Plan.
6. Take any other authorized action pursuant to the Order, the Authorizing Statutes, and other applicable law.

### **III. BOI Mission Statement, General Objectives and Policies**

The Mission Statement outlines the purpose and guiding values adopted by the BOI. The general objectives detailed below define the specific goals to be achieved through the management of the assets that are subject to this Policy. General policies provide guidelines for the Board or the BOI, as fiduciaries, to follow in meeting the general objectives.

#### **A. Mission Statement**

The BOI continually strives to provide quality investment management services, broad professional expertise, and independent advice to the State of Michigan Investment Board as fiduciary of the State of Michigan Retirement Systems. Independent of the Board, on behalf of the State Treasurer, the BOI also provides investment management services to various Michigan trust funds and the State's common cash.

## B. General Objectives

1. DB Plan: The overall objective of the DB Plan is to provide retirement, survivor, and disability benefits to its members through the investment of contributions and other DB Plan assets.
  - i. This objective will be attained by following the below goals:
    - (a) Maintaining sufficient liquidity to pay benefits.
    - (b) Meeting or exceeding the actuarial assumption over the long term.
    - (c) Performing in the top half of the public plan universe over the long term.
    - (d) Diversifying assets to reduce risk.
    - (e) Exceeding individual asset class benchmarks over the long term.
  - ii. The primary investment objective for the DB Plan funds is to earn the approved actuarial rate of return on the total investment portfolio over the long term, consistent with a high degree of prudence and sufficient diversity to reduce risk and to meet the actuarial assumption for the investment rate of return, at a reasonable cost. Subject to the standards discussed in C.2. below, it is understood that to meet the return objective of the fund, investment and equity market risks must be assumed – which in the short term can vary significantly.

## C. General Policies

1. All transactions undertaken on behalf of the DB Plan shall be for the sole benefit of plan participants.
2. All BOI personnel involved in the investment process, the Board and external investment service providers shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, in accordance with Public Act 314, this Policy and any applicable contract.
3. All BOI personnel involved in the investment process, the Board and external investment service providers shall refrain from personal business activity that conflicts with the proper execution and management of the investment program, or that impair their ability to make impartial decisions. These parties are required to reveal all relationships that could create a conflict of interest in their unbiased involvement in the investment process.

4. Investments shall be made without distinction between return generated from income as opposed to capital gains. Diversification, need for liquidity, and the potential for gain and loss will be monitored on an on-going basis.
5. Professional investment management firms, which are registered investment advisors, or which are appropriately exempt from registration under the Investment Advisers Act of 1940, may be retained to assist in managing the assets of the DB Plan. Investments shall be sufficiently diversified to reduce the risk of material losses from a single investment relative to the size of a particular fund. Each external investment manager will function under an Investment Management Agreement (“IMA”) that delineates responsibilities and appropriate performance expectations. Investment guidelines and administrative requirements for management of each portfolio is to be provided to each external manager. BOI investment personnel will review the investment returns of these external managers against stated objectives on a regular basis. Individual external managers will be judged according to benchmarks which reflect the objectives and characteristics of the strategic roles their portfolios are to fulfill as outlined in the applicable IMA. External investment managers are retained to exercise a certain level of discretion over investments, however, any action must be taken in accordance with fiduciary duties, state law, this Policy, and the IMA.
6. The BOI, in accordance with this Policy, will allocate contributions within the component units of the DB Plan on an on-going basis to balance the overall asset allocation against targets when deviations occur because of capital market fluctuations. Such allocations may be made even if contributions to managers or asset classes have recently experienced poor performance, if investment personnel believe the future outlook to be favorable. If such poor performance is the result of an occurrence other than expected market-related volatility, then a reassessment of that investment shall be undertaken.
7. The BOI may utilize the services of an investment consultant(s) for, among other things, performance review, asset allocation studies, asset liability studies, risk budgeting, manager screening and selection, educational materials, white papers and any other relevant topical studies. The comments and recommendations of the consultant will be considered by the Board or the BOI in conjunction with other available information for the purpose of making an informed and prudent decision.
8. The BOI will utilize the services of a master custodian bank that will be responsible for the general custody and holding of the DB Plan assets. The BOI may contract with such master custodian bank to deliver related services and products in support of this custodial relationship.
9. The BOI may retain the services of a securities lending provider to generate additional return for the DB Plan at acceptable levels of risk. The program will be administered in accordance with the securities lending policy negotiated with the provider.

10. It is the responsibility of the BOI to administer the investments of the DB Plan at reasonable industry standard cost, being careful to avoid sacrificing quality and opportunity for gain. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs, incentive fees, carried interest, and other administrative costs chargeable to the DB Plan.
11. The Board shall be required to approve any investment, or any action pursuant to an investment, which is outside of the scope of this Policy, but which otherwise conforms with all applicable laws.
12. The Board and the BOI will operate investments of the DB Plan in compliance with all applicable state and federal, laws and regulations concerning the investment of pension assets.

#### **IV. Investment Return Objectives**

The investment returns of the fund will be measured against objectives for the total DB Plan and component units and against objectives for individual portfolio components (the “Benchmarks”). The CIO may recommend changes in the Benchmarks to the Board, which will take effect only upon approval by the Board. Investment returns shall be measured against these targets no less than quarterly. Due to the nature of capital markets fluctuations and given the duration of the liability stream, the investment return relative to objectives and goals is to be judged over a period of a market cycle as well as standard annualized periods of three, five, seven, and ten years. Consistent with the DB Plan’s investment time horizons, long-term results carry greater weight.<sup>2</sup>

- |                           |  |
|---------------------------|--|
| A. <u>DB Plan Total</u>   | Exceed the actuarial assumed rate of return.   |
|                           | Exceed the calculated Total Plan Policy Benchmark rate of return. <sup>3</sup>   |
|                           | Rank above median in a public pension plan universe greater than \$10 billion.   |
| B. <u>Domestic Equity</u> | Exceed the total return of the S&P Composite 1500 index net of fees for three, five, seven, and ten-year periods and a market cycle. |
|                           | Rank above median in a public plan universe of domestic equity investments.  |
|                           | Rank above median in a universe of managers possessing a similar market cap and style characteristics.                               |

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<sup>2</sup> Peer universes may only be available for these comparisons on a gross-of-fees basis and should be considered when evaluating returns. In addition, benchmark and peer data may change from time to time as markets/industries evolve.

<sup>3</sup> As described in the Quarterly Investment Review Report.

- C. Fixed Income Exceed the Bloomberg Barclays U.S. Aggregate Index, net of fees for three, five, seven, and ten-year periods and a market cycle.
- Rank above median in a public plan universe of fixed income investments.
- Rank above median in a nationally recognized universe of managers possessing a similar duration and credit exposure.
- D. International Equity Exceed the total return of the MSCI ACWI ex USA Index net of fees for three, five, seven, and ten-year periods and a market cycle.
- Rank above median in a public plan universe of non-U.S. equity investments.
- Rank above median in a universe of managers possessing a similar market capitalization, style, and geography characteristics.
- E. Private Equity and Venture Capital Exceed the S&P 500 index by 300 basis points net of fees lagged by three months over three, five, seven, and ten-year periods and a market cycle.
- Rank above median in a public plan universe of private equity investments.
- F. Real Return Exceed the rate of inflation, as measured by the United States Consumer Price Index (CPI), by 400 basis points annually net of fees over three, five, seven, and ten-year periods and a market cycle.
- If available, rank above median in a nationally recognized universe of managers possessing a similar style.
- G. Opportunistic Exceed the actuarial rate of return.
- H. Absolute Return Exceed U.S. T-bills by 400 basis points net of fees over a market cycle.
- Exceed the appropriate HFN Fund of Funds Aggregate Index median net of fees over three, five, seven, and ten-year periods and a market cycle.
- If available, rank above median in a public plan universe of hedge fund investments.
- I. Real Estate & Infrastructure Exceed the NCREIF Property Index over the three, five, seven, and ten-year periods and a market cycle, less 130 basis points.

Meet or exceed the NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE) over three, five, seven, and ten-year periods and a market cycle.

If available, rank above median in a public plan universe of real estate investments.

## **V. General Investment Manager Guidelines and Requirements**

- A. Purchases and sales, security selection, and portfolio implementation of investment strategies may be delegated to the discretion of external investment manager (“Investment Managers”), subject to compliance with DB Plan investment policies, individual contracts, and Public Act 314. If a commingled vehicle or mutual fund is utilized, the investment policies of that fund shall be considered the operative policy document.
- B. Purchases of any securities or execution of any transaction not authorized by Public Act 314 are prohibited.
- C. Transactions shall be executed at a reasonable cost, taking into consideration prevailing market conditions and services and research provided by the executing broker.
- D. All Investment Managers shall comply with reporting requirements imposed by Public Act 314 or through IMAs and side letters.
- E. All BOI investment personnel and Department of Technology, Management and Budget (“DTMB”) employees who are subject to the BOI’s Investment Personnel Supplemental Code of Ethics and Standards of Conduct shall annually affirm adherence to Public Act 314; the Standards of Conduct for Public Officers and Employees Act, 1973 PA 196; Michigan Civil Service Rules governing gifts, disclosure, and travel; CFA Institute Code of Ethics and Standards of Professional Conduct; the Michigan Department of Treasury Policy on Ethical Conduct and Supplemental Employment; and the BOI Investment Personnel Supplemental Code of Ethics and Standards of Conduct; the BOI Prohibition of Insider Trading Policy and corresponding Frequently Asked Questions.
- F. Investment Managers and investment service providers must comply with federal and state Pay-to-Play Rules placing limits on political contributions made to governmental officials who could influence the hiring of a service provider to either the DB Plan or DC Plans. Prior to becoming a service provider, Investment Managers shall certify that no political contributions that exceed prescribed limitations pursuant to Section 13e of Public Act 314, the federal pay-to-play rule as described in 17 CFR 275.206(4)-5, and the Order have been made to a governmental official who could influence the hiring of a service provider to either the DB Plan or DC Plans and shall agree to inform the State Treasurer if the statement should no longer be accurate.
- G. All Investment Managers will be expected to provide the BOI, the custodian, and their investment consultant, on a timely basis each quarter, such data as is required for proper monitoring.
- H. The direct use of index futures, puts, options, calls, swaps or other types of derivatives, in accordance with Public Act 314 and on a fully collateralized basis, are permitted. Use of

these derivatives may be used for purposes of diversification, protecting DB Plan assets, enhancing returns in a prudent manner, or capturing cost efficiencies. However, derivatives shall not be used to materially increase volatility of the DB Plan investment portfolio. Direct derivative investments where the net of all positions, long and short, divided by total portfolio assets available to invest exceeds one percent (1%) are not permitted.

- I. The REID portfolio may (through various legal structures) invest in properties located inside or outside of the United States through standard industry legal structures. No property may be purchased directly in fee simple.
- J. Investment return objectives are to be met on a net-of-fees basis.
- K. Investment Managers must comply with state laws – including, Public Act 314 and the Divestment from Terror Act, 2008 Public Act 234 (“Public Act 234”) – prohibiting the Board from investing public monies in companies engaged in active business operations in countries designated as a state sponsor of terror by the United States Department of State. The BOI will provide Investment Managers with a list of prohibited companies each quarter. Investment Managers must refrain from acquiring securities in companies that appear on the lists and divest from such companies if directed by the BOI.

## **VI. Other Policies**

The BOI is delegated the responsibility to develop and maintain policy documents that detail the actions and procedures that will implement the below applicable general policy guidelines:

### **A. Prohibition of Insider Trading Policy**

Buying or selling securities while aware of material non-public (“inside”) information concerning the issuer of the securities, or improperly disclosing to others such inside information, may constitute fraud under federal and state securities laws and a violation of other legal and regulatory requirements. Inside information also includes information that any BOI investment personnel, or DTMB affiliate, may have concerning DB Plan securities positions or trading activity.

The BOI has a Prohibition of Insider Trading Policy that is maintained by the CIO in conjunction with the BOI’s Chief Compliance Officer and General Counsel (“CCO”). This policy provides a process for guarding against violations of state, federal, and foreign securities laws that prohibit insider trading. To this end, the BOI maintains and regularly updates a list of securities that BOI investment personnel and DTMB affiliates may not personally trade because the BOI has identified the securities as inside information. The securities identified as such are listed as restricted in the BOI’s Personal Trade Approval System (“PTAS”). Before any BOI personnel can execute trades for their personal accounts, including those of household members and accounts over which the individual exercises investment discretion, the PTAS must be consulted to see if the security is restricted. This process is intended to prevent misuse of inside information. All personal trades must be disclosed quarterly to the BOI’s CCO. The policy institutes safeguards designed to prevent the sharing of inside information between public and private market investment division investment personnel. All internal portfolios will be managed in compliance with the BOI Prohibition of Insider Trading Policy.

## B. Ethics Policy

BOI personnel and DTMB affiliates are held to the highest ethical standards and must comply with a number of directives aimed at ensuring integrity at the BOI. All BOI personnel and DTMB affiliates must conduct themselves in a way that promotes public confidence in the BOI and the State Treasurer. The BOI fulfills this directive by following and adhering to ethical guidelines established by the following sources: Public Act 314; Standard of Conduct for Public Officers and Employees; Michigan Civil Service Rules; CFA Institute Code of Ethics and Standards of Professional Conduct; and the BOI Prohibition of Insider Trading Policy. Each year, all BOI personnel and DTMB affiliates must affirm adherence to these policies, statutes, guidelines, and directives by signing an annual affirmation. Violations, or suspected violations, of any of these policies, statutes, guidelines, or directives must be immediately reported to the Deputy Chief Investment Officer or Chief Compliance Officer.

## C. Proxy Voting Policy

Given the Board and BOI's long-term investment horizon, active voting of proxies is an integral part of meeting investment goals. Active voting also serves the interests of members of the DB Plan by advancing strong corporate governance and ensures that companies held as investments remain viable over the long-term. To support these activities, a Proxy Voting Policy shall be developed and maintained by the CIO in conjunction with the CCO. The BOI is delegated all necessary power and authority to effectuate the policy, including the power to appoint a proxy voting agent to vote proxies in accordance with the Proxy Voting Policy or other applicable policy.

In accordance with the Proxy Voting Policy, the BOI will timely vote proxies in all shareholder meetings where the DB Plan is a shareholder and entitled to vote. The Proxy Voting Policy shall be periodically reviewed and revised as needed to reflect changes in state law and best practices in corporate governance. The proxy voting agent shall vote all shareholder ballots in accordance with the Proxy Voting Policy. However, the BOI shall retain the authority to manually vote any proxies dependent on the facts and circumstances surrounding any particular shareholder vote.

## D. Securities Litigation Policy

Securities litigation shall be used to recover money when the DB Plan has realized damages or other losses due to securities fraud. The Board views securities claims as assets of the DB Plan, which shall be managed with the goal of maximizing total recovery. These objectives shall be fulfilled by (i) actively monitoring securities litigation, (ii) evaluating and identifying potential cases, (iii) monitoring proof of claim filing deadlines, (iv) ensuring that proofs of claim are timely filed, and (v) managing costs so as to reflect the level of service being provided to the BOI. These objectives will be documented in a separate Securities Litigation Policy (the "Securities Litigation Policy"). The Securities Litigation Policy, and any updates thereto, shall take effect upon the signature of the CIO and CCO.

In nearly all cases where it is eligible under applicable securities laws, the Board will participate in all securities class actions as a passive member of a filing class. Notwithstanding this general approach, the Board may analyze whether to opt-out of class actions and seek a direct or derivative action or seek lead plaintiff status in any securities litigation matter where the DB Plan's stock position is greater than an index position and where the DB Plan's potential recoverable damages exceed \$35 million. In these instances, the BOI will work with an independent securities litigation consultant (an "Evaluation Consultant") to analyze and evaluate the merits of the case. Opt-out, derivative, lead plaintiff, or other direct action shall be sought only upon a recommendation of the Evaluation Consultant and the approval of the Board of such recommendation at a public meeting. All action taken with respect to securities litigation shall be done in accordance with the Order and the Securities Litigation Policy.

E. Divestment Policy

Public Act 314 and Public Act 234 require that the Board quarterly review DB Plan internal and external holdings to ensure no public monies are invested in companies engaged in active business operations in any country that is designated as a "State Sponsor of Terror" by the United States Department of State.

BOI personnel, with assistance from a divestment screening vendor, will monitor DB Plan investment portfolios for compliance with state divestment statutes that prohibit ownership of securities in companies with active business operations in state sponsors of terror (collectively, all such divestment statutes, the "Divestment Acts"). When appropriate, and in accordance with applicable law, the BOI will (i) engage those companies that are found to violate the terms of the Divestment Acts and (ii) take necessary responsive actions in order to allow the BOI to comply with the Divestment Acts. If engagement is not successful, then the DB Plan must divest its holdings in the company in accordance with the applicable statutory divestment schedule.

F. Indemnification Policy

A member of the Board, the State Treasurer, or an officer, appointee, or employee of the BOI shall not be subject to personal liability when acting in good faith within the scope of his or her authority, or on account of liability of the Board. A member of the Board is indemnified against liability arising out of any action taken in good faith and within the scope of his or her official duties under this policy. The State Treasurer or an officer, appointee, or employee of the BOI is indemnified against personal liability for actions taken in connection with the discharge of his or her official duties, but only to the extent that (i) such actions are lawful, duly authorized, and taken in good faith, (ii) within the scope of that individual's official duties, and (iii) such individual is not subject to, or otherwise covered by, governmental immunity under any applicable law.

G. Socially-Driven Investment

The Board relies on Public Act 314 as the source of its investment authority and direction with respect to categories of investments. Historically, the Michigan Legislature has determined which social constructs ("ESG"), from a public policy standpoint, warrant

changing or directing investment activities involving Michigan public plan assets, including those of the DB Plan; see, e.g., Public Act 234; Section 13a of Public Act 314; Section 13c of Public Act 314; and Section 13d of Public Act 314. The Board shall follow all ESG directives set by the Michigan Legislature.

## **VII. BOI Travel Authorization**

- A. All BOI personnel travel is required to be for the purposes of investment monitoring, due diligence, or for educational purposes. These purposes are consistent with the obligations of an investment fiduciary and align with the objective to increase state restricted revenues by maximizing investment returns for the DB Plan.
- B. Travel expenditures for BOI personnel must stay within annual budget allocations for each fiscal year. All BOI travel shall comply with Treasury, DTMB, and Civil Service travel policies and guidelines, and where applicable, investment management and partnership agreements.
- C. The CIO or BOI senior management staff shall review and approve all BOI travel requests. The CIO's travel and expense reimbursement requests shall be reviewed and approved by the State Treasurer or other designated Department of Treasury staff, which may be approved via email.
- D. Treasury Form 1941, or other applicable form(s), will be completed and maintained by the BOI for out-of-state travel requests, in accordance with Treasury's or the State's record retention policy.
- E. Members of the Board shall not individually meet with any manager, broker, consultant, investment manager, or other provider of investment related services that has, or reasonably may be in a position to have, business with the Board for the purpose of discussing matters related to official Board business without approval of a majority of members of the Board. However, the State Treasurer, as chairperson, shall be permitted to meet with service providers or potential service providers.

## **VIII. Conduct of Public Meetings**

- A. Consistent with the Order, all Board meetings and decisions of the Board shall be conducted in compliance with the Open Meetings Act, 1976 Public Act 267. The State Treasurer, as chairperson, shall chair the meetings. If the State Treasurer attends a meeting of the Board through electronic means or is unable to attend a meeting, the State Treasurer shall appoint, from the members physically present at such meeting, a member of the Board to serve as chairperson of that meeting only.
- B. At the conclusion of each meeting, time shall be reserved for public comment from members of the public who wish to speak. Any such individuals shall be asked to identify themselves before speaking during the public comment section of the meeting.
- C. Unless waived by the chairperson, individual members of the public shall have a limit of five (5) minutes to speak during the public comment section of the meeting. In the event

multiple individuals from a group are present to speak, the chairperson may ask one individual to speak on behalf of the group.

**IX. Public Posting of Investment Policy Statement**

This Policy shall be made available to the public via the BOI page on the Department of Treasury website.

Approved and implemented by official resolution of the Board:

By: \_\_\_\_\_  
Nick A. Khouri, State Treasurer of the State of Michigan  
as Chair of State of Michigan Investment Board and  
Appointing Authority, Michigan Department of Treasury

Date: \_\_\_\_\_

State of Michigan Retirement Systems

# CODE OF ETHICS

State of Michigan Investment Board Special Meeting  
November 27, 2018



Jon M. Braeutigam  
Chief Investment Officer  
Bureau of Investments

**STATE OF MICHIGAN INVESTMENT BOARD**  
**RESOLUTION AUTHORIZING ETHICS POLICY**

**Resolution 2018-2**

WHEREAS, pursuant to Executive Order 2018-10 (the “Order”), the State of Michigan Investment Board (the “Board”) is required to adopt an Ethics Policy applicable to the Board and its members (the “Members”)

WHEREAS, the Ethics Policy shall serve to define the ethical and behavioral guidelines within which all Members are expected to conduct themselves while serving as members of the Board; and

WHEREAS, each Member is required by the Order to certify that he or she has received, reviewed and understands the requirements of the Ethics Policy.

NOW, THEREFORE, BE IT RESOLVED, the Board determines that, in furtherance of its duties and obligations, it hereby adopts the Ethics Policy attached hereto as Exhibit A;

BE IT FURTHER RESOLVED, that each Member, in accordance with the Order, shall certify as to their receipt of and continuing adherence to the Ethics Policy; and

BE IT FURTHER RESOLVED, that the Board directs the Bureau of Investments to post the Ethics Policy and each Member’s certification to the Department of Treasury’s website.

Ayes:

Nays:

Recused:

East Lansing, Michigan

November 27, 2018

# STATE OF MICHIGAN INVESTMENT BOARD MEMBER ETHICS RULES AND POLICY

Adopted by the State of Michigan Investment Board

*November 27, 2018*

## **I. PURPOSE**

The State of Michigan Investment Board (the “Board”) serves as the fiduciary over the assets of the State of Michigan Retirement System (“SMRS”), holding ultimate responsibility for managing and investing its assets. Each appointee to the Board (a “Member”) must uphold the fiduciary duties expected of a retirement board member, meeting all attendant legal, ethical, and moral obligations while holding the interests of the members of the retirement system above all else. The concepts and rules discussed in this Member Ethics Rules and Policy (the “Ethics Policy”) will direct the manner in which each Member shall conduct themselves in order to fulfill their duties pursuant to the Public Employee Retirement System Investment Act, 1965 Public Act 314 and Executive Order 2018-10 (the “Order”).

## **II. ETHICS AND STANDARDS OF CONDUCT**

1. Members’ loyalty must be to the participants and beneficiaries of SMRS and not to the source of their appointment. In doing so, Members shall use proper care, due diligence, and exercise independent professional judgment.
2. All participants and beneficiaries of SMRS are to be treated equally and fairly. A Member’s duty is to the participants and beneficiaries of SMRS as a group, and not to industry firms, individuals, groups of individuals, or a Member’s employer. Members must discharge their duties solely in the interest of the participants and beneficiaries of SMRS. Investment decisions are to be guided by the purpose of providing benefits to the participants and beneficiaries of SMRS.
3. Members shall meet the prudence standard in the discharge of their duties, meaning that each will act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims.
4. Members must avoid all conflicts of interest with respect to their fiduciary responsibilities. A conflict of interest is understood to be a situation where a relationship exists that could diminish independence of judgment in the performance of all duties as a fiduciary over retirement system assets.
  - a. There must be no self-dealing or conduct of any private business or personal services between any Member, SMRS, the Michigan Department of Treasury’s Bureau of Investments (“BOI”) or BOI employees.
  - b. No Member shall receive any gain or profit from any funds or transaction of

SMRS, except benefits from an interest in investments common to all members, if entitled thereto.

- c. Members shall not use their positions to unduly influence the Board, the SMRS, the BOI, or its employees, in order to obtain employment at the BOI for themselves, family members, or close associates. In furtherance of this prohibition, and pursuant to the Order, a Board member and their immediately family member shall not:
  - i. be or become employed by a service provider to the SMRS or the BOI;
  - ii. endorse, oblige, or provide surety, for any money loaned to or borrowed from the SMRS; or
  - iii. borrow any of the money or other assets of the SMRS.
- d. Members shall disclose in writing (i) any outside business or financial interest that creates a conflict with respect to the impartial discharge of such Member's official responsibilities and duties, or (ii) any circumstance which would result in such Member being in violation of this Ethics Policy, the Order, or their official responsibilities or duties.
- e. No cash, cash equivalents, or securities of any value may ever be accepted.
- f. Members must make a timely, full, and fair disclosure to the Board of all matters that may impair their independence and objectivity or interfere with their respective duties to the SMRS. This includes, but is not limited to, a duty to disclose any contacts or requests made by third parties, whether acted upon or not, that were designed or may appear to influence the individual Members' obligations under this Ethics Policy.
- g. No Member shall accept any unsolicited gift, favor, or business or solicit or arrange for receipt of any such gift, favor, or business, for themselves or for any other person from any actual, prospective, or potential service provider of any kind to the SMRS.
  - i. No Board member shall accept or receive any gift or favor through an intermediary, if he or she knows, or has reason to know, that the gift has originated from a source that would make the gift prohibited under this Ethics Policy.
  - ii. Any gift, the receipt of which is prohibited by this Ethics Policy, shall be returned to its source immediately and reported to the Board.
- 5. Members have an obligation and duty to be knowledgeable of and understand their obligations with respect to applicable state and federal laws, rules, regulations, expectations and other matters relating to their duties so that they continually work

- towards the SMRS' objectives.
6. Members shall be automatically removed from the Board for any of the following:
    - a. The Member has been indicted or charged with, convicted of, pleaded guilty or nolo contendere to, or forfeited bail concerning a felony, or a misdemeanor involving fraud, theft, or dishonesty under the laws of any jurisdiction in the United States;
    - b. The individual has had a judgment entered against him or her by a court of competent jurisdiction in a civil matter involving a breach of fiduciary duties; or
    - c. The individual has been the subject of an adverse action by the Securities and Exchange Commission which resulted in any settlement, sanction, payment of a fine, injunction, or other negative finding, whether individually, or as a partner, principal member, managing director, or other position of leadership of any entity subject to such penalty or finding.
  7. Members shall conduct themselves with integrity and act in a professional and ethical manner. Members shall maintain the high ethical and moral character, both professionally and personally, such that their conduct shall not reflect negatively upon the Board, the SMRS or its participants, or the BOI.
  8. Members shall not give, disclose, or provide access to any confidential information owned, obtained, or developed by the Board, the SMRS, the BOI or employees of the BOI.
  9. Members shall avoid breaches of their duty (through negligence or intentional action or omission), unauthorized communications with individuals seeking to influence the Board, and unauthorized communications with individuals who may receive personal gains as a result of Board actions.
  10. Members recognize that all SMRS business transactions are to be based on integrity, competence, and financial merit and benefit to SMRS participants and beneficiaries, and not on personal relationships.
  11. Members shall not use their positions to influence SMRS, the BOI, or BOI employees to obtain business for their employer, themselves, immediate family members, or close associates, either directly or indirectly.
  12. No individual Member shall use undue influence or give orders to the State Treasurer, as chairperson of the Board, or any BOI employee. This does not prohibit an individual Board member from offering his or her opinion, based upon his or her expertise and/or experience.
    - a. Members' interaction with the State Treasurer or BOI employees must recognize the lack of authority in any individual Board member or group of Members not constituting a quorum.

- b. Members' interaction with the public, industry representatives, press, or other entities must recognize and acknowledge the same limitations in this section and the similar inability of any Board member to speak independently for the Board, the SMRS, or the BOI or its employees.
13. Members shall not individually meet with any manager, broker, consultant, investment manager, or other provider of investment related services that has, or reasonably may be in a position to have, business with the Board or the BOI for the purpose of discussing matters related to official Board or BOI business without approval of a majority of members of the Board. However, the State Treasurer, as chairperson, shall be permitted to meet with service providers or potential service providers.
14. Members shall not breach the confidential nature of the selection or hiring process of advisors, investment managers, consultants, contractors, or vendors by communicating with any person in the industry or firm who may be under consideration in such a selection or hiring process, prior to the actual selection or hiring of such service provider.
15. A Member shall be considered in direct breach of their duties and this Ethics Policy if that member participates in a breach of this Ethics Policy with another Member, or if a Member aids in the concealment of another Member's breach, or knowingly or negligently permits such a breach to occur.
16. Members agree to maintain compliance with all applicable federal and state rules and regulations related to the investment of funds held by SMRS, including but not limited to reporting requirements and Securities and Exchange Commission Rule 206(4)-5 ("Pay to Play" Prohibitions).
17. Nothing in this Ethics Policy shall excuse any Board member from any other restrictions of state or federal law concerning conflicts of interest and fiduciary duties.
18. No Member, acting in his or her capacity as a member of the Board, may travel individually on behalf of the Board, SMRS, or the BOI or receive any reimbursement by the Board, SMRS, or the BOI for travel-related costs in violation of this Ethics Policy, the Order and other applicable law, or the Investment Policy Statement; provided, however, that Members may receive reasonable reimbursement for all actual necessary travel and expenses incurred to attend official Board meetings. The State Treasurer is permitted to travel, and receive reimbursement for such, only to the extent permitted by the Order and Investment Policy Statement. Members shall not accept any sponsored travel by a current, prospective, or potential service provider of any kind on behalf of the Board, SMRS, or the BOI. "Sponsored travel" means the payment of travel and related expenses by a source other than the Board, SMRS, or the BOI.
19. Any breach of this Ethics Policy may be referred to the Michigan Department of

Attorney General, which may investigate, as necessary, and report its findings to the State Treasurer together with a recommended course of action. Members who are found guilty of a breach of public trust or a violation of this Ethics Policy shall not be able to rely on indemnification provided in the Investment Policy Statement and shall reimburse the Board, SMRS, or the BOI for any costs incurred in association with such breach.

20. All Members will sign an affirmation pledging to uphold this Ethics Policy.

Executed copies of this Ethics Policy shall be posted to the Department of Treasury's website in an effort to promote transparency with the participants and beneficiaries of SMRS.

Approved and implemented by official resolution of the Board.

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Nick A. Khouri, State Treasurer of the State of Michigan,  
as Chairperson of the State of Michigan Investment Board

I, the undersigned Member, certify that I:

- a. have received and reviewed a copy of this Ethics Policy;
- b. fully understand the extent of my duties and obligations to the SMRS; and
- c. shall at all times uphold this Ethics Policy, which failure to do so will result in my removal as a Member.

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Date

State of Michigan Retirement Systems

# TARGET ALLOCATION

State of Michigan Investment Board Special Meeting  
November 27, 2018



Jon M. Braeutigam  
Chief Investment Officer  
Bureau of Investments

**STATE OF MICHIGAN INVESTMENT BOARD**  
**RESOLUTION AUTHORIZING ASSET ALLOCATION STRATEGY**

**Resolution 2018-3**

WHEREAS, the State of Michigan Investment Board (the “Board”) pursuant to Executive Order 2018-10 (the “Order”) and the Investment Policy Statement approved by the Board, is required to approve asset allocation targets and ranges with respect to the investment of the assets of the State of Michigan’s defined benefit retirement systems (the “DB Plans”);

WHEREAS, the Board has reviewed an asset allocation submitted to it by the Department of Treasury’s Bureau of Investments (the “BOI”) and attached hereto as Exhibit A (the “Asset Allocation Strategy”).

NOW, THEREFORE, BE IT RESOLVED, the Board adopts the Asset Allocation Strategy.

Ayes:

Nays:

Recused:

East Lansing, Michigan

November 27, 2018

**State of Michigan Investment Board**  
**Asset Allocation Targets with Ranges**  
**As of 9/30/18**

<i>Asset Class</i>	<i>Weights</i>		<i>Proposed Asset Allocation Ranges</i>
	<i>Actual</i>	<i>Target</i>	
<b>Domestic Equity</b> <i>S&amp;P 1500 Broad Market Index</i>	26.3%	28.0%	20% - 35%
<b>International Equity</b> <i>MSCI ACWI ex USA Index</i>	17.2%	16.0%	15% - 25%
<b>Private Equity</b> <i>S&amp;P 500 + 300 bps</i>	16.4%	18.0%	10% - 20%
<b>Long Term Fixed Income</b> <i>Bloomberg Barclays U.S. Aggregate Index</i>	12.1%	10.5%	10% - 20%
<b>Real Estate &amp; Infrastructure</b> <i>Custom</i>	10.5%	10.0%	5% - 15%
<b>Real Return &amp; Opportunistic</b> <i>Custom</i>	9.1%	9.5%	5% - 15%
<b>Absolute Return</b> <i>HFRI FoF Conservative Index</i>	5.9%	6.0%	3% - 9%
<b>Short Term Fixed Income</b> <i>30-Day U.S. T-Bill</i>	2.5%	2.0%	1% - 6%
<b>TOTAL</b>	100.0%	100.0%	100.00%

**Target Allocation:** A recent Aon Portfolio Analysis estimated the Target Allocation to have an expected nominal return of 7.1%, an expected nominal volatility of 13.6%, with an estimated Sharpe Ratio of 0.35. This allocation is estimated to be on or near the efficient frontier curve; thus an efficient use of risk.

**Other Restrictions by Statute:**

- State Sponsors of Terror Divestment
- No more than 5% of SMRS allocated to one single security
- No more than 5% of one single security owned by SMRS

State of Michigan Retirement Systems

# EXECUTIVE ORDER 2018-10

State of Michigan Investment Board Special Meeting  
November 27, 2018



Jon M. Braeutigam  
Chief Investment Officer  
Bureau of Investments



STATE OF MICHIGAN  
EXECUTIVE OFFICE  
LANSING

RICK SNYDER  
GOVERNOR

BRIAN CALLEY  
LT. GOVERNOR

**EXECUTIVE ORDER**

**No. 2018-10**

**DEPARTMENT OF TREASURY**

**CREATION OF THE STATE OF MICHIGAN INVESTMENT BOARD**

**ABOLISHMENT OF THE INVESTMENT ADVISORY COMMITTEE**

**EXECUTIVE REORGANIZATION**

WHEREAS, Article V, Section 1 of the Michigan Constitution of 1963 vests the executive power in the Governor; and

WHEREAS, Article V, Section 2 of the Michigan Constitution of 1963 empowers the Governor to make changes in the organization of the Executive Branch or in the assignment of functions among its units which he considers necessary for efficient administration; and

WHEREAS, Article V, Section 8 of the Michigan Constitution of 1963 provides that each principal department shall be under the supervision of the Governor, unless otherwise provided by the Constitution; and

WHEREAS, there is a continued need to reorganize functions among state departments to ensure efficient administration; and

WHEREAS, Section 91 of the Executive Organization Act of 1965, 1965 PA 380, as amended, MCL 16.191, provides the State Treasurer with investment control over assets of certain public retirement systems in this State and established an investment advisory committee to review and make recommendations to the State Treasurer regarding investments, goals, and objectives of those retirement funds; and

WHEREAS, the State Treasurer is the sole fiduciary of, and has investment authority for, the Michigan Public School Employees' Retirement System, the Michigan State Police Retirement System and the Michigan Judges Retirement System pursuant to the Public School Employees Retirement Act of 1979, 1980 PA 300, as amended, MCL 38.1301 *et seq.*, the State Police Retirement Act of 1986, 1986 PA 182, as

amended, MCL 38.1601 *et seq.*, and the Judges Retirement Act of 1992, 1992 PA 234, as amended, MCL 38.2101 *et seq.*, respectively, and the State Treasurer is the sole custodian of the State Employees' Retirement System, pursuant to the State Employees' Retirement Act, 1943 PA 240, as amended, MCL 38.1 *et seq.*; and

WHEREAS, the State Treasurer is authorized to invest the assets of those retirement systems in accordance with provisions of the Public Employee Retirement System Investment Act, 1965 PA 314, as amended, MCL 38.1132 *et seq.*; and

WHEREAS, the Public Employee Retirement Health Care Funding Act, 2010 PA 77, as amended, MCL 38.2731 *et seq.*, provides that the State Treasurer is the investment fiduciary for the irrevocable trusts that prefund retiree health care benefits for the Tier 1 Plans; and

WHEREAS, the State Treasurer is responsible for the administration and investment of this State's deferred compensation plan under 1976 PA 306, as amended MCL 38.1151; and

WHEREAS, the Public School Employees Retirement Act of 1979, 1980 PA 300, as amended, MCL 38.1301 *et seq.*; the Judges Retirement Act of 1992, 1992 PA 234, as amended, MCL 38.2101 *et seq.*; the State Employees' Retirement Act, 1943 PA 240, as amended, MCL 38.1 *et seq.*; and the Michigan Legislative Retirement System Act, 1957 PA 261, as amended, MCL 38.1001 *et seq.* provide that the State Treasurer is responsible for administering, investing assets, and determining the provisions and procedures of Tier 2 Plans for the Michigan Public School Employees' Retirement System, Michigan Judges Retirement System, State Employees' Retirement System, and the Michigan Legislative Retirement System, respectively; and

WHEREAS, Executive Reorganization Order No. 1996-5, MCL 38.1171, transferred the responsibility for this State's deferred compensation plans to the State Treasurer and Executive Reorganization Order No. 1999-5, MCL 38.2721, transferred certain duties to the Department of Management and Budget while providing the State Treasurer with the responsibility for approving the investment offerings provided in the Tier 2 Plans and this State's deferred compensation plans; and

WHEREAS, it is critical to the best interests of the members of the Retirement System and participating plans that their fiduciaries be held to the highest ethical standards, free of conflicts of interest and political influence; and

WHEREAS, the Investment Advisory Committee, established in 1965, has retained the same structure and governance since its establishment despite the growing

importance that prudent investment plays in providing appropriate funding for retirees and the increasing complexity of investment and financial markets; and

WHEREAS, the creation of the State of Michigan Investment Board will allow the Retirement System to modernize its governance structure to further align with accepted public pension and retirement plan administration best practices to ensure that the assets of the Retirement System are overseen by a fiduciary that is held to the utmost ethical standards, is free of conflicts of interest, operates with discipline, is consistent in its investment strategy and administration, and is able to fulfill its duties to protect the interests of the members of the Retirement System; and

WHEREAS, creating the State of Michigan Investment Board will strengthen fiduciary management and modernize oversight of the Retirement System, thus bolstering accountability and transparency of board members, the fiduciary, and investment staff to the Retirement System.

NOW, THEREFORE, I, Richard D. Snyder, Governor of the state of Michigan, pursuant to the powers vested in me by the Michigan Constitution of 1963 and Michigan law, order the following:

## **I. DEFINITIONS**

As used in this Order:

A. "Act 314" means the Public Employee Retirement System Investment Act, 1965 PA 314, as amended, MCL 38.1132 *et seq.*

B. "Authorizing Statutes" means any public act, resolution, order or agreement which conveys upon the State Treasurer the authority or duty to invest the assets or monies of the Retirement System.

C. "Board" means the State of Michigan Investment Board created in Section II of this Order.

D. "Bureau of Investments" means the bureau within the Department charged with investing the assets of the Retirement System in accordance with Act 314 and the Authorizing Statutes.

E. "Chief Investment Officer" means the individual appointed by the State Treasurer, in consultation with the Board, and shall be part of the classified civil service and manage the day-to-day functions of the Bureau of Investments, including executing investments and delegating authority to execute the proper and efficient investment of funds of this State pursuant to state statutes.

F. "Defined Contribution Plans" or "DC Plans" means the Tier 2 Plans, as defined in this Order, and 457 deferred compensation retirement plans established pursuant to 1976 PA 306, as amended, MCL 38.1151.

G. "Department" means the principal department of state government created as the Department of Treasury by Section 75 of the Executive Organization Act of 1965, 1965 PA 380, MCL 16.175.

H. "Investment Advisory Committee" means the investment advisory committee established pursuant to Section 91 of the Executive Organization Act of 1965, 1965 PA 380, MCL 16.191, as abolished by this Order.

I. "Military Retirement System" means the retirement allowance, pension, or other retirement benefits provided under the Michigan Military Act, 1967 PA 150, as amended, MCL 32.501 *et seq.*, and further governed by Executive Reorganization Order No. 2015-4, MCL 38.1174.

J. "OPEB" means other post-employment benefits, which in this context are the irrevocable trusts that prefund retiree health care benefits for the Tier 1 Plans and in which the State Treasurer is appointed as investment fiduciary pursuant to the Public Employee Retirement Health Care Funding Act, 2010 PA 77, as amended, MCL 38.2731 *et seq.*

K. "Retirement System" means the Tier 1 Plans, Tier 2 Plans, the Military Retirement System, DC Plans, and OPEB, for all of which the State Treasurer is either the fiduciary or has investment authority.

L. "State Budget Director" means the individual appointed by the Governor pursuant to Section 321 of the Management and Budget Act, 1984 PA 431, MCL 18.1321.

M. "State Treasurer" means the individual appointed by the Governor as director of the Department.

N. "Tier 1 Plans" means the defined benefit retirement plans of the Michigan Public School Employees' Retirement System created by the Public School Employees Retirement Act of 1979, 1980 PA 300, as amended, MCL 38.1301 *et seq.*, the State Employees' Retirement System created by the State Employees' Retirement Act, 1943 PA 240, as amended, MCL 38.1 *et seq.*, the Michigan State Police Retirement System, created by the State Police Retirement Act of 1986, 1986 PA 182, as amended, MCL 38.1601 *et seq.*, and the Michigan Judges Retirement System created by the Judges Retirement Act of 1992, 1992 PA 234, as amended, MCL 38.2101 *et seq.*

O. "Tier 2 Plans" means the Tier 2 retirement plans established pursuant to section 401(k) or section 457 of the Internal Revenue Code, and provided for in applicable portions of the Michigan Public School Employees' Retirement System under the Public School Employees Retirement Act of 1979, 1980 PA 300, as amended, MCL 38.1301 *et seq.*, the Michigan Judges Retirement System under the Judges Retirement Act of 1992, 1992 PA 234, as amended, MCL 38.2101 *et seq.*, the State Employees' Retirement System under the State Employees' Retirement Act, 1943 PA 240, as amended, MCL 38.1 *et seq.*, the Michigan Legislative Retirement System under the Michigan Legislative Retirement System Act, 1957 PA 261, as amended, MCL 38.1001 *et seq.*, and on behalf of other eligible state or local entities or authorities as provided for by current and subsequent state law, and for which the State Treasurer has the responsibility of investing assets of and determining the provisions and procedures.

## II. CREATION OF THE STATE OF MICHIGAN INVESTMENT BOARD

A. The State of Michigan Investment Board is created within the Department. The Board shall be the investment fiduciary with respect to the investment and function of the Retirement System for which the State Treasurer currently has fiduciary responsibilities or investment authority. All statutory powers, duties, functions, and responsibilities of the State Treasurer created under Act 314 or the Authorizing Statutes are transferred to the Board. All statutory powers, duties, functions, and responsibilities of the Investment Advisory Committee created under Section 91 of 1965 PA 380, MCL 16.191, are transferred to the Board. The Investment Advisory Committee is abolished.

B. The Board consists of the following five individuals:

1. The State Treasurer, who shall serve without designee and shall serve as the Board's chairperson.
2. The State Budget Director who shall serve without designee.
3. Three individuals appointed by the Governor who shall have knowledge or experience in securities investment, pension administration, or pension law, past or current fiduciary oversight experience of investment pools similar to the Retirement System, or extensive professional financial knowledge and experience. An individual appointed to serve on the Board, or such individual's spouse or other immediate family-member, shall not be employed by or otherwise receive compensation directly or indirectly from an entity engaged by the Retirement System or the Bureau of Investments. The appointed members of the Board are subject to all restrictions and limitations with respect to eligibility and appointment described in this Order.

C. The appointed members shall serve a term of four years, except initially, one member shall be appointed to a two-year term, one member shall be appointed to a three-year term, and one member shall be appointed to a four-year term. A member of the Board may be appointed to no more than two consecutive four-year terms, in addition to one partial term. A member may serve until his or her successor is appointed. A member shall not serve more than 10 years.

D. A vacancy in the membership of the Board shall be filled by appointment by the Governor in accordance with this Order for the remainder of the unexpired term. A vacancy automatically occurs by death, resignation, failure of the member to attend three consecutive meetings unless excused by majority vote of the other Board members, or in the event of either a conflict of interest uncured within 30 days or a member's failure to duly execute the ethics policy adopted by the Board.

E. An individual is not eligible for appointment to the Board, and any member currently serving is removed automatically, if any of the following apply to that individual:

1. The individual has been indicted or charged with, convicted of, pleaded guilty or nolo contendere to, or forfeited bail concerning, a felony, or a misdemeanor involving fraud, theft, or dishonesty under the laws of any jurisdiction in the United States;
2. The individual has had a judgment entered against him or her by a court of competent jurisdiction in a civil matter involving a breach of fiduciary duties;
3. The individual has been the subject of an adverse action by the Securities and Exchange Commission which resulted in any settlement, sanction, payment of a fine, injunction, or other negative finding, whether individually, or as a partner, principal member, managing director, or other position of leadership of any entity subject to such penalty or finding;
4. The individual, or their spouse or an immediate family-member, is or becomes employed by a service provider to the Retirement System or Bureau of Investments; or
5. The individual, or their spouse or an immediate family-member: is an endorser or obligor, or provider of surety, for any money loaned to or borrowed from the Retirement System; or, is borrowing any of the money or other assets of the Retirement System.

F. The Board shall conduct its business at public meetings in compliance with the Open Meetings Act, 1976 PA 267, MCL 15.261 *et seq.*

1. Members of the Board may attend and participate in a meeting of the Board using telecommunication or other electronic equipment provided all members of the Board, and the public attending the meeting, are able to hear one another and can communicate effectively and that the members of the Board and the public can actively participate in the open meeting.

2. If the State Treasurer, as chairperson, attends a meeting of the Board through electronic means or is unable to attend a meeting, the State Treasurer shall appoint, from the members physically present at such meeting, a member of the Board to serve as chairperson of that meeting only. This appointment as chairperson shall be limited in scope to allow for the administration of the meeting, surviving only for that particular meeting and terminate immediately upon adjournment.

G. The members of the Board shall serve without compensation but may receive reasonable reimbursement for all actual necessary travel and expenses incurred to attend official Board meetings.

H. The members of the Board shall meet quarterly to:

1. Conduct the official business of the Board, pursuant to its fiduciary duties, Act 314, and this Order;

2. Review investment reports and monitor investment performance;

3. Approve an investment policy statement for the Retirement System, to be signed by the State Treasurer as chairperson, in which the Board delegates appropriate authorities and powers as it deems necessary;

4. As required by this Order, approve the asset allocation targets of the Tier 1 Plans and OPEB approximately every two (2) years; and

5. Review the investment performance of the DC Plans, which information shall be incorporated into the quarterly information.

I. The Board may meet at other times at the request of the State Treasurer as the chairperson of the Board.

J. Members of the Board shall not individually meet with any manager, broker, consultant, investment manager, or other provider of investment related services that has, or reasonably may be in a position to have, business with the Board for the purpose of discussing matters related to official Board business without approval of a majority of members of the Board. However, the State Treasurer, as chairperson, shall be permitted to meet with service providers or potential service providers.

K. Upon approval by the Board, the State Treasurer, as chairperson, may directly or indirectly invest the Retirement System assets.

L. The Board shall approve and adopt a set of ethics rules and code of conduct applicable to its members, with periodic updates to be approved as deemed necessary by the Board, and to be signed by the State Treasurer as chairperson of the Board. The Bureau of Investments' staff shall cause the current approved and adopted ethics rules and code of conduct to be posted to the Bureau of Investments' public website.

M. The Board shall provide each of its members with copies of the Board's ethics rules and code of conduct, current investment policy statement(s), policies and procedures applicable to Board meetings, statutes, administrative rules and expectations governing public meetings in this State, and any other matters that are central to membership on the Board. Each Board member shall, within 14 days of receiving this information, certify and sign an attestation of their receipt and acknowledgement of information presented. The Bureau of Investments' staff shall publish or cause to be published each certification to the Bureau of Investments' public website.

N. When a vacancy occurs in the position of Chief Investment Officer, the State Treasurer, in consultation with the Board, shall appoint a Chief Investment Officer to manage and direct the day-to-day investment and administrative management functions of the Bureau of Investments. The Chief Investment Officer shall be part of the classified civil service.

### **III. ADDITIONAL RESPONSIBILITIES OF BOARD**

A. The Board shall act as the investment fiduciary and custodian of the Retirement System's assets.

B. The Board shall cause the Bureau of Investments to invest, reinvest, assign, reassign, sell, transfer, and manage the investment funds and portfolios of the Retirement System.

C. The Board may solicit proxies in connection with contests for corporate control of corporations in which the Retirement System has made an investment; use nominees to facilitate transfers; and take any other action necessary and prudent in the investment of the Retirement System's assets pursuant to this Order, Act 314, and as may otherwise be authorized under the laws of this State.

D. The Board shall approve any changes to the investment manager lineup of the DC plans based on the recommendation of the Bureau of Investments, working in consultation with the Office of Retirement Services. The Office of Retirement Services shall have the exclusive responsibility to execute or sign any agreement with the DC Plan's investment managers.

E. As it relates to this Order, any authority, duties, and obligations under Act 314 shall be exercised only by the Board.

F. The Board has the exclusive authority, right, duty, or obligation to perform the following:

1. Act in accordance with the fiduciary duties prescribed to the Board as custodian and investment fiduciary of the Retirement System's assets;
2. Cause the investment and reinvestment of the Retirement System's assets, through the Bureau of Investments, in accordance with the provisions and standards of Act 314 and the Authorizing Statutes; and
3. Sue and be sued in its own name and be responsible for instituting or defending against legal proceedings arising out of the investment of the Retirement System's assets.

G. In addition to any other rights, responsibilities, powers, and duties granted by law, the Board shall have the exclusive right to cause the Bureau of Investments to perform the following:

1. Collect the principal and interest or other income and dividends of investments when due and payable, and pay the principal and interest or other income and dividends, when so collected, into the appropriate fund as directed by the applicable Authorizing Statutes;
2. Invest and reinvest the Retirement System's assets in any manner provided for in Act 314 and the Authorizing Statutes;

3. Account for all principal, interest, other income and dividends, and expenses of and related to investment of the Retirement System's assets and other funds that the Board invests;
4. Expend appropriated funds from investment income to support the investment of and accounting for the Retirement System's assets, and for all other support purposes necessary to the activities of the Board; including the payment of professional development and licensing expenses or professional dues for the employees of the Bureau of Investments;
5. Exercise any shareholder or other voting rights arising from an investment;
6. Exercise any other right or action or fulfill any obligations necessary to accomplish the Board's mission or comply with the laws of this State and this Order;
7. Negotiate with, select, and retain: investment managers and service providers; portfolio systems services; consultants; investment information resources; and any other sources of expertise, research, or services necessary to conduct investment activities, protect the assets of the Retirement System, or to otherwise support the management of assets of the Retirement System; and
8. Perform necessary due diligence to source new investment opportunities and monitor existing investments, which may include on-site meetings with current or potential investment managers and investment funds, on-site inspection of physical assets, or on-site investor meetings necessary for the proper management of the assets of the Retirement System.

#### **IV. ADDITIONAL FIDUCIARY RESPONSIBILITIES OF THE BOARD**

A. The Board is authorized to invest and to cause the Bureau of Investments to invest the Retirement System's assets, in accordance with the fiduciary duties pursuant to Act 314, and in accordance with state and federal law, rules, and regulations and any applicable resolution, contract, or memorandum of understanding. The authority to invest the assets of the Retirement System includes the exclusive power to execute all contracts, agreements, or other such legal documents necessary to effectuate the investment of funds or implementation of any portfolio management system, and the authority to delegate all applicable powers and duties to the Bureau of

Investments, as the Board deems necessary, to prudently manage the assets of the Retirement System.

B. The Board is the custodian of the assets of the Military Retirement System and is responsible for investing its assets in accordance with state and federal law.

## **V. ADDITIONAL ADMINISTRATION ISSUES RELATED OF THE BOARD AND BUREAU OF INVESTMENTS**

A. In addition to the limitations contained in Section 13e of Act 314, as amended, MCL 38.1133e, the Board shall be prohibited from paying any fees, including contingency fee arrangements, or any other remuneration, directly or indirectly and whether from the Retirement System's assets or otherwise, to service providers if such service provider or a covered associate of a service provider made a contribution in the immediately preceding 36-calendar-month period to an incumbent or candidate of an elected office within the executive branch or a principal department of this State. The Board may implement this limitation through policies, procedures, or otherwise as it deems appropriate. The terms "service provider" and "covered associate of the service provider" shall have the same meanings afforded to each in MCL 38.1133e.

B. The Tier 1 Plans, the Military Retirement System, and OPEB shall be referred to as the "State of Michigan Retirement System" for purposes of any and all investments, agreements, contracts, certificates, or such other documents entered into in conjunction with any transaction or business, or in connection with the exercise of the Board's powers and authority pursuant to the Authorizing Statutes or this Order. Any and all investments, agreements, contracts, certificates, or such other documents executed under the name "State Treasurer of the State of Michigan, Custodian of the Michigan Public School Employees' Retirement System, State Employees' Retirement System, Michigan State Police Retirement System, and Michigan Judges Retirement System" or other similar name associated with the federal tax identification number 38-2836023 are, or shall remain, duly authorized and in force under such name. Nothing in this section shall be construed to transfer any assets of the Tier 1 Plans, the Military Retirement System, or OPEB to any successor trust or trustee.

C. Bureau of Investment staff shall present information to the Board at its regular quarterly meeting, including updated asset allocation targets and ranges for the Tier 1 Plans and OPEB approximately every two years, contingent upon market, regulatory, legal or other applicable circumstances related to the Retirement System's investable assets. Bureau of Investment staff shall also present information related to the quarterly investment performance of the DC Plans to the Board at its regular quarterly meetings.

**VI. MISCELLANEOUS**

A. All rules, orders, contracts, plans, investments, and agreements relating to the functions transferred by this Order lawfully adopted or executed before the effective date of this Order shall continue to be effective unless and until revised, amended, or rescinded.

B. Any suit, action, or other proceeding lawfully commenced by or against any department identified in Section I of this Order before the effective date of this Order shall not abate by reason of the taking effect of this Order. Any lawfully commenced suit, action, or other proceeding may be maintained by, against, or before the appropriate successor of any entity affected by this Order.

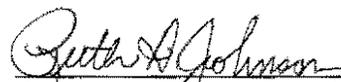
C. The invalidity of any portion of this Order shall not affect the validity of the remainder of the Order, which may be given effect without any invalid portion. Any portion of this Order found invalid by a court or other entity with proper jurisdiction shall be severable from the remaining portions of this Order.

In fulfillment of the requirements of Section 2 of Article V of the Michigan Constitution of 1963, this Order shall be effective 60 days after the filing of this Order.

Given under my hand and the Great Seal of the state of Michigan this 27<sup>th</sup> day of September, in the Year of our Lord Two Thousand Eighteen

  
RICHARD D. SNYDER  
GOVERNOR

BY THE GOVERNOR:

  
SECRETARY OF STATE



FILED WITH SECRETARY OF STATE

ON 9/27/18 AT 10:04 A.M.

# State of Michigan Retirement Systems

## PRESS RELEASE

State of Michigan Investment Board Special Meeting  
November 27, 2018



Jon M. Braeutigam  
Chief Investment Officer  
Bureau of Investments

## Gov. Rick Snyder establishes State of Michigan Investment Board

Thursday, Sept. 27, 2018

LANSING, Mich. – Gov. Rick Snyder today announced the creation of the State of Michigan Investment Board and the abolition of the Investment Advisory Committee.

“Updating our current pension investment system will benefit and protect hundreds of thousands of Michiganders during their retirements,” Snyder said. “By dissolving the Investment Advisory Committee and replacing it with the State of Michigan Investment Board, we are able to ensure Michigan pensions are invested in a more robust way.”

Executive Order 2018-10, signed today by the governor, switches the state pension plan governance structure from a sole fiduciary model to a board model. This will shift fund investment responsibilities from the state treasurer to the State of Michigan Investment Board.

The board will be comprised of the state treasurer, who will serve as the board’s chairperson, the state budget director and three individuals appointed by the governor.

“This is an important step that modernizes our approach to managing the state and teacher retirement funds,” State Treasurer Nick Khouri said. “The new board will provide collective expertise and oversight of the state’s investments to ensure yesterday’s promises are paid in the future.”

EO 2018-10 also does the following:

- Modernizes the old governance model to better suit today’s investment system and ensures the safety and high performance of the investment of more than \$70 billion of Michigan retirement funds.
- Conforms to the governance structure of nearly all other states.
- Establishes experience requirements for board members.
- Addresses potential conflicts of interest.