Investment Policy Statement

Metropolitan Transit Authority of Harris County
Non-Union Pension Plan

December 8, 2020

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INVESTMENT POLICY

Purpose

This Investment Policy Statement has been adopted by the Board of the Metropolitan Transit Authority Non-Union Pension Plan to outline the prudent and acceptable investment philosophy of the Metropolitan Transit Authority Non-Union Pension Plan ("Plan"). It will also define the Plan's investment management procedures and long-term goals. It is meant to provide a clear understanding between the Board, the Investment Consultant and Investment Managers concerning the investment policies and objectives of the Pension Fund.

Policy Objectives

The purpose of this Investment Policy Statement (IPS) is to establish a clear understanding regarding the Pension Fund's investment objectives and management practices between the Plan, its Investment Consultant and the Investment Managers engaged by the Pension Plan. This Investment Policy Statement will:

1. Establish reasonable expectations, objectives and guidelines for the investment of the assets in the Fund.

2. Create the framework for a well-diversified asset mix that can be expected to generate achievable long-term returns at a level of risk acceptable to the Plan, including:
   - Describing an appropriate risk posture for the investment of the Pension Fund;
   - Specifying broad target asset allocation ranges and constraints;
   - Establishing investment guidelines regarding the selection of investment managers, permissible securities and diversification of assets;
   - Specifying the criteria for evaluating the performance of the Plan's Investment Managers.
3. Define the responsibilities of the Plan, the Consultant and the Investment Managers.

4. Encourage effective communication between the Plan, its Consultant and the Investment Managers.

The investment policies described in this IPS should be dynamic. They should reflect the Plan's philosophy and current status regarding the investment of the Pension Fund. These policies will be reviewed and revised periodically to ensure they adequately reflect any changes related to the Pension Fund and capital markets expectations.

Procedures for Implementation

I. Delineation of Responsibilities

A. The Board of the Metropolitan Transit Authority Non-Union Pension Plan

Responsibility for overall governance of pension investments resides with the Board of the Metropolitan Transit Authority Non-Union Pension Plan ("Board"). The Board is responsible for overseeing the management of the investment portfolio of the Pension Plan. The Board shall discharge its duties solely in the interest of the Plan with care, skill, prudence and diligence. The Board is not expected to possess special expertise in finance or investing. They are expected to exercise oversight that a prudent person acting in a like capacity and familiar with the facts would exercise. The Board shall be appointed by the Metropolitan Transit Authority of Harris County, Texas (“METRO”).

B. Duties of the Board

1. Oversee the selection of the Investment Consultant, Investment Managers, Custodians and other

professionals. This oversight shall include overseeing the ongoing evaluation of all experts hired by the Board to assist in managing the investment portfolio.

2. Periodically review the Investment Policy and, if needed, recommend changes, after considering the advice and recommendations of the Manager of Pensions, Investment Consultant and any other experts deemed appropriate by the Committee. All policy changes shall be in writing and approved by the Board.

3. Periodically review with the Board the operation and effectiveness of the system of internal controls to safeguard investment assets and provide timely and accurate reports. This review shall be done at least annually and may involve other experts as deems appropriate.

4. Periodically meet with the Investment Consultant and others to review investment performance in comparison to the Investment Policy, benchmarks, peer groups, investment objectives, investment restrictions and specific Investment Manager instructions. The Board will also act on recommended changes to the Target Allocation.

C. Plan Administrator

The Plan Administrator serves as the primary conduit for communication with all parties involved with the investment activities of the Plan, including the Board, Investment Consultant, Investment Managers, Custodians and other professionals.

Responsibilities of the Plan Administrator include, but are not limited to:

1. Advise on other matters requiring the Board's approval, such as Investment Manager changes or changes in the Target Allocation based on the advise of the Investment Consultant.
2. Negotiate written contracts with the Investment Consultant, Investment Managers, Custodians and other professionals setting forth the terms and conditions of their contractual relationship with the Plan. These contracts will include, but will not be limited to, the requirement to comply with the Investment Policy, investment restriction s, fees, and other applicable terms and conditions.
3. Provide specific instructions to the Investment Consultant, Investment Managers and Custodians regarding withdrawals, distributions, transfers and other transactions required in the ordinary course of business for the Plan.
4. Monitor the performance of the Investment Consultant and Custodians for compliance with the Investment Policy and with contractual terms.
5. Regularly providing accurate and timely reports on investment performance and compliance monitoring to the Board. Special reports will also be provided as requested by the Board or deemed appropriate by the Plan Administrator.
6. Approve all Investment Manager, Custodian and Investment Consultant fees.

D. Duties of the Investment Consultant

The Investment Consultant shall be a Registered Investment Advisor with demonstrated expertise in investing and investment management and will acknowledge that it is a fiduciary with respect to the plan. For each Investment Manager, the Investment Consultant will regularly monitor investment performance, as well as compliance with the Investment Policy, changes in management or ownership structure, and adverse publicity. The Investment Consultant is expected to keep abreast of changing economic trends and issues and provide timely advice to the Plan regarding investment allocation, Investment Manager selection and other matters of importance.

Following is additional discussion regarding the Investment Consultant responsibilities:

1. Regularly monitor Investment Manager's performance, including compliance with the Investment Policy.

2. Provide timely and regular investment reports showing the investment performance of the entire investment portfolio and each individual Investment Manager. Regular reports will also include an evaluation of compliance with the Investment Policy. Reports will be a presentation and format acceptable to the Board.

3. Provide recommended changes to the Investment Policy, including suggested changes to asset allocation ranges and targets, investment objectives and similar matters.

4. Conduct initial screening in any new Investment Manager search for the consideration and evaluation of the Plan. Assist the Plan in the final selection of Investment Managers, and in the decisions to retain or terminate the services of Investment Managers.

5. Assist in the negotiation of contractual terms and conditions for each Investment Manager, Custodians or other professionals utilized by the Plan.

6. Regularly meet with the Board and the Plan Administrator to review reports on investment performance, compliance, suggested changes to the Investment Policy, retaining or terminating specific managers, and other matters.

7. Provide, as requested, information to the Plan to prepare accurate and timely financial statements.

8. Perform special reports or studies as requested.

9. The Investment Consultant acknowledges that it will not receive direct or indirect compensation from any investment manager whether or not it relates to an investment by the plan, except for those financial relationships disclosed in the Investment Consultant's Form ADV part II as a mended from time to time

10. Advise the Board regarding the Investment Policy including, but not limited to, changes in asset allocation ranges, investment objectives and guidelines. Recommended changes to the Investment Policy may result from changing market conditions or changing financial objectives or needs of the Plan.

E. Investment Managers

Investment Managers responsibilities include the following:

1. Make all investment decisions and exercise other discretionary authority over the assets allocated to each individual Investment Manager in accordance with the Investment Policy, the written contract with the Plan and other requirements and restrictions adopted by the Metropolitan Transit Authority Non-Union Pension Plan.

2. Provide written documentation of portfolio activity, valuations, performance data, etc., as requested by the Plan Administrator and/or the Investment Consultant.

3. Cooperate effectively with other professionals involved in the Plan investment portfolio such as Custodians and Commission Recapture Firms.

4. Attend meetings with representatives of the Plan, as requested.

5. Act solely in the interest of the Plan.

F. Custodians

The Custodian shall act as the receiving and disbursing agent for the investment portfolio and shall hold all investments. Receipts can occur from funds deposited by METRO. Receipts also result from investing activity such as proceeds from investment sales, and dividend, interest and principle payments from securities owned by the Plan. Disbursements can arise from instructions from the Plan such as to transfer funds between Investment Managers as a result of portfolio rebalancing, or from the sale of investments.

Other specific responsibilities of the Custodian include:

1. Provide monthly reports on a timely basis detailing investment holdings and account transactions.

2. Establish and maintain directed account relationships with each Investment Manager.

3. Provide all usual and customary custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, distribution of income and daily investment of cash.

4. Prepare additional reports, as requested.

G. Actuary

The actuary shall provide the Board with the appropriate information relating to the financial needs of the Plan, to include an annual report and recommended assumptions.

II. <u>Funding Policy</u>

A. *Purpose of the Funding Policy.* The purpose of the Funding Policy of the Metropolitan Transit Authority Non-Union Pension Plan (the "Funding Policy") is to provide the Plan a roadmap to fully fund its long term obligations and to help the Plan achieve the three fundamental goals of public pension funding: benefit security, contribution stability, and intergenerational equity. The Funding Policy is intended to balance these three primary pension funding goals so that Plan participant benefits are secure, the METRO and its employees are afforded some level of contribution predictability from year to year; and liabilities are managed so that future taxpayers are not burdened with costs associated with a previous generations service.

B. *Primary Objective – Actuarial Assumed Rate of Return.* In accordance with the Funding Policy, the single objective of the Plan is to achieve the actuarial assumed rate of return that fulfills the purpose as described at the beginning of this Section. and the principles contained in this Section

1. The Plan consists of unrestricted cash and investments owned by the Plan. As discussed in the purpose section at the beginning of this Section, these funds are intended to assure the long-term financial viability of the Plan and should be invested with a long-term perspective. The overall objective of the Plan's investment pool is to achieve the actuarial assumed rate of return. A 5 to 7-year period is appropriate in measuring progress toward achieving this objective.

2. The returns (net of manager fees and other related fees and expenses) on the traditional asset classes within the Plan investment pool (Total Domestic Equity and Total Fixed Income) should exceed the return on a composite of non-managed market indices weighted in proportion to the actual structure of the Plan portfolio.

Total Liquid and Private Alternatives should exceed the current actuarial assumption which is 6.50% in 2019.

In brief, the investment portfolio should benefit from active management.

C. *Contribution Policy.* To achieve the Plans actuarial assumed rate of return under the Funding Policy, in 2013, the Plan adopted a contribution policy that includes paying the normal cost of the Plan plus an amortization of the unfunded actuarial accrued liability over a closed 30-year period. The normal cost is the present value of benefits expected to accrue during the year. Since the amortization period is closed, the 2019 valuations show an actuarially determined contribution (ADC) based on a 24-year amortization of the unfunded actuarial accrued liability in addition to the normal cost. Thus, the ADC will eventually be used to achieve 100% funding as this amortization period will eventually decrease to 3 years, then 2 years, then go away. In addition, benefit enhancements will be considered only if actual contributions meet or exceed the ADC.

D. *Actuarial Methods.* The Board has adopted the following actuarial methods for the purposes of actuarial valuations occurring on and after December 31, 2013 and for Plan Funding purpose:

1. Actuarial Cost Method -- Entry Age Normal (Individual), level percent of pay
2. Asset Valuation/Smoothing Method – Five-year smoothing with direct offset of gains (losses) and a 20% soft corridor.
3. Amortization/Funding Period -- Determined based on a closed 30-year period beginning with 2013.

E. *Monitoring and Evaluation.* The Board and its actuary will monitor the Plan's progress towards the guidelines in this Funding Policy. If a cost of living adjustment is provided, future cost of living adjustments are not necessarily guaranteed and are subject to meeting the guidelines in this Funding Policy and other factors that the Board and METRO may choose to consider. Investment performance evaluations shall occur periodically as determined by the Board but at least once every three years.

III. Portfolio Structure and Asset Allocation

The structure and asset allocation of each investment Fund must be periodically revised to result in a high probability of achieving the investment objectives of the Funding Policy. The structure and asset allocation must be updated and revised as the financial needs of the Plan and/or the outlook for the capital markets change.

A. Purpose

The ranges for the asset allocation are designed to allow flexibility of the investment fund over a market cycle. The ranges are given so that adjustments can be made for a variety of reasons including changes in the cash needs of the Plan and/or changes in the capital markets.

B. Asset Class Exposure

Following are the minimum and maximum authorized investment exposures on the various asset classes in which the Plan may invest as categorized by management style:

Asset Class	**Target Allocation**	**Maximum**	**Minimum**
Broad Fixed Income	22%	27%	17%
Global Aggregate	8%	13%	3%
Total Fixed Income	30%		
U.S. Large-Cap Core	17%	22%	12%
U.S. Large -Cap Value	4%	9%	0%
U.S. Mid-Cap Core	8%	13%	3%
U.S. Small-Cap Core	3%	8%	0%
U.S. Small-Cap Value	3%	8%	0%
Total U.S. Equity	35%		

Developed Large-Cap	10%	15%	5%
Non-U.S. Small-Cap	5%	10%	0%
Global Low Volatility	10%	15%	5%
Total Non-U.S. Equity	25%		
Real Estate - Core	10%	15%	5%
Total Real Assets	10%		
Total	**100%**		

C. Target Allocation

Each quarter, the Plan Administrator and Investment Consultant will review the actual target allocations for each Fund and make any recommended changes to the Board. The target allocation must be within the minimum and maximum asset class exposure and must conform to all other provisions of this Investment Policy. Any approved changes to the target allocation must be documented in the official Board minutes. The most recent approved target allocations are included in schedule A of the Investment Policy Statement.

IV. Investment Manager General Guidelines

A. Guidelines applicable to all Investment Managers

1. Securities should be readily marketable. Except for special categories such as real estate, private equity and certain alternative investments, no investment should be made in non-marketable securities without prior permission from the Plan.

2. Any Investment Manager not fully invested should invest excess cash in short-term interest-bearing investments with minimal risk or price fluctuation.

3. Each separately managed account investment manager agrees to adhere to a separate agreement outlining performance standards and permissible investment guidelines that are specific to their investment strategy.

4. The policies and controls for derivative management are intended to ensure proper use of derivatives by separate account managers. It should be noted, however, that derivative transactions are not considered in isolation but as part of an overall investment process. Derivatives instruments refer to Exchange traded futures and options, over the counter derivates, such as currency forwards, swaps, and options and other structured securities. Specific uses are as follows:

    a. Derivative use is only permissible by account documents.

    b. Hedging to protect an asset in a portfolio against a fluctuation in market values, including foreign currency hedging;

    c. Reducing volatility;

    d. Efficient portfolio management such as:

        1. Increasing or decreasing asset exposures within the parameters set in the investment strategy to take advantage of market opportunities.

        2. Lowering the transact ion cost of achieving required exposure:

        3. Managing the impact on portfolio valuations of market movements caused by significant cash inflows and outflows. (Mostly by eliminating cash drag.)

5. Restrictions on the use of derivatives

    a. Unless specifically authorized in writing leverage (Gearing) is not u sed. All derivative positions will have appropriate and sufficient cover.

    b. Counterparty risk is controlled as follows:

        1. Only derivatives trading on recognized exchanges approved by the Commodities and Futures Trading Commission (CFTC);

        2. OTC Counterparties are approved after attaining "A" or better by credit rating agencies. Counterparty exposure limits may exist per specific written requirements;

        3. OTC derivative trades are executed with Counterparties based on approved ISDA Master Agreements.

        4. The manager will monitor the Counterparty credit exposures within their portfolio.

B. Domestic Equity Holdings

1. The maximum weighting (at time of purchase) in any one company of the Investment Manager's portfolio holdings should not exceed 8% or 5% more than the index weight whichever is greater, unless specific approval is given by the Plan (as documented in the Investment Manager's written contract).

2. Domestic equity managers must receive written permission from the Plan to engage in option or future activity.

C. International Equity Holdings

1. The maximum weighting (at time of purchase) in any one company of the Investment Manager's portfolio holdings should not exceed 7%.

2. Currency hedging, foreign exchange contracts and similar strategies are permitted as part of a defensive strategy to protect the portfolio assets and enhance return.

D. Global Fixed Income (Including High Yield)

1. The fixed income portfolio may include both domestic and/ or international fixed income securities.

2. Unless authorized by the Plan in advance and in writing, the minimum quality rating on all issues in which an Investment Manager may invest in is BBB-. For an issue that is not rated, the security must be of "equivalent" quality to a BBB- rating or above in the opinion of the Investment Manager, or the security must be a government bond or a bond of a supra national authority which does not have a recognized credit rating.

3. The maximum holding (cost basis) in any one security in the Investment Manager's portfolio should not exceed 5% excluding AAA rated sovereign debt.

4. To manage currency risk, no Investment Manager should have exposure to any one currency exceeding the following:

Currency	Maximum Exposure
Euro Japanese	70%
Yen	50%
British Sterling	40%
Other (Excluding U.S. Dollar)	25%

5. Currency hedging, foreign exchange contracts and similar strategies are permitted as part of a strategy to protect the portfolio assets and enhance return.

E. Alternative Investments

Alternative investments include convertible securities, hedge funds, private equity or managed futures. These alternative investments should add diversification and reduce volatility for the overall portfolio.

F. Real Estate

1. Diversification should be made between property type, and economic and geographic location. Real estate investments should be passive rather than direct ownership of property.

2. Currency hedging, foreign exchange contracts and similar strategies are permitted as part of a defensive strategy to protect the portfolio assets and enhance return.

3. Investments in timber and infrastructure will be included in the real estate allocation.

G. Short-Term Investments

The maximum holding (cost basis) in any one security in the Investment Manager's portfolio shall not exceed 10%. This is not applicable to U.S. Government and Agency issues and approved sovereign investments.

V. Investment Manager Relations

A. In addition to the achievement of the Funding Policy, performance objectives and adherence to investment guidelines, the Plan expects to receive a high level of communication and service from each Investment Manager. Specific requirements include:

1. Each Investment Manager must enter into a written contract with the Plan. Each Investment Manager's contract will, among other things, specifically define the Investment Manager's investment goals and the benchmark against which the Investment Manager will be evaluated. Each Investment Manager must specifically agree to manage the investment portfolio in accordance with this Investment Policy and the contract. Each Investment Manager will serve as fiduciaries to the Plan and be responsible for prudent and careful selection of securities within their investment mandates. It is understood that certain commingled funds may be excluded from the above provisions.

2. Each Investment Manager should provide a quarterly report to the Plan Administrator containing at least the following:

    a. Portfolio composition and structure.

    b. Individual security holdings.

    c. Investment performance along with a brief discussion of the key factors that contributed to investment results.

    d. A brief review of any changes in strategy during the quarter, current investment outlook, and expected changes in portfolio strategy.

3. As requested, each Investment Manager should supply:

    a. Documentation in support of any purchase or sell decision.

    b. Statements of any fiduciary, liability or bonding insurance coverage.

4. The Plan Administrator should be notified promptly of any of the following:

    a. A significant change in investment strategy and portfolio structure.

    b. A material change in the ownership, personnel, financial condition or investment approach of the organization.

    c. Any changes in the regulatory environment that would affect the investment pools or the organization's role in its management.

    d. Any litigation or violation of securities regulations in which the Investment Manager is involved.

    e. Additionally, each Investment Manager should provide a copy of its Form ADV as filed with the Securities Exchange Commission.

B. Periodic Meetings

As requested, Investment Managers will be expected to periodically meet with the Board to review investment performance, compliance with investment policies, evaluation of the financial markets and other matters

C. Proxy Voting

All proxy votes should be exercised by the Investment Manager in the best interest of the Plan. The Investment Manager must be able to support all proxy voting in written form as requested.

D. Commission Recapture

Investment Managers will accept instructions from the Plan regarding the recapture of commissions to pay for services deemed valuable to the attainment of the investment pools 'objectives. Execution is of prime importance and the Investment Manager should perform trades that are always in the best interest of the investment pools.

SCHEDULE A

Target Allocations

Asset Class	Target Allocation	Maximum	Minimum
Broad Fixed Income	22%	27%	17%
Global Aggregate	8%	13%	8%
Total Fixed Income	**30%**		
U.S. Large-Cap Core	17%	22%	12%
U.S. Large-Cap Value	4%	9%	0%
U.S. Mid-Cap Core	8%	13%	3%
U.S. Small-Cap Core	3%	8%	0%
U.S. Small-Cap Value	3%	8%	0%
Total U.S. Equity	**35%**		
Developed Large-Cap	10%	15%	5%
Non-U.S. Small-Cap	5%	10%	0%
Global Low Volatility	10%	15%	5%
Total Non-U.S. Equity	**25%**		
Real Estate - Core	10%	15%	5%
Total Real Assets	**10%**		
Total	**100%**		