

Metropolitan Water Reclamation District

Retirement Fund



Formal Investment Policy

ADOPTED JUNE 25, 2003
REVISED FEBRUARY 22, 2006, MAY 24, 2006
DECEMBER 20, 2006 & DECEMBER 19, 2007

REVISED SEPTEMBER 23, 2009

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METROPOLITAN WATER RECLAMATION DISTRICT

RETIREMENT FUND

FORMAL INVESTMENT POLICY

I. MISSION STATEMENT

The Board of Trustees (Board) of the Metropolitan Water Reclamation District Retirement Fund (MWRDRF) has a fiduciary responsibility to the members and beneficiaries of the system. In recognition of this responsibility, the Board hereby adopts the following mission statement.

To provide, protect and enhance the present and future economic well being of members, pensioners and beneficiaries through efficient and effective management of equitable benefit programs, investment practices and member service efforts, utilizing sound actuarial and accounting principles, investment policies and management expertise, in compliance with applicable laws and standards.

The purpose of this mission statement is to provide broad operational direction for the Board, staff, and MWRDRF contractors. Bearing the System's mission in mind, the Board hereby adopts the following Investment Policy.

II. PURPOSE OF THE INVESTMENT POLICY

This Formal Investment Policy is intended to satisfy the desire of the MWRDRF Board of Trustees to: Establish investment objectives that satisfy the goal of funding current and future benefit obligations.

Identify those parties having a fiduciary responsibility to the Fund and the accompanying obligations.

Provide the criteria and framework for evaluating investment performance

Formally comply with the statutory requirement, Chapter 40 of the Illinois Compiled Statutes Act 5, Article 1, Paragraph 113.6 (40 ILCS 5/1/113.6) Investment Policies and (40 ILCS 5/13-706) Board powers and duties.

In order to ensure the policies continued relevance, the MWRDRF Trustees, Staff and its Investment Consultant will periodically review this Formal Investment Policy and MWRDRF needs.

III. CONTEXT OF POLICY

The MWRDRF was established on July 7, 1931 as a government Public Employee Retirement System (PERS), as set forth in Internal Revenue Code 401(a). The MWRDRF provides financing for and the payment of retirement, survivor and disability benefits for eligible employees of the Metropolitan Water Reclamation District of Greater Chicago. The MWRDRF is funded by employer and employee contributions and the income derived from the investment of contributions.

The MWRDRF is governed by a Board of Trustees established by 40 ILCS, 5/13-701 (Board created), whose power and duties are primarily enumerated by 40 ILCS 5/13-706 (Board powers and duties).

In developing the Investment Policy, the Board understands and accepts its fiduciary obligations to the members of the system. These obligations are legal in nature and are enumerated by 40 ILCS. 5/1-109 (Duties of Fiduciaries).

a) Duties of Fiduciaries

A fiduciary with respect to a pension fund established under the Code shall discharge his or her duties with respect to the pension fund solely in the interest of the participants and beneficiaries and:

- (a) For the exclusive purpose of:
 - (i) Providing benefits to the participants and their beneficiaries;
 - (ii) Defraying reasonable expenses of administering the pension fund;
- (b) With the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and like aims;
- (c) By diversifying the investments of the pension fund so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and
- (d) In accordance with the provisions of the Article of the Pension Code governing the pension fund.

b) Identification of Fiduciaries

- (1) The statutes provide:
- (2) A person is a “fiduciary” with respect to a pension fund or retirement system established under this code to the extent that the person:
 - (a) Exercises any discretionary authority or discretionary control respecting management of the pension fund or retirement system, or exercises any authority or control respecting management or disposition of assets;
 - (b) Renders investment advice for a fee or other compensation, direct or indirect, with respect to any moneys or other property of the pension fund or retirement system, or has any authority or responsibility to do so; or
 - (c) Has any discretionary authority responsibility in the administration of the pension fund or retirement system.

In the event of any questions or inconsistencies arising from this statement of Formal Investment Policy, Chapter 40 Illinois Compiled Statutes, Act 5, Articles 1 and 13 (40 ILCS 5/1, and 5/13) will govern. Applicable sections of the Illinois Constitution (Section 6 of Article VII) subject the Board of Trustees investment authority to State jurisdiction.

IV. INVESTMENT RELATED AUTHORITY AND RESPONSIBILITIES

The authority and responsibilities listed below are examples of some of the more significant investment authority and responsibilities of the various parties. It is meant to provide the general scope of the authority and responsibility as opposed to being considered a definitive listing.

Board of Trustees

- a) The Illinois Compiled Statutes as referenced above set forth the following:
- b) Provides the Board of Trustees with power and duties including appointing staff (employees), and such consultants as are necessary to carry out the business of the Fund;
- c) Requires any person who exercises any discretionary authority or control of the administration of the Fund, or management or disposition of the Fund's assets, or who renders investment advice as having a fiduciary responsibility with respect to the pension fund. As such, the Trustees and all of the individuals, including staff and/or consultants hired by the Trustees are considered to have a fiduciary responsibility;
- d) Requires the Fund to have a written contract with its investment managers, investment consultant and advisers in accordance with the Board's investment policy;
- e) Requires the diversification of the investments, so as to minimize the risk of a large loss, unless under the circumstances it is clearly prudent not to do so;
- f) Has the power to make rules and regulations necessary for the administration of the affairs of the Fund;
- g) Has a fiduciary responsibility with regard to their Fund responsibilities.

Fund Administration

- a. Coordinates the efforts of the Fund's staff and consultants for the benefit of the Fund;
- b. Works with the Fund's investment consultants and actuary to insure that the Trustees are presented with accurate and the best available information, including oversight related to the agreement of the investment consultant's data and the investment manager's performance data;
- c. Works with the Fund's investment professionals to help insure compliance with this adopted investment policy, the relevant statutes and formal investment agreements, including the Fund's Most Favored Client Policy;
- d. Insures through objective and comprehensive hiring, promotion and performance review practices that individuals employed by the Fund are capable and trustworthy to perform their assigned duties in an exemplary fashion. Additionally, insure that proper internal controls are in place to safeguard the assets of the system;
- e. Conveys to the Fund's Treasurer all cash (expense) account activity and insures that the Treasurer is aware of the short term cash needs of the Fund;
- f. Works with the Fund's Treasurer and such other District officers to insure that the Fund has accurately received all payments to which it is entitled. This includes employee contributions, tax levy allocations, and short-term principal and interest;
- g. Works with staff, the District and all business partners to insure that viable continuity plans are in place;

- h. Studies, recommends and implements policies and operational procedures to insure efficient and cost-effective fund administration. Monitors consulting fees on an on-going basis to ensure that they are competitive, given the current market environment;
- i. Has a fiduciary responsibility with regard to their Fund responsibilities.

Treasurer

“The Treasurer of the MWRD shall be, ex officio, the Treasurer of the Fund (40 ILCS 5/13-709(b)) (Duties of officers of the District). As such the Treasurer has the following responsibilities:

- a. Collects all required sums from the salaries of MWRDGC eligible employees, tax levies, and other payments to the Fund and such other functions as the Board may direct;
- b. Provides short term cash management services relative to the cash balance of the Fund’s expense account. The primary objectives of the management of the Fund’s cash balance, in priority order shall be safety, liquidity and yield. This is a Board directed responsibility;
- c. Works internally and with financial business providers to insure that viable continuity plans are in place that provide for the resumption of business in the event of an unforeseeable disaster;
- d. Has a fiduciary responsibility with regard to Fund responsibilities.

Investment Consultant

- a. Coordinates and/or assists with a review (changes to profile and performance) of each investment firm as they take turns making their formal presentation, typically every three or six months, at the monthly Trustee meeting;
- b. Provides accurate timely quarterly and annual reporting relative to the investment performance, trade quality, portfolio characteristics (issue by issue basis), style based benchmarks and activities of the Fund’s investment managers;
- c. Periodically performs comprehensive formal asset allocation studies;
- d. Monitors investment manager compliance with their investment mandate and the terms of their agreement with the Fund;
- e. Coordinates and/or assists with the formal evaluation of the various investment professionals retained by the Fund, including due diligence reports or research on the Fund’s current or prospective investment managers;
- f. Coordinates and/or assists with investment manager searches, including the analysis of the portfolios of prospective investment managers;
- g. Coordinates and/or assists in the development of the Fund’s Asset Allocation Policy, including recommendations regarding the hiring, retention, reduction and/or dismissal of any of the Fund’s investment professionals, including coordinating/consulting relative to transitioning of assets;
- h. Advises and educates the Fund relative to risk considerations, recent market changes, asset allocation issues, and any other significant issues facing the investment community;
- i. Assists with the development and periodic review of the Fund’s investment policy;
- j. Shall not directly nor indirectly receive benefit from recommendations made to the Fund;

- k. Works internally and with business partners to insure that viable continuity plans are in place that provide for the resumption of business in the event of an unforeseeable disaster;
- l. Has a fiduciary responsibility with regard to their Fund responsibilities.

Custodian

- a. Maintains possession, that insures electronic ownership of the Fund's securities in the Fund's name;
- b. Insures minimal, if any, transaction failure, with proper follow-up and notification to all parties, including the Fund administration in all such cases;
- c. Provides accurate and timely (monthly and annual) investment transaction accounting (summary and detail), including movement of assets between accounts to the Fund and its consultants, as directed by the Fund;
- d. Provides audited monthly and annual reporting to the Fund, and monthly reporting to the performance evaluator, which includes all transactions and holdings by manager. Additionally provides audited monthly reporting for each of the Fund's individual investment products to the responsible investment firm. Where necessary, works with the individual investment firms to resolve any differences;
- e. If contract requires, assists the Fund administration and the Investment Consultant with regard to investment compliance by each of the Fund's investment managers;
- f. Collects income, redeems maturing securities, and effects electronic delivery and receipt of purchases and sales. Coordinates with the respective investment managers the filing of appropriate authorization to avoid/minimize the taxation of proceeds of foreign issues by foreign governments;
- g. Sweeps cash daily into an interest bearing account or accounts as designated by the Trustees featuring a high degree of safety of principal and liquidity;
- h. Facilitates efficient voting of proxies by the Fund's investment managers;
- i. Files class action security claims on behalf of the Fund for any and all claims for which the Fund may be entitled. Periodically, no less than quarterly, reports the status of such claims, and reports on such proceeds as they are distributed;
- j. Provides an interactive system that minimally allows access to the Fund's current portfolio and recent investment transactions as of the previous day's close of business;
- k. Where authorized, serves as a securities-lending agent in compliance with a comprehensive security-lending program specifically authorized by the Board of Trustees. Provides timely accurate periodic reporting to insure that the Fund is continually aware of the risk/return attributes of the program;
- l. Works internally and with business partners to insure that viable continuity plans are in place that provide for the resumption of business in the event of an unforeseeable disaster;
- m. Has a fiduciary responsibility with regard to their Fund responsibilities.

Investment Managers

- a. Have discretionary authority including decisions to buy, sell or hold securities and vote proxies on behalf of the Fund;
- b. Comply with the terms of their contract and in compliance with the Securities and Exchange Commission (SEC) and the statutes.

- c. Make recommendations, when deemed necessary, as to changes in the objectives, guidelines, or standards, based upon material and sustained changes in the capital markets;
- d. Have full power and discretion to determine which broker or dealer to use within the guidelines of the Fund's Minority/Women/ Disabled owned Broker/Dealer Policy. It is the investment manager's responsibility to seek best execution of the Fund's transactions;
- e. Provide accurate and timely reporting of investment transactions for quarterly and annual accounting purposes;
- f. Review the monthly investment transaction reports and detailed list of holdings (portfolio valuation) provided by the Fund's custodian and resolve as soon as possible any and all discrepancies;
- g. Work internally and with business partners to insure that viable continuity plans are in place that provide for the resumption of business in the event of an unforeseeable disaster;
- h. Have a fiduciary responsibility with regard to their Fund responsibilities.

Actuary

- a. Works with the Fund's Auditors, Trustees and Administration to provide the annual Actuarial Report, whose purpose is to determine the financial condition and funding requirements of the Fund;
- b. Employs fundamental and historical validation processes to insure that the Actuarial Report's underlying data is complete and accurate;
- c. Performs experience analysis every 3 – 5 years to insure that all actuarial assumptions are reasonable;
- d. Researches, informs, educates, and recommends to the Fund prudent actuarial assumptions;
- e. Provides accurate and timely legislative impact statements;
- f. Works internally and with business partners to insure that viable continuity plans are in place that provide for the resumption of business in the event of an unforeseeable disaster;
- g. Has a fiduciary responsibility with regard to their actuarial responsibilities to the Fund.

Auditors

- a. In accordance with generally accepted auditing standards, conduct an audit of the records of the Fund, so as to be able to express an opinion on the Fund's annual financial statements;
- b. Access the Fund's accounting principals, significant projections and overall financial statement presentations and make appropriate recommendations;
- c. Perform sufficient examination (test basis) to insure the underlying data is complete and accurate;
- d. Perform sufficient examination (test basis) to insure that Fund procedures have been developed in conformance with their legal authority or in accordance with fiduciary responsibilities;
- e. Verify (test basis) that Fund procedures have been adhered to in the carrying out of the Fund's administrative responsibilities;

- f. Verify (test basis) that the Fund’s administration of subsidized health care benefits for retirees and their dependents has conformed to the District’s policy;
- g. Review and make recommendation regarding the Fund’s internal controls;
- h. Work internally and with business partners to insure that viable continuity plans are in place that provide for the resumption of business in the event of an unforeseeable disaster;
- i. Have a fiduciary responsibility with regard to their auditing responsibilities to the Fund.

V. INVESTMENT GUIDELINES

Maintain a long-term focus. The Fund’s benefit liabilities extend many years into the future, as such, the investment focus should be on long-term results. The Board recognizes that its investments are subject to short-term volatility, however it is critical that a long-term investment focus is maintained.

Maximize total return within prudent risk parameters.

In order to minimize the risk associated with a large concentration in limited market segments or investment styles:

1. The Fund’s equity investments should be diversified by market capitalization, investment style (i.e., value, core or growth), economic sectors, industries, and investment strategy and 2) the fixed income investments should be diversified across market segments, by credit quality, maturity and investment strategy.
2. Leverage, the use of borrowed funds, securities, or other financial contracts to increase economic exposure, is prohibited. However, securities lending is not prohibited, and may be only allowed as part of a comprehensive securities lending program specifically authorized by the Board of Trustees. Similarly, the prudent use of futures in rebalancing processes and portfolio transitioning is not considered to be leverage.

It is the Fund’s policy to maintain a most favored client policy relative to investment management fees.

It is the Fund’s policy to maintain a “no finder’s fee” policy relative to the establishment of consultant relationships.

It is the Fund’s policy to encourage the use of broker/dealers owned by minorities, women and persons with disabilities who are capable of providing “best execution” to be given an opportunity to do so.

The Fund encourages the use of emerging manager firms.

VI. INVESTMENT OBJECTIVES

The overall investment objective is to invest the assets of the Fund that are comprised of prior, current and future employee and employer contributions and investment income to insure the accumulation of the funds necessary for payment of current and future benefits. At any point in time, the indicator of that ability is the Fund’s funded ratio, which is primarily dependent upon the actuarial value of assets and actuarial assumptions that include an investment net rate of return of 7.75% as of 12/31/2005.

The investment objective of the Fund’s investments is to maximize the rate of return within a prudent level of risk. The Fund is expected to meet or exceed the actuarial return assumption on average over 5 year periods rolling quarterly.

VII. INVESTMENT PHILOSOPHY

Investment Management Structure

The Fund utilizes equity-only, fixed income-only investment management products. Investment products are employed in an effort to conform to the current asset allocation targets.

For diversification purposes, the Fund attempts to employ a diverse set of investment styles. Allocation to investment products is based upon asset allocation needs. Specific biases relative to core, value and growth investment styles is formalized in the current asset allocation targets.

The Board realizes that a large fund sometimes runs the risk of dividing assets among too many active managers that can result in an “index like” allocation at high fees. At the same time the Board will avoid the risk of having too much money with a single manager, thereby imposing a maximum allocation limit for a single manager account based on style and optimization. Although there is no specific number of investment managers that has been determined to be optimum, the goal is to utilize the minimal number that provide an acceptable level of security and style diversification without exceeding the individual investment product/manager allocation limitations, refer to Asset Allocation Considerations within the Asset Allocation Section (IX);

In conjunction with the Fund’s target asset allocation, which is based on the Fund’s most recent asset allocation study, the objective is to rebalance as required to stay within a reasonable range (typically + or – 5%) of the target allocation across the broad asset classes. Refer to the section on Asset Allocation for further discussion.

In general, the Fund wants every investment mandate to stand on its own.

Investment Manager Selection

The Fund has established a procurement policy in accordance with the requirements of the Illinois Public Act 96-0006. Refer to the attached Procurement Policy for Investment Advisors.

Investment Manager Evaluation is based on:

In compliance with their formal contract with the Fund, investment managers are required to provide quarterly reports that include current and historical performance data and portfolio characteristics. The Fund should review any additional correspondence provided by the investment management firm.

Information gathered from professional journals, on-site visits, and concerns/comments expressed by investment consultants, Trustees or staff.

Rates of return and portfolio characteristics based upon the records of the custodian are computed and summarized to verify the performance and attributes of the Fund’s individual portfolios. Additionally, performance and volatility comparisons are provided relative to style based and broad based benchmark (s).

Peer group performance comparisons utilizing an appropriate asset-class style/capitalization based investment universe.

Formal Presentations

Periodically, the Fund’s investment management firms make formal presentations to the Trustees.

Periodically, the third party responsible for the independent performance review, coordinates/assists with a formal performance review of each one of the Fund’s portfolios.

Investment Monitoring Guidelines

The Board has identified quantitative and qualitative areas of concern which should be considered in evaluating an investment manager.

Investment manager performance net of fees is expected to exceed the style specific benchmark on average over multiple rolling periods of 1, 3 and 5 years. Time periods to be reviewed will be quarter end, year to date, trailing one year, two year, three-year and five-year periods. Consideration will be given to consistency of performance in the context of rolling three-year periods and for the rolling five-year period. Shorter time periods can be assessed if the manager has underperformed for 3-4 consecutive quarters.

Quantitative Concerns. Investment manager performance is evaluated against the following measures:

- A. Rates of return, gross and net of fees, against agreed upon style-specific benchmark guideline;
- B. Ranking within peer group universe for comparable styles.

Qualitative Concerns. Consideration is also given to any of the following concerns:

- A. The firm has changed portfolio managers, or such change appears imminent;
- B. The firm has had a significant change in ownership or control;
- C. The firm has experienced significant account losses;
- D. The firm has changed investment focus or has experienced style drift, departing from the investment style, philosophy, objectives or parameters for the reason of hire;
- E. The firm's strategy or portfolio characteristics no longer fit the Fund's desired asset allocation portfolio structure;
- F. The portfolio has experienced substantially increased portfolio turnover;
- G. The firm has experienced administrative difficulty in transacting trades, fund transfers, or pricing;
- H. The Fund has experienced other changes or problems in its procedures, operations, investing, or reporting which has or could detract from the objectives of the Plan;
- I. The firm manages a significant portion of the Fund's assets;
- J. The Fund's assets are a significant portion of the firm's assets under management;
- K. The firm has demonstrated a reduction in quantity or quality of support;
- L. The firm's inability to explain poor performance and identify corrective actions;
- M. The firm has not complied with any particular aspect of the MWRDRF Investment Manager Agreement, master statements, policies and objectives, or the Fund's current Investment Guidelines and Policies;
- N. The firm has violated an SEC rule or regulation. The firm has been involved in litigation or investigation by a governmental body for legal or ethical violations.
- O. The firm has changed their fee schedule.

VIII. MANAGER REVIEW AND TERMINATION GUIDELINES

Criteria for the Review and Termination of Investment Managers

The Investment Consultant and Fund Staff will recommend terminating a manager when confidence is lost in the firm or the management of a strategy; when the characteristics of the portfolio no longer satisfy the desired or expected elements of the mandate, or the current style is no longer deemed appropriate.

Listed below are scenarios that would lead to a loss of confidence in a manager:

Performance: Continued performance shortfalls versus a peer group of managers with a similar style and market index. A manager that lags the benchmark indexes over an average of rolling three year periods for three consecutive quarters will be considered for termination.

Changes in strategy: If the manager departs from the strategy and/or style it was originally hired to implement, such as a switch from a quantitative process to a fundamental one and or the strategy deviates from the peer universe and benchmark indexes dramatically and in a manner that would not have been expected given the tracking error expectations of the particular strategy.

Change in organizational structure or personnel: A significant change in culture through a merger or acquisition that is likely to distort incentives and promote turnover, or if significant members of the investment team leaves the firm.

Compliance: Any gross negligence, willful misconduct, investment policy violation or breach of federal and state securities laws.

Other: Any other reason the Fund Trustees may deem necessary for a heightened review of the manager is warranted.

The Investment Consultant and Fund Staff's investment manager recommendations may fall into one of the following two categories:

1. **Retain:** We have confidence in the investment manager's ability to add future value. The manager's investment performance and fit is satisfactory, and has no significant organizational or strategic issues.
2. **Terminate:** We do not have confidence in the manager's ability to add future value over a benchmark. We may recommend terminating a manager if significant concerns exist as to the organization or strategy.

The Fund Staff with assistance from the Investment Consultant will review managers and when necessary provide recommendations to terminate relationships. These recommendations will be brought to the entire Board of Trustees for a final decision to be approved.

IX. ASSET ALLOCATION

Asset allocation is based on a periodic (typically every 3 years) formal asset allocation study. The study is based on the mean-variance optimization encompassing the major assets classes that have been approved by the Trustees. Section V (Investment Guidelines) and the most recent Asset Allocation Plan provides rationale for the adopted approach. The study results in adoption of target allocations for each major asset class. Allowable allocation ranges around the target are then identified for each major asset class. The idea is to rebalance as needed to maintain each major asset class' allocation within the identified range.

Based on the most recent (2007) formal asset allocation study, the following major asset classes, target and ranges were adopted:

Major Asset Class	Target	Range
Domestic Large Cap Equity	25%	20% - 30%
Domestic Mid Cap Equity	20%	15% - 25%
Domestic Small Cap Equity	10%	5% - 15%
International Equity	10%	5% - 15%
Domestic Fixed Income	<u>35%</u>	30% - 40%
	<u>100%</u>	

Note: Regardless of the above, the standard equity portfolio analysis includes a breakdown by the standard nine equity classes (value, core and growth across the large, mid and small capitalization classes) plus international. Thus, allocation changes could be addressed to maintain a desired level (for example, over-weight of large cap value equity relative to a "normal" market-like allocation).

The investment policy benchmark index is composed of the following: 25% S&P 500 Index, 20% Russell Midcap Index, 10% Russell 2000 Index, 10% MSCI EAFE Index and 35% Barclays Aggregate Index.

Allocation Targets and Ranges

Fixed Income Target and Range

Fixed Income target as a percent of invested assets: 35%
Fixed Income range as a % of total invested assets: 30% minimum to a maximum of 40%

Equity Targets and Range

Equity target as a percent of total invested assets: 65%
Equity range as a percent of total assets: 60% minimum to a maximum of 70%

Active and Passive Asset Allocation

Active and passive strategies shall be considered for all investment manager selection projects.

Asset Allocation Guidelines

It is the intent of the Board to monitor current allocations and to establish the following asset allocation guidelines relative to allocations to new or existing investment products managed by individual firms:

Related to Managed Investment Strategies:

A. Maximum percentage of the Fund's assets allocated to any one strategy such as large cap value: 15%

Example (If the Fund's Assets = \$1,000,000,000 then the Maximum Allocation = \$150,000,000)

B. Maximum percentage of the Fund's assets allocated to any one firm: 20%

Example (If the Fund's Assets = \$1,000,000,000 then the Maximum Allocation = \$200,000,000)

C. Maximum percentage of a strategy's assets managed by any one firm represented by the Fund's allocation: 15%

Example (If the Strategy's Assets = \$100,000,000 then the Maximum Allocation = \$15,000,000)

D. Maximum percentage of a firm's assets under management represented by the Fund's allocation: 20%

Example (If the Firm's Assets = \$100,000,000 then the Maximum Allocation = \$20,000,000)

The Fund Staff and Investment Consultant will monitor and report on the status of the allocations listed above and the Trustees will consider the prevailing investment market environment to determine if rebalancing is necessary. Items A and B should be monitored semi-annually and items C and D should be monitored annually.

Rebalancing Guidelines

The asset allocation & rebalancing report which provides the most recent quarter ending allocation to equities and fixed income (major asset classes) will be distributed and reviewed monthly. Rebalancing considerations are:

To comply with the current asset allocation policy when the major assets classes are out of range, the Trustees should consider reallocation minimally to be within range on both major asset classes. To continually forgo rebalancing when the asset allocation is consistently out of range reduces the impact of the asset allocation plan.

When more than one consecutive quarter-end has reflected the similar out of range condition, the Trustees should strongly consider reallocation, preferably adjusting to allocations more consistent with the target, as opposed to just falling within the range. Otherwise, the Trustees should consider revisiting their earlier asset allocation plan to change their overall investment goal.

In many cases, such reallocation can be made within existing passive accounts or in combination with other actively managed portfolios, as opposed to hiring a new investment manager. To determine an appropriate course of action, the Trustees should minimally review the major subclasses (large/mid/small capitalization and value/growth style equity, fixed income, and active/passive strategy) to more specifically determine the portfolios involved in the reallocation.

X. SECURITIES LENDING POLICY

The Fund participates in a stand alone securities lending program and securities lending with regard to its active and passive commingled fund investments.

XI. PROXY VOTING POLICY

PROXIES - The Fund appoints the investment manager as its agent to vote all proxies at the manager's discretion solely in the best interests of the beneficiaries of the Client.

As part of the standard investment management agreement, investment managers are required to report their proxy voting on a quarterly basis.

XII. SECURITIES CLASS ACTION LITIGATION POLICY

Securities Litigation Assumptions and Understanding

The custodian maintains an electronic historical record of the Fund's investment transactions and portfolio holdings and is in the best position to be aware of existing class action litigation and to be able to determine the Fund's interest, if any.

The custodian will pursue the Fund's interest through the custodian's claim process (Class Action Administrator), which will complete the appropriate forms and provide the proper supporting documents to further the Fund's claim.

Where the period specified within the class action falls outside of the period for which the current custodian served the Fund in that capacity, the current custodian will work with the Fund's prior custodian (s) to determine the Fund's interest in such class action and to compile the required supporting documentation, and similarly pursue the Fund's interest.

The Fund's current custodian provides periodic reporting relative to the pending and settled class action litigation in which the Fund has an interest.

Similar to the Fund's custodian, it is our understanding that the Fund's passive commingled investment management (custodial) firms are pursuing such class action litigation that are relevant to the various commingled funds and crediting such funds with the litigation proceeds.

In that the MWRD Retirement Fund is not one of the larger institutional Funds, and in that the Fund's investments are well diversified over the universe of domestic securities, it would not seem appropriate to consider lead plaintiff status in such class action litigation. For this purpose, the Fund will rely upon the services of the custodian and the greater institutional investment community. Periodically, the Fund administration in consultation with the Fund's Investment Consultant will review the Fund's securities litigation proceeds to insure that the Fund is receiving its full share of all such settlements.

XIII. BROKERAGE POLICY

Each investment manager is responsible for implementing trading policies that result in best execution in compliance with SEC regulations and reasonable commissions.

The Fund will maintain policies that encourage the use of qualified broker/dealers owned by minorities, women and persons with disabilities who are capable of providing "best execution" to be given an opportunity to do so.

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Revised September 23, 2009

