MEKETA

INVESTMENT GROUP

Employees' Retirement System of the City of Norfolk

Meeting Materials
November 2, 2022

Fund Evaluation Report

Agenda

1. Summary of Asset Allocation Review
2. Revised Investment Policy Statement

Summary of Asset Allocation Review

Background

- → The most important step in portfolio construction is to complete an asset allocation review.
- → As part of this review, we engaged in multiple conversations with the Committee around risk and return tolerance.
- → In October, we presented alternative policy options for their consideration.
- → The following document includes the chosen policy as well as detail on the process and various risk analyses we performed.
- → The goal of any asset allocation review is not to declare one portfolio the "right" choice or the only prudent choice, but to highlight the risk and return tradeoffs of different policy portfolios.

Asset Allocation

What is Asset Allocation?

→ Asset allocation refers to the distribution of assets across a number of asset classes that exhibit different correlations with each other. Each asset class exhibits a unique combination of risk and reward. The expected and realized long-term returns vary by asset class, as does the interim volatility of those returns. Some asset classes, like equities, exhibit high degrees of volatility, but also offer high returns over time. Other asset classes, like cash, experience very little volatility, but offer limited return potential.

Why is Asset Allocation important?

→ The distribution of assets across various asset classes exerts a major influence on the return behavior of the aggregate pool over short and long time periods.

How does Asset Allocation affect aggregate performance?

→ In addition to exhibiting unique characteristics, each asset class interacts differently with other asset classes. Because of low correlations, the likelihood that any two asset classes will move together in the same direction is limited, with the movement of one asset class often offsetting another's. Combining asset classes allows investors to control more fully the aggregate risk and return of their portfolios, and to benefit from the reduction in volatility that stems from diversification.

Asset Allocation Process

→ We begin the asset allocation review process with understanding the System's goals and risk tolerances.

→ We then use mean-variance optimization ("MVO") to model various policy portfolios with the highest risk-adjusted returns.

→ Lastly, we provide various approaches to assessing risk in order to provide a "mosaic" of the risks faced by the System. This includes stressing the portfolios across different market environments and scenarios.

- These risk analyses included:
  - Risk budgeting
  - Historical scenario analysis
  - Stress testing
  - Stochastic liability modeling

→ The proposed policy has a higher return and risk profile and has a better probability of meeting the long-term return assumption than the current portfolio. In addition, it generally outperformed the current policy in all the negative market scenarios.

→ Once the Investment Committee selects a portfolio, we update the Investment Policy Statement to reflect the new targets, ranges and policy benchmark.

  - As a final step, we will transition the portfolio to the new asset allocation and manager roster.

Asset Allocation Policy[1]

	Current (%)	Proposed (%)	Proposed Target Ranges
Growth/Equity	**55**	**57**	**+/- 10%**
Global Equity	55	52	+/- 10%
Private Equity	0	5	+/- 5%
Credit	**0**	**4**	+/- 5%
High Yield Bonds & Bank Loans	0	4	+/- 5%
Emerging Market Bonds	0	0	0-5
Inflation Hedges	**15**	**21**	**+/- 7%**
Short-term TIPS	0	5	+/- 5%
Real Estate	7.5	8	+/- 5%
Natural Resources & Infrastructure	0	5	+/- 5%
Gold[2]	0	3	+/- 3%
MLPs	7.5	0	0-5
Risk Mitigating Strategies	**30**	**18**	**+/- 7%**
Short-term Investment Grade Bonds	0	2	+/- 5%
Investment Grade Bonds	30	8	+/- 5%
Long-term Government Bonds	0	4	+/- 5%
RMS Hedge Funds[3]	0	4	+/- 5%
Expected Return (20 years)	6.6	6.8	
Standard Deviation	12.0	12.5	
Probability of Achieving 6.75% over 20 Years	47.8	50.2	

[1] Expected return and standard deviation are based upon Meketa Investment Group's 2022 Annual Asset Study. Throughout this document, returns for periods longer than one year are annualized.
[2] Gold allocation is 1/3 Miners and 2/3 Gold Bullion
[3] RMS Hedge Funds consists of Trend Following, Long Volatility, and Global Macro.

Investment Manager Lineup

→ As part of the transition to Meketa, we will be utilizing a new manager structure as well. The manager roster is designed to give us flexibility to tactically position the portfolio.

→ The following pages include the tentative lineup and reflects what was presented to the Investment Committee in October.

Growth Assets Manager Lineup

→ Category will do best when the economy is doing well. These assets are seeking to capture future cash flows available through potential future earnings of a company. Generally, this category is considered "high risk", as measured through standard deviation.

→ Core managers generally comprise 80% of the active manager allocations with the remaining 20% used for satellite managers. Passive mandates are used in proportion to the MSCI ACWI.

Functional Category, Asset Class, and Product	Vehicle	Strategy Type	Role	Additional Comments
Growth Assets				
Public Equity				
First Eagle Global Equity	Limited Partnership	Active Global – Value	Core	
AB Global Core	Limited Partnership	Active Global – Core	Core	
Artisan Global Opportunities	Limited Partnership	Active Global – Growth	Core	
ABS China Direct	Limited Partnership	Active Multi- Manager Country Specific	Satellite	Used as a tool to manage China exposure relative to the passive benchmark
ABS EM ex China Direct	Limited Partnership	Active Multi Manager – Emerging Markets ex China	Satellite	
SSgA Russell 1000 Value	Commingled Fund	Index Fund	Satellite	Active decision to add or remove exposure to this fund to maintain balance or tactically overweight "Value"
SSgA Russell 1000 Growth	Commingled Fund	Index Fund	Satellite	Active decision to add or remove exposure to this fund to maintain balance or tactically overweight "Growth"
SSgA Russell 3000	Commingled Fund	Index Fund	-	
SSgA EAFE	Commingled Fund	Index Fund	-	
SSgA Emerging Markets	Commingled Fund	Index Fund	-	
Private Equity	TBD			Private market approach and shall be fulfilled based on available closed end vehicles

Credit Assets Manger Lineup

→ Category tends to generate a higher income stream based on obligation to pay by an issuing entity (e.g. corporate, sovereign, quasi-sovereign).

→ The approach for managers is to maintain 100% active exposure across the lineup. Some illiquidity is taken, but balanced with daily liquid mutual funds.

Functional Category, Asset Class, and Product	Vehicle	Strategy Type	Additional Comments
Credit Assets			
High Yield			
Nomura High Yield	Mutual Fund	Active Global Pan HY	
Sculptor Credit Opportunities	Limited Partnership	Active Global Pan HY and Other	Strategy hedges interest rates and will invest in distressed/post-reorg equity
Bank Loans			
Pacific Bank Loans	Mutual Fund	Floating Rates	

Inflation Assets Manager Lineup

→ The intention is to provide diversification across both equity orientated assets and fixed income-oriented assets. Generally, these assets should perform best during periods of uncertain or persistent inflation.

Functional Category, Asset Class, and Product	Vehicle	Strategy Type	Additional Comments
Inflation Assets			
TIPS			
SSgA TIPS	Commingled Fund	Passive	Investment team utilize both the short- and long-term TIPS programs.
Real Estate			
Morgan Stanley PRIME	Limited Partnership	Active	Queue for a call of capital is 12 to 18 months
Value-Added Real Estate	TBD		Private market approach and shall be fulfilled based on available closed end vehicles
Infrastructure (Core Private)			
JP Morgan Core Infrastructure	Limited Partnership	Active	Queue for a call of capital is 12 to 18 months
Natural Resources and Gold			
First Eagle Gold Fund	Limited Partnership	Active	Fund allocates 60% to Gold Bullion and 40% to gold mining stocks
SSgA S&P Global Natural Resources	Commingled Fund	Passive	

Risk Mitigating Assets Manager Lineup

→ These assets seek to provide benefits in periods of equity market stress (risk mitigating hedge funds) alongside income generating assets with defensive tendencies. A variety of tools are used to provide additional diversification to dynamic market environments.

Functional Category, Asset Class, and Product	Vehicle	Strategy Type	Comments
Risk Mitigating Assets			
Investment Grade Bonds			
SSgA Barclays Aggregate	Commingled Fund	Passive	
Wellington Core Bond	Comingled Fund	Active	Use of Active Barclays Aggregate can be up to 75% of the Barclays Aggregate Target
SSgA Long Duration	Commingled Fund	Passive	Provide protection when investors "seek safety" is UST.
Risk Mitigating Hedge Funds			
36 South Kohinoor Series 3	Limited Partnership	Active 1st Responder	Long volatility pan-asset class
Lombard Odier Bear Convexity	Limited Partnership	Active 1st Responder	Long volatility of credit
BHDG Systematic Trend	Limited Partnership	Active – 2nd Responder	Systematic trend following
TBD	Limited Partnership	Active - Diversifier	Current manager under watch

Appendices

Historical Negative Scenario Analysis
(*Cumulative* Return)

Scenario	Current (%)	Proposed (%)
COVID-19 Market Shock (Feb 2020-Mar 2020)	-24.0	-19.3
Taper Tantrum (May - Aug 2013)	-1.9	-1.2
Global Financial Crisis (Oct 2007 - Mar 2009)	-29.1	-28.0
Popping of the TMT Bubble (Apr 2000 - Sep 2002)	-11.2	-15.8
LTCM (Jul - Aug 1998)	-8.1	-7.9
Asian Financial Crisis (Aug 97 - Jan 98)	0.9	0.9
Rate spike (1994 Calendar Year)	2.6	3.0
Early 1990s Recession (Jun - Oct 1990)	-4.8	-5.1
Crash of 1987 (Sep - Nov 1987)	-12.0	-11.0
Strong dollar (Jan 1981 - Sep 1982)	3.6	0.8
Volcker Recession (Jan - Mar 1980)	-5.9	-4.0
Stagflation (Jan 1973 - Sep 1974)	-19.6	-17.6

→ The Proposed Policy would have performed the best in environments of declining equity markets, due to its more conservative positioning.

Historical Positive Scenario Analysis (Cumulative Return)

Scenario	Current (%)	Proposed (%)
Global Financial Crisis Recovery (Mar 2009 - Nov 2009)	39.7	37.1
Best of Great Moderation (Apr 2003 - Feb 2004)	30.1	30.4
Peak of the TMT Bubble (Oct 1998 - Mar 2000)	30.4	36.8
Plummeting Dollar (Jan 1986 - Aug 1987)	68.6	67.4
Volcker Recovery (Aug 1982 - Apr 1983)	34.0	31.1
Bretton Wood Recovery (Oct 1974 - Jun 1975)	29.1	28.1

→ The Current Policy would have been the best option for capturing most of the upside in strongly positive markets given its higher public equity allocation.

Stress Testing: Impact of Market Movements
(Expected Return under Stressed Conditions)

Scenario	Current (%)	Proposed (%)
10-year Treasury Bond rates rise 100 bps	3.7	4.1
10-year Treasury Bond rates rise 200 bps	-1.3	-0.3
10-year Treasury Bond rates rise 300 bps	-3.8	-2.7
Baa Spreads widen by 50 bps, High Yield by 200 bps	0.4	0.6
Baa Spreads widen by 300 bps, High Yield by 1000 bps	-21.8	-21.3
Trade Weighted Dollar gains 10%	-4.4	-4.9
Trade Weighted Dollar gains 20%	-2.8	-2.1
U.S. Equities decline 10%	-5.0	-5.4
U.S. Equities decline 25%	-16.0	-16.5
U.S. Equities decline 40%	-27.0	-26.7
Inflation slightly higher than expected	-0.6	-0.6
Inflation meaningfully higher than expected	-6.9	-6.5
Low Growth and Low Inflation	-9.6	-7.6
Low Growth and High Inflation	-14.6	-12.5
Brief, moderate inflation spike	-2.8	-2.6
Extended, moderate inflation spike	-5.4	-4.5
Brief, extreme inflation spike	-7.0	-5.6
Extended, extreme inflation spike	-9.4	-7.1

→ Each policy portfolio has a different sensitivity to four major risk factors: interest rates, credit spreads, currency fluctuations, and equity values.

→ The System's primary risk factors would continue to be an equity market decline and a widening of credit spreads, no matter the policy.

Stress Testing: Impact of Positive Market Movements
(Expected Return under Stressed Conditions)

Scenario	Current (%)	Proposed (%)
10-year Treasury Bond rates drop 100 bps	1.7	1.9
10-year Treasury Bond rates drop 200 bps	11.8	11.3
Baa Spreads narrow by 30bps, High Yield by 100 bps	6.5	6.7
Baa Spreads narrow by 100bps, High Yield by 300 bps	14.1	13.0
Trade Weighted Dollar drops 10%	7.9	8.1
Trade Weighted Dollar drops 20%	24.5	23.4
U.S. Equities rise 10%	5.9	6.3
U.S. Equities rise 30%	17.1	16.2
High Growth and Low Inflation	11.9	10.0
High Growth and Moderate Inflation	8.7	6.9
High Growth and High Inflation	5.4	3.6

→ The portfolio with the least downside risk is likewise the portfolio that participates least in upside scenarios.

Revised Investment Policy Statement

Employees' Retirement System of the City of Norfolk
Investment Policy Statement

Revised November 2, 2022

1. Executive Summary

Name of Fund:	Employees' Retirement System of the City of Norfolk
Fund Sponsor:	The City of Norfolk, Virginia
Mission of the Fund:	To provide a retirement benefit for the employees of the City of Norfolk, Virginia

2. Statement of Purpose

The Board of Trustees ("Board") recognize that a stable, well-articulated investment policy is crucial to the long-term success of the Employees' Retirement System of the City of Norfolk ("Fund"). As such, the Board has adopted this Investment Policy Statement ("Policy") in recognition of its fiduciary responsibility to supervise the investment of the Fund's assets. The purpose of this document is to set forth in writing:

i. an appropriate set of objectives and goals to be attained through the investment of the Fund's assets;

ii. the position of the Board with respect to the Fund's risk/return posture, including allocation of assets, and establishment of investment guidelines; and

iii. an overall system of investment policies and practices whereby the continuing financial obligation of the Fund will be satisfied.

All previous Fund investment policies and objectives are superseded by this Policy, and any revisions to this Policy may be made only with written approval from the Board.

3. Statement of Responsibilities

The following parties associated with the Fund shall discharge their respective responsibilities in accordance with all applicable fiduciary standards as follows: (1) in the sole interest of the Fund's contributors and beneficiaries; (2) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and of like aims; (3) by diversifying the investments so as to minimize the risk of large losses; and (4) acting in accordance with the guidelines outlined in this Policy, all applicable laws, and the City of Norfolk and State of Virginia statutes.

i. **Board of Trustees**: The Board is responsible for creation of, approval of, and updates to this Policy. Further, the Board is charged with selecting, retaining, and as necessary, replacing the fiduciaries which will manage the assets of the Fund and other experts employed by the Fund. The Board may delegate certain functions to System Staff and the Investment Advisor. Specific responsibilities of the Board include, but are not limited to:

i. Adhering to the requirements of applicable laws of the City of Norfolk and the Commonwealth of Virginia.
ii. Projecting the Fund's financial needs and communicating such needs to the Investment Advisor on a timely basis.
iii. Determining the Fund's risk tolerance, investment horizon, and allowable ranges of asset class exposure; and communicating these to the appropriate fiduciaries.
iv. Establishing reasonable and consistent investment policies, goals, objectives and limitations which will direct the investment of the Fund's assets.
v. Prudently and diligently selecting qualified investment professionals, including the Investment Advisor, Custodian, and Actuary.
vi. Regularly evaluating the performance of the Fund to ensure adherence to the investment policy stated herein and to monitor progress toward investment goals and objectives.
vii. Developing and enacting proper monitoring and control procedures.

ii. **System Staff**: The System Staff has been delegated day-to-day management responsibilities for the Fund and the relationships with other agents and advisors. Further, System Staff is responsible for:

i. Reporting to the Board on all matters requested.
ii. Working with the Investment Advisor to assure compliance with this Policy on an ongoing basis and reporting exceptions to the Board.
iii. In conjunction with the Investment Advisor, advising the Board on issues related to this Policy, including identifying the need for updates.
iv. Providing the Investment Advisor advanced notice of monies needed to fulfill monthly pension obligations and Fund expenses.
v. Monitoring and maintaining the external banking relationship and understanding that the Investment Advisor does not monitor or report on it.
vi. Other responsibilities as deemed necessary by the Board.

iii. **Investment Advisor**: The Investment Advisor is charged with the responsibility of advising the Board on investment policy and strategic asset allocation. The Investment Advisor has been granted full discretion over the selection of investment managers and tactical asset allocation within the guidelines of this Policy by the Board. The investment advisor is responsible for:

   i. Maintaining adequate liquidity to meet pension obligations, working with System Staff to source monies to meet pension obligation and fund expenses.

   ii. Managing the day-to-day custodial banking, securities lending, and directed brokerage relationships.

   iii. Reporting all relevant and requested information to the Board including decisions made about the investments (e.g., changes in investment managers, outlook, tactical positioning) that could influence the implementation of the investment program.

   iv. Working with System Staff to source monies to meet pension obligation and fund expenses.

   v. Providing performance analysis and monitoring services.

iv. **Investment Manager(s)**: The investment manager(s) are delegated the responsibility of investing and managing the Fund's assets in accordance with this Policy, and all applicable law. Each investment manager must either be (1) registered under the Investment Company Act of 1940, (2) registered under the Investment Advisors Act of 1940, (3) a bank, as defined in that Act, (4) an insurance company qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of the Fund's assets, or, (5) such other person or organization authorized by applicable law or regulation to function as an investment manager. Each Investment Manager must acknowledge in writing its acceptance of responsibility as a fiduciary. Further:

   i. Each Investment Manager shall be granted full discretion to make all investment decisions for its Account, while operating within all policies, restrictions, guidelines, constraints, and philosophies set forth in this Policy and the Account's statement of investment guidelines and restrictions ("Investment Guidelines"), which will become part of this Statement. Specific responsibilities of each Investment Manager include:

   ii. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the Investment Guidelines.

1. Reporting asset valuation and investment performance results on a timely basis.
2. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of its investment process, or the investment goal progress of the Fund.
3. Reporting any significant change in its investment management organization within 30 days of such occurrence.
4. All reporting and notification required by this Statement shall be made to the Investment Advisor.
5. The Board and Investment Advisor will not reserve any control over investment decisions, with the exception of specific limitations described in this Policy and the account's Investment Guidelines. Each Investment Manager will be held responsible for meeting the goals stated in the Investment Guidelines. Should an Investment Manager believe at any time that changes, additions, or deletions to the Investment Guidelines are in the Account's best interest, the Investment Manager shall promptly recommend them in writing to the Investment advisor.

v. **Custodian**: The custodian has been retained by the Board and is charged with the following responsibilities:

  i. Safekeeping of Fund assets under trust or custodial arrangement;
  ii. Providing System Staff, Investment Advisor, and Investment Managers a regular valuation, transaction listing, and accounting of Fund assets. Such valuation, listing, and accounting shall occur at least on a monthly basis and will be made available to the Board upon request;
  iii. Settle all purchases and sales of securities and other related transactions by the Fund’s investment managers held in their custody;
  iv. Sweep all Fund accounts daily into a cash management account to ensure no Fund assets are left uninvested;
  v. Manage all uninvested cash and cash awaiting disbursement to the Fund's investment managers in liquid, safe, interest-bearing instruments;
  vi. Adhere to the following Custodial credit risk requirements

1. Deposits - The Fund maintains all accounts collateralized in accordance with the Virginia Security for Public Disclosures Act, Sec 2.2-4400 et. seq. of the Code of Virginia.
2. Investments - The Fund requires that all securities purchased by or for the Fund be properly and clearly labeled as an asset of the Fund and held in safekeeping by a third-party custodial bank or institution in compliance with Section 2.2-4515 of the Code of Virginia.

vii. Provide all other contracted custodial services not mentioned above necessary for the efficient investment, custody, and administration of the Fund's assets;

vi. **Actuary**: The actuary has been retained by the Board and is charged with the following responsibilities:

i. Prepare an annual evaluation of the Fund's assets and liabilities. Such valuation shall be provided to the Board to determine the financial condition of the Fund and determine the contribution rates necessary to fund the Fund.

ii. Recommend to the Board adoption of certain assumptions, including those concerning contribution rates, death, disability, withdrawal, retirement, and investment returns.

iii. Conduct, on a frequency determined by the Board, a study of the actual assumptions adopted by the Board and the actual Fund experience to determine the appropriateness of such assumptions.

iv. Assist the Investment Advisor in the preparation of all asset liability studies and, specifically, the analysis of the Fund's liabilities and provisions.

v. Provide guidance and perspective regarding special actuarial studies, experience studies, benefit changes, and all things of an actuarial nature as may be required by the Board from time to time.

4. Investment Objectives

The investment strategy of the Fund is designed to ensure the prudent investment of funds in such a manner as to provide real growth of assets over time while protecting the value of the assets from undue volatility or risk of loss.

The Board accepts the risks associated with investing in the capital markets (market risks) but will minimize wherever possible those risks for which the Fund is unlikely to be compensated (non-market or diversifiable risks).

i. Risk Objectives

i. To accept the minimum level of risk required to achieve the Fund's return objective as stated immediately below.

ii. To use extensive diversification to minimize exposure to company and industry-specific risks in the aggregate investment portfolio.

iii. To the extent possible, minimize the annual volatility in the asset base that supports the level of pension obligations and Fund expenses. Short-term volatility will be tolerated in as much as it is consistent with the volatility of the Target Policy.

ii. Return Objective

i. To earn a return on aggregate Fund assets over a full market cycle, net of investment fees, that equals or exceeds:

1. The actuarially assumed rate of return.
2. The returns of the Target Policy Index and Strategy Index.

5. Investment Constraints

i. Legal and Regulatory

It is the intention of the Board to manage the assets of the Fund at all times in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Prudent Investor Rule, and applicable laws of the City of Norfolk and the Commonwealth of Virginia.

ii. Time Horizon

The Fund operates on a perpetual basis. The assets of the Fund will be invested with a long-term time horizon, consistent with the mission of the Fund.

iii. Liquidity

Given the Fund's long-term horizon, liquidity will be of modest concern. The Board will continuously monitor liquidity needs, benefit projections, and the impact of changes in regulations or other circumstances.

iv. Tax Considerations

The Fund is a tax-exempt entity. Therefore, investments and strategies will be evaluated only on the basis of expected risks and potential returns.

6. Diversification

The Board recognizes that an important element of risk control is diversification. Therefore, investments will be allocated across multiple classes of assets, chosen in part for their low correlation of returns. Within each asset type, the Fund's investments will be distributed across many individual holdings, thus expecting to further reduce volatility.

7. Asset Allocation

The Board recognizes that the allocation of monies to various asset classes will be the major determinant of the Fund's return and risk experience over time. Therefore, the Board will allocate investments across asset classes that, based on historical and expected returns and risks, provide the highest likelihood of meeting the Fund's investment objectives.

i. Permissible Asset Classes

Because investment in any particular asset class may or may not be consistent with the objectives of the Fund, the Board has specifically indicated in Appendix A those asset classes that may be utilized when investing the Fund's assets.

ii. Long-Term Target Allocations

Based on the investment objectives and constraints of the Fund, and on the expected behavior of the permissible asset classes, the Board will specify a long-term target allocation for each class of permissible assets. These targets will be expressed as a percentage of the Fund's overall market value, surrounded by a band of permissible variation resulting from market forces.

The long-term target allocations are intended as strategic goals, not short-term imperatives. Thus, it is permissible for the overall Fund's asset allocation to deviate from the long-term target, as would likely occur during manager transitions, asset class restructurings, and other temporary changes within the Fund. Deviations from targets that occur due to capital market changes are discussed below.

The Fund 's target allocations for all permissible asset classes are shown in Appendix B.

iii. Rebalancing

In general, cash flows to and from the Fund will be allocated in such a manner as to move each asset class toward its target allocation.

The Board recognizes that, periodically, market forces may move the Fund's allocations outside the target ranges. The Board also recognizes that failing to rebalance the allocations could unintentionally change the Fund's structure and risk posture. However, the Board understands that constant rebalancing could result in a significant increase in explicit and implicit trading costs to the

Fund. Consequently, the Board has established a process to rebalance the allocations periodically.

On at least a quarterly basis, if any strategic allocation is outside the specified target range, assets will be shifted to return the strategy to the target range. The specific plan for rebalancing will identify those assets that can be shifted at the lowest possible risk and cost if the rebalancing cannot be accomplished solely by allocating contributions and withdrawals.

iv. Tactical Asset Allocation

The Investment Advisor will have full discretion to tactically deviate from the long-term Target Allocation within the defined asset class ranges.

8. Review of Investment Policy, Asset Allocation, and Performance

The Policy will be reviewed at least annually to ensure that the objectives and constraints remain relevant. However, the Board recognizes the need for a stable long-term policy for the Fund, and major changes to this policy statement will be made only when significant developments occur.

The asset allocation of the Fund will be reviewed on an on-going basis, and at least annually. This review includes evaluating the expected return and volatility of the asset allocation policy targets utilizing the latest capital market expectations. When necessary, such reviews may result in a rebalancing of asset allocations. In general, the Board intends that the Fund will adhere to its long-term target allocations, and that major changes to these targets will be made only in response to significant developments.

The Board will specifically evaluate the performance of the Fund relative to its objectives and to the returns available from the capital markets during the period under review. In general, the Board will utilize relative, rather than absolute, benchmarks in evaluating performance.

9. Investment Costs

The Board intends to monitor and control investment costs.

10. Voting of Proxies

The Board recognizes that the voting of proxies is important to the overall performance of the Fund. The Board has delegated the responsibility of voting all proxies to the investment managers. The Board expects that managers will execute all proxies in a timely fashion, provide a full accounting of all proxy votes, and upon request, a written explanation of individual voting decisions. The Board intends to review the managers' proxy voting periodically.

11. Policy Changes

The Investment Advisor shall advise the Board of any restrictions within this Policy that may prevent the investment manager(s) from obtaining the objectives and goals set forth herein. Any violation of the investment guidelines or other sections of this Policy discovered by the Investment Advisor in the preparation of its regular performance review shall be reported immediately to Staff and/or the Board and discussed at their next regularly scheduled meeting.

12. Investment Policy Review and Revisions

The Board reserves the right to amend the Policy at any time they deem such amendment to be necessary, or to comply with changes in local and/or federal law as these changes affect the investment of the Fund's assets.

The Policy shall also be reviewed annually to ensure compliance and relevance to the current law, financial and economic trends and to meet cash flow requirements of the Fund.

IN WITNESS HEREOF, the Board has approved the revised Investment Policy Statement by resolution adopted on the xth day of Month 202X.

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Authorized Signer Name, Title

Appendix A

Permissible Asset Classes

Asset Class
Public Equity
Private Equity
Bank Loans
High Yield Bonds
Emerging Market Bonds
Real Estate
Natural Resources
TIPS
Gold
Investment Grade Bonds
US Treasuries
US Agency-Backed Securities
US Mortgage-Backed Securities
Hedge Funds
Private Credit
MLPs
Infrastructure
Cash

Appendix B

Asset Allocation Targets

	Target	Range	Benchmark
Growth Assets	**57%**	**47% to 67%**	
Global Equity	52%	42% to 62%	MSCI ACWI IMI Net USD
Private Equity	5%	0% to 10%	MSCI ACWI + 3% 1Q Lag
Credit	**4%**	**0% to 9%**	
High Yield & Bank Loans	4%	0% to 9%	50% Credit Suisse Leveraged Loans/ 50% BBerg US High Yield TR
Emerging Market Bonds	0%	0% to 5%	50% JPM EMBI GD/50% JPM GBI-EM
Inflation Hedges	**21%**	**14% to 28%**	
Real Estate	8%	3% to 13%	NCREIF ODCE
Natural Resources & Infrastructure	5%	0% to 10%	SP Global LargeMidCap Commodity and Resources NR USD
Gold	3%	0% to 6%	60% Gold (Spot)/40% FTSE Gold Mines
Short-term TIPS	5%	0% to 10%	BBerg US TIPS 1-5YR
MLPs	0%	0% to 5%	Alerian MLP Index
Risk Mitigation	**18%**	**11% to 25%**	
Bonds incl. Treasuries, Mortgages and Investment Grade	14%	7% to 21%	BBerg US Aggregate TR
Hedge Funds	4%	0% to 9%	HFRI Macro (Total) Index
Cash	0%	0% to 3%	

Appendix C

Fund Benchmarks

Functional Category	Weight	Composition
Growth Assets	57%	91% MSCI ACWI IMI Net USD/9% MSCI ACWI + 3% 1Q lag
Credit	4%	50% Credit Suisse Leveraged Loans/50% BBerg US High Yield TR
Inflation Hedges	21%	24% BBerg US TIPS 1-5YR/14% 60/40 Gold (Spot)/FTSE Gold Mines/24% SP Global LargeMidCap Commodity & Resources NR USD/38% NCREIF ODCE
Risk Mitigation	18%	78% BBerg US Aggregate TR/22% HFRI Macro (Total) Index

Target Policy Benchmark: The Target Policy Benchmark is designed to measure the performance of the Fund relative to broad market exposures (60/40). The Target Policy Benchmark is comprised of 52% MSCI ACWI IMI Net USD/5% MSCI ACWI + 3% 1Q lag/2% Credit Suisse Leveraged Loans/2 % BBerg US High Yield TR/5% BBerg US TIPS 1-5YR/3% 60/40 Gold (Spot)/FTSE Gold Mines/5% SP Global LargeMidCap Commodity & Resources NR USD/8% NCREIF ODCE/14% BBerg US Aggregate TR/4% HFRI Macro (Total) Index.

Strategy Index: The Strategy is designed to measure the performance of the Investment Advisor manager selection. The Strategy index is calculated using the actual weights of each Functional Category.

Appendix D

Watch List

The Board intends to evaluate each Investment Manager over at least a three-year period, but reserves the right to terminate an Investment Manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this Statement, including communication and reporting requirements.
3. Significant changes to the Investment Manager's organization.

Appendix E

Definitions

A. “Fund" shall refer to the Employees' Retirement System of the City of Norfolk.
B. "Return" shall refer to return from dividends, interest, realized gains, and unrealized gains based on market value, net of management fees, and associated expenses.
C. "Board" shall refer to the Board of Trustees of the Employees' Retirement System of the City of Norfolk.
D. "Fund Staff” shall refer to employees retained by the Board to assist with the management of the Fund.
E. "Fiduciary” shall refer to any individual, or group of individuals, employed to manage the investments of all or pan of the Fund assets.
F. "Investment Manager" shall refer to any registered investment advisor employed to manage the investments of all or part of the Fund's assets or any commingled fund in which all or part of the Fund's assets are invested. Managers employed by the Fund shall be qualified professional asset managers (QPAM) under State or Federal law.
G. "Account" shall refer to the assets which the Fund designates for investment pursuant to the investment management agreement between a Manager and the Fund.
H. "Investment Advisor" shall refer to any individual, or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search and retention, and performance monitoring.
I. "Investment Horizon" shall refer to the time period over which the investment goals, as set forth in this Statement, are expected to be met. The investment horizon for the Fund is ten years.
J. "Watch List" shall refer to managers being placed on watch in the case of underperformance, style drift, ownership, or personnel changes. Pervasive problems regarding any of the above may become grounds for termination.