



**Finance Committee Members**

*Rick Baker*

*Gary Carey*

*Stephen Kepley (Chair)*

**FINANCE COMMITTEE MEETING**

**Wednesday, November 20, 2019 – 4 p.m.**

**Rapid Administrative Office, 300 Ellsworth Avenue, SW**

**AGENDA**

	<u>PRESENTER</u>	<u>ACTION</u>
1. <b>PUBLIC COMMENT</b>		
2. <b>MINUTES</b> – July 17, 2019 Finance Committee Meeting	Stephen Kepley	Approval
3. <b>DISCUSSION</b>		
a) FY 2019 Operating Budget Projections	Linda Medina	Information
b) Audit Planning Document Review	Linda Medina / BDO	Information
b) FY 2020 Grants Update	Kevin Wisselink	Information
c) Rapid Investment Policy Statement	Stephen Kepley	Information
i) Administration Pension Plan		
ii) Union Pension Plan		
d) Review committee meeting schedule for 2020	Stephen Kepley	Approval
4. <b>ADJOURNMENT</b>		

Next meeting: February 12, 2020



MINUTES OF  
FINANCE COMMITTEE  
JULY 17, 2019

ATTENDANCE

Committee Members:

- Rick Baker
- Gary Carey
- Stephen Kepley (chair)

Staff Members:

- Andrew Johnson
- Brian Pouget
- Shannon Radke
- Dina Reed

Michael Bulthuis, Linda Medina, Mike Wieringa, Kevin Wisselink

Others:

Mayor Kepley called the meeting to order at 4:00pm.

**PUBLIC COMMENT** – No public comment.

**1) MINUTES – May 8, 2019 Finance Committee meeting**

No corrections offered. Minutes approved as submitted.

**2) DISCUSSION**

**a) FY 2019 Operating Budget Update**

Ms. Medina provided a FY 2019 budget projection update, stating that we continue to have an expectation of being 2% over-budget, as was presented at the May 8, 2019 Finance Committee Meeting. She further discussed the parameters used for coming to that projection. She explained that using the FY 19 projection, included using \$1.25M for Preventive Maintenance including funding and reserve that would leave us at a deficit of \$889,973. She further clarified that if we did not fund the reserve the deficit would be \$639,973.

To Mayor Kepley’s question as to whether the plan is to fund the reserve or not, Ms. Reed explained that there have been some improvements seen in the budget trend since the May 2019 meeting. She clarified that they will continue to track the budget and make the decision of whether or not to fund the reserve later, as they see where the trend is going. Ms. Reed further continued, explaining that although there is a desire to fund the reserve, if we continue to be over-budget from an expense standpoint, we likely will not. She also clarified that if circumstances allow us to get close enough to the budget, we may still fund the

reserve, even if it meant we will have to use more Preventive Maintenance to cover other costs. Ms. Reed stated that it may take a couple years to diminish the reliance on Preventive Maintenance, but that is the goal.

Ms. Reed mentioned that we will eventually be looking at Healthcare reserves as well, to which Mayor Kepley asked how many funds we currently have, and Ms. Reed replied that we currently have one general fund. Mayor Kepley clarified that to be self-insured for healthcare would create another.

Ms. Medina explained that as the projection does not include year-end, we will continue to watch the projections closely, and as we draw closer to year-end, will determine whether or not an amendment will be sought. Ms. Reed clarified that if operating expenses do not exceed budget, an amendment would not be required.

## **b) FY 2020 Operating Budget Update**

Ms. Reed began by stating that since we will be having an in depth budget overview at the Board Budget Workshop on July 31, 2019, they will only present the highlights today.

### **i) Contract Service Rate**

Ms. Medina started with Revenues, highlighting the presentation slide, Contract Service Rate Returns To Normal. She explained that contract service rates were steady for FY 16 & FY 17 and dropped in FY 18 and dropped again in FY19, stating that the proposal for FY 20 is to get the contract rates back where they should be. She detailed that when calculating contract service rate, we look at all expenses, then explained the reasons that had factored into the decrease in the contract rates during FY 18 and FY 19, clarifying that FY 18 and FY 19 included a Pension Liability Adjustment, which showed a reduction of expenses on the books, but that it did not actually reduce expenses, because we still made payments to pension. Ms. Medina further explained that this year, they were calculating based on true expenses. Ms. Reed clarified that the FY 18 and FY 19 calculations were not capturing the true cost of operation.

To Mayor Kepley's question as to which contracts would be affected, Ms. Medina replied that it would affect GVSU, DASH, most colleges (Ferris, GRCC, etc.), Townships, and Route 19. There was discussion about the short term impact this could have on the budgets at the other entities and that the Rapid should reach to those partners affected by the increase. Mayor Kepley proposed a step process over a couple of years. Mr. Baker asserted urgency in scheduling these meetings, preferably in person, as soon as possible. Mr. Johnson assured the Finance Committee that we will handle any concerns on case by case basis, treating everyone fairly. Mayor Carey asked for a conservative look at options and suggested offering alternative plans to ease budget pressure on partners. Ms. Reed added that she will continue to look at the numbers holistically, to verify what other options would be feasible for all parties. Mayor Kepley reiterated that perhaps it would be necessary try to offer different plans, to which Mr. Johnson agreed that presenting the rates as is will be the initial approach, but that we may present alternatives, as needed.

## **ii) Authorized Positions**

Ms. Medina explained that we will need additional fare enforcement officers (included in Administration), primarily due to Laker Line, as well as additional mechanics (Maintenance). Ms. Medina continued to clarify the Operators Budget and pool of operators.

Ms. Reed added that we have more authorized positions than for what we are currently budgeted, clarifying that we have not exceeded the number of positions authorized by the Board. Mayor Kepley followed by agreeing that as long as the FTE's have been authorized, it is appropriate to utilize those FTE's where they would be most appropriate, as long as we are able to stay within budget, asserting the necessity for flexibility to make good staffing decisions. Ms. Reed stated that the goal is to be fully staffed, in order to cut down on overtime and further detailed that our true authorized personnel count is 440, which was not reflected in the table presented.

To Mayor Carey's question about labor burden rate, Ms. Reed explained that we calculate everything individually, and Ms. Medina added that the average is about 40%.

Mr. Johnson added that he appreciates the flexibility in staffing and assured the Board Committee that we adhere to the dollar limits set by the budget.

Ms. Medina stated that the goal for FY 2020 is to be fully staffed, in order to cut down on overtime wages, projecting to reduce overtime for Maintenance down to 3% of wages and Operators overtime down to 10%.

## **iii) Healthcare**

Ms. Medina started by explaining that we are anticipating a reduction of 4.9% in healthcare costs. Ms. Reed continued by explaining that we will be staying with Blue Cross as we were able to get favorable rates.

Ms. Reed continued to explain that we are still looking at self-funded quotes, and although we still do not have enough information to move in that direction yet, we anticipate the possibility of moving toward self-insured healthcare by next year.

To Mayor Kepley's enquiry as to who we use for our consultant, Ms. Reed responded that we use USI. In a follow-up question, from Mayor Kepley, as to whether we are happy with them, Ms. Reed asserted that we are, and that for the past two years we continue to get favorable rates with them. She explained further benefits including having the option to have FMLA managed for free.

Mayor Kepley asked about pharmaceuticals and what programs are offered. Ms. Reed responded that prescription drugs are covered and explained that we offer HMO and PPO plans, as well as HSA and non-HSA options for each. She further explained that there is a 20%

employee cost sharing component, and clarified that we also have a Wellness Plan which offers reduction of employee costs for participation.

Further discussion was had about HSA options and incentives that could be available to employees going forth. Mayor Kepley asserted the importance of working toward getting as many employees on HSA plans as possible and devising an incentive structure to ensure employees wanted to stay on such a plan. Ms. Reed agreed, saying that they are looking into options for further Wellness initiatives to introduce.

#### **iv) Preventive Maintenance and Pension Strategy**

Ms. Reed stated that the overall goal is to reduce reliance on Preventive Maintenance. She further added that in regards to budgeting for FY 2020, we want to accelerate contributions to our Administration Pension Plan, to completely fund the Unfunded in a 2-year period, by 2021. This would allow for a reduction in expenses by about \$450,000 by 2022, which would help further reduce overall reliance on Preventive Maintenance.

Mr. Johnson added that this budget process has been very different from the process in previous years. He further explained that Ms. Reed and her Finance Team has worked diligently to build this from the ground up, working directly with all the departments toward building a budget that will produce more accountability across departments.

Mayor Kepley warned against the corporate philosophy of “use it or lose it” ensuring that good behavior will not be penalized, reducing budgets in subsequent years if total amount was not spent this year. Ms. Reed explained that we will eventually be moving toward a 3-year budget format.

### **c) FY 2019 Grants Update**

#### **i) Federal Funding Sources**

Mr. Wisselink presented graphs showing historical and projected Federal Formula Funding for 5307, 5339 and Congestion Mitigation and Air Quality (CMAQ) Funding. He pointed out the 5307 and 5339 have been rather steady, with slow, but steady increases, as we have not had any major service changes.

In regards to CMAQ funding, he explained that we are in an attainment area, meaning that our air quality has improved over time, but that due to the improvement, our CMAQ funding will likely decrease and with time it is possible that we could eventually lose CMAQ funds altogether. We anticipate getting the FY 19 Funds towards the end of the year, in September.

Mr. Wisselink went on to explain the Federal FY 2020 Grant Application Timeline.

## **ii) Capital Improvement Plan Update**

Mr. Wisselink pointed out the Capital Planning Committee Mission Statement in the slides, explaining that the goal is to look at the 5-year horizon and create a robust Capital Improvement Plan. He continued by detailing the committee's process history. Ms. Reed added that this Capital Planning process is new this year, explaining that in the past it was driven by the Executive Team, further stating that this new process is a more collaborative team approach, in alignment with our highest priorities and Strategic Goals.

Mr. Wisselink went on to give an overview of the Capital Planning Investment Decision Criteria and scoring schema used for the process, as well as the ranking of the Projects put forth for consideration. He pointed out the top 8 projects which have been selected for funding in FY 2020, per the Selection Criteria scoring parameters utilized.

Mayor Kepley asked about the whether there is an expectation that any of the Board Committees will have input into this, to which Mr. Wisselink assured him that this will be presented to the entire Board, in more detail, at the Board Budget Workshop meeting, coming up on July 31, 2019.

Ms. Reed noted that the initial plan is being sought for Board approval. She added that it is based on a rolling 5-year plan, further clarifying that the committee meets several times a year, so if other projects are presented, they could be added for future board approval on a yearly basis. Mr. Johnson added that the purpose is for it to be adaptable, to meet needs.

## **iii) Discretionary Grants**

Mr. Wisselink pointed out the current discretionary grants that we have been awarded and those for which we have applied. The projects included for the three discretionary grants that we have received are Laker Line, Silver Line Transit Oriented Development (TOD) Study and the Michigan Mobility Challenge Grant. Mr. Wisselink gave brief overviews of where we are in the processes of the Laker Line and Silver Line projects and for each, stating that we are on target. In his brief overview of the Michigan Mobility Challenge Grant, Mr. Wisselink explained that we are partnering with Via, explaining the app they developed. We are also partnering with Disability Advocates for project outreach and MV Transportation, who is providing the Service. He further mentioned that the pilot is small-scale, servicing the SE part of the service area, and that there will only be 5 vehicles. He stated that the pilot was set to start on July 22<sup>nd</sup> and run for 6 months.

We have applied for the Low-No grant for the Battery-Electric Bus Program, which we hope to hear back from by fall. The grant would be used to purchase 6 battery-electric vehicles as well as charging infrastructure.

Mr. Wisselink explained that in June 2019, we applied for a Bus Training Facility Grant, which we hope to hear back from by fall. He went on to explain that at this time, we do not have a dedicated bus training facility and the site we have been using for training will no longer be

available to us. Mayor Kepley offered a suggestion to look into the Butterworth Landfill as a suggestion. Mr. Johnson asserted that whether we get the grant or not, we are still planning on finding a way to get dedicated training space.

Mr. Wisselink gave an overview of how we ended up applying for this final submission, which was for the Autonomous Mobility Project. In partnership with MDOT and Pratt & Miller, we applied for a BUILD grant to design and build an accessible 15 passenger automated vehicle, which would connect to our BRT system.

### **3) NEXT MEETINGS**

- a)** Board Budget Workshop – July 31, 2019
- b)** Finance Committee Meeting – November 20, 2019

Meeting adjourned at 5:29pm.

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Shannon Radke, Board Secretary



# Interurban Transit Partnership

# AUDIT PLANNING

September 30, 2019

The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of the Board of Directors and, if appropriate, management of ITP, and is not intended and should not be used by anyone other than these specified parties.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.





September 30, 2019

Members of the Board of Directors  
Interurban Transit Partnership  
300 Ellsworth Avenue SW  
Grand Rapids, Michigan 49503

Professional standards require us to communicate with you regarding matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. This document provides an overview of our plan for the audit of the financial statements and the schedule of expenditures of federal awards of Interurban Transit Partnership (ITP) as of and for the year ended September 30, 2019, including a summary of the nature, scope, and timing of the planned audit work.

### Responsibilities

BDO USA, LLP, as your auditor, is responsible for forming and expressing an opinion about whether the financial statements and the schedule of expenditures of federal awards that have been prepared by management, with your oversight, are prepared, in all material respects, in conformity with accounting principles generally accepted in the United States of America. In addition our audit will be conducted in accordance with standards for financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. The engagement letter, a copy of which is available, includes specific details regarding the auditor's and management's responsibilities.

### Overall Audit Strategy and Planned Scope

Overall, our audit strategy is to assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design further audit procedures responsive to assessed risks. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. In connection with our audit, we will obtain a sufficient understanding of the ITP's internal control to plan the audit of the financial statements. However, such understanding is required for the purposes of determining our audit procedures and not to provide any assurance concerning such internal control. In addition, the Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether ITP has complied with applicable federal statutes, regulations and the terms and conditions of the federal awards that may have a direct and material effect on each of ITP's major federal programs.



We focus on areas with higher risk of material misstatement (whether due to error or fraud). Our audit strategy includes consideration of:

- a) Prior year audit results together with current year preliminary analytical review, including discussions with management and those charged with governance regarding the ITP's operations.
- b) Inherent risk within ITP.
- c) Recent developments within the industry, regulatory environment, and general economic conditions.
- d) Recently issued and effective accounting and financial reporting guidance.
- e) ITP's significant accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions.
- f) The control environment, risk management and monitoring processes, and the possibility that the control systems and procedures may fail to prevent or detect a material error or fraud.
- g) Internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.
- h) Information about systems and the computer environment in which the related systems operate.
- i) A continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting ITP.

Based upon our initial assessment, our audit will entail a combination of reviewing controls and substantive testing. The primary areas of focus in our overall audit strategy include the following:

- ▶ *Cash and Investments*
- ▶ *Due from Other Governments*
- ▶ *Capital Assets*
- ▶ *Accounts Payable, Accrued Expenses, and Due to Other Governments*
- ▶ *Net Pension Liability and Related Deferred Inflows and Outflows*
- ▶ *Revenues and Receivables - State and Federal Awards*
- ▶ *Property Tax Revenue and Receivable*
- ▶ *Passenger Fares and Other Local Revenue*
- ▶ *Expenses*
- ▶ *Capital Contributions*
- ▶ *Federal Program Requirements and Impact on the Uniform Guidance*
- ▶ *Financial Reporting*
- ▶ *Other Matters, Including Significant Unusual Transactions*

Our audit strategy involves extensive partner and manager involvement in all aspects of the planning and execution of the audit. Our goals include focusing resources on high risk areas and other areas of concern for management and the Board of Directors.



#### Overall Audit Timeline

Planning is anticipated to occur in September 2019 and year-end fieldwork will occur in November 2019 with release of the opinion and all financial statements and reports in accordance with *Government Auditing Standards*, and the Uniform Guidance expected to occur by January 2020.

#### Independence Communication

Our engagement letter to you dated July 17, 2019 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of ITP with respect to independence as agreed to by ITP. Please refer to that letter for further information.

#### Significant Accounting and Reporting Matters

See attachment to this letter.

#### Client Service Team

As a matter of policy, we attempt to provide continuity of service to our clients to the greatest extent possible. Where engagement team rotation is necessary, determine the appropriate individuals to be assigned to the engagement based on particular experience, expertise, and engagement needs.

The following is the contact information for the engagement partner and manager responsible:

John LaFramboise  
[jlaframboise@bdo.com](mailto:jlaframboise@bdo.com)

Joshua Laramy  
[jlaramy@bdo.com](mailto:jlaramy@bdo.com)

We are pleased to be of service to ITP and look forward to answering questions you may have regarding our audit plan as well as other matters that may be of interest to you.

Respectfully,

BDO USA, LLP

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# GASB Standards Effective for Reporting Periods Beginning After June 15, 2018 (commences with fiscal years ending June 30, 2019)

## GASB STATEMENT NO. 83, *CERTAIN ASSET RETIREMENT OBLIGATIONS*

- ▶ Establishes measurement criteria for recording a liability for the retirement or removal of certain assets such as:
  - Nuclear power plants
  - Sewage treatment facilities
  - Coal-fired power plant
  - Wind turbines
  - X-ray machines
- ▶ Governments with legal obligations to perform future asset retirement activities related to its tangible capital assets would be required to recognize a liability.
- ▶ Must be both an external obligating event, such as a court judgment or federal, state or local law; and an internal obligating event, such as contamination or retirement.
- ▶ A liability and corresponding deferred outflow are recorded when the liability is both incurred and reasonably estimable.
- ▶ The liability is based on the best estimate of the current value of outlays expected to be incurred.
- ▶ Deferred outflows should be amortized over the estimated useful life of the tangible capital asset.
- ▶ Annual remeasurement required, adjusting for effects of inflation or deflation.
- ▶ Exception for minority owner (<50%).

## GASB STATEMENT NO. 88, *CERTAIN DISCLOSURES RELATED TO DEBT, INCLUDING DIRECT BORROWINGS AND DIRECT PLACEMENTS*

- ▶ Defines debt for purposes of disclosure as a liability that arises from a contractual obligation to pay cash or other assets in one or more payments to settle an amount that is fixed as of the date the obligation is established.
- ▶ Excludes pension and OPEB liabilities, leases (except for contracts reported as a financed purchase of the underlying assets) and accounts payable as those should be disclosed in separate notes.
- ▶ Includes capital appreciation bonds and variable rate debt.
- ▶ Additional note disclosures required for unused lines of credit, assets pledged as collateral, specific debt agreement terms.
- ▶ Debt disclosures should separate information for direct borrowings and direct placements of debt from other debt.

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# GASB Standards Effective for Reporting Periods Beginning After December 15, 2018 (commences with fiscal years ending December 31, 2019)

## **GASB STATEMENT NO. 84, FIDUCIARY ACTIVITIES**

- ▶ Establishes criteria for reporting fiduciary activities that focuses on whether the government controls the assets and the fiduciary relationship with the beneficiaries.
- ▶ The statement describes four fiduciary funds:
  1. Pension and OPEB trust funds
  2. Investment trust funds
  3. Private-purpose trust funds
  4. Custodial funds
- ▶ Custodial funds replace agency funds for activities that are not held in trust.
- ▶ For activities for which a trust agreement exists, an investment trust fund or private purpose trust fund will be used.
- ▶ Pension funds not held in trust would be classified as custodial funds.

## **GASB STATEMENT NO. 90, MAJORITY EQUITY INTERESTS, AN AMENDMENT OF GASB STATEMENTS NO. 14 AND NO. 61**

- ▶ Will report a majority equity interest in a legally separate organization as an investment if it meets the definition.
- ▶ Measured using the equity method, unless held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund or an endowment/permanent fund. These funds would utilize fair value to measure the majority equity interest.
- ▶ For all other majority equity interests in a legally separate organization, report the legally separate organization as component unit and the fund that holds the equity interest should report an asset using the equity method.
- ▶ Acquisition of a component unit in which the government holds 100% interest would be measured using acquisition value.

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# GASB Standards Effective for Reporting Periods Beginning After December 15, 2018 (commences with fiscal years ending December 31, 2019)

## GASB STATEMENT NO. 87, *LEASES*

- ▶ This standard will require recognition of certain lease assets and liabilities for leases that are currently classified as operating leases.
- ▶ New definition of a lease - a contract that conveys the right to use another entity's nonfinancial asset for a period in an exchange or exchange-like transaction.
- ▶ Eliminates the distinction between operating and capital leases.
- ▶ Excludes short-term leases.
- ▶ Excludes leases that transfer ownership and service concession arrangements that are covered by GASB Statement No. 60.
- ▶ Lessees would recognize a lease liability and an intangible right-to-use lease asset which would be amortized in a systematic and reasonable manner over the shorter of the lease term or the useful life of the underlying asset.
- ▶ Lessors would recognize lease receivable and deferred inflow of resources which would be recognized as revenue in a systematic and rational manner over the term of the lease.

## GASB STATEMENT NO. 89, *ACCOUNTING FOR INTEREST COST INCURRED BEFORE THE END OF A CONSTRUCTION PERIOD*

- ▶ Upon implementation, in financial statements using the economic resources measurement focus (business-type activities and enterprise funds) interest incurred during construction should be recognized as an expense of the period.
- ▶ Interest costs on construction-in-progress will be capitalized only to the implementation date of this Statement. The provisions of this Statement are to be applied prospectively and will therefore not require a restatement of any balances.
- ▶ In financial statements using the current financial resources measurement focus, interest incurred during construction should be recognized as an expenditure (no change).
- ▶ If a government has regulated operations as defined by paragraph 476 of GASB Statement No. 62, this Statement does not eliminate or remove the requirement to capitalize qualifying interest costs as a regulatory asset.

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# Cybersecurity

The board's role in the oversight of organizational risk is increasingly complicated by cybersecurity concerns. Trustees need to maintain continual knowledge about evolving cyber issues and management's plans for allocating resources and otherwise responding to cyber risks. Such knowledge helps boards assess the priorities and investment decisions made by management in critical areas. Often, particularly in smaller organizations, those charged with governance oversee and monitor management's strategy for protecting its digital assets.

In April 2017, the AICPA published the new [Cybersecurity Risk Management Reporting Framework](#) to its website—also known as “SOC (System and Organization Controls) for Cybersecurity”—that provides entities with a proactive approach for designing a risk management program and communicating about its effectiveness to their senior management teams, boards, and external stakeholders. Those charged with governance are urged to refer to BDO's [SOC for Cyber](#) resources to learn more about attestation services with respect to management programs.

Here are recent tools/materials for use by those charged with governance in this area:

Recommended Resources	Release Date
BDO Webinar: <a href="#">Cybersecurity - Resources Boards Want to Know About</a>	August 22, 2018 September 27, 2018
CAQ's <a href="#">Cybersecurity Risk Management Oversight : A Tool for Board Members</a>	April 2018
<a href="#">BDO Archived Webinar: What's on the Minds of Boards?</a>	November 2017
<a href="#">Are You Cyber Aware?: 10 Cybersecurity Questions for Senior Executives?</a>	October 2017
<a href="#">Cyber Risk Management: What You Need to Know Now</a>	October 2017
<a href="#">2017 BDO Cyber Governance Survey</a>	September 2017
<a href="#">Breaking Down the Equifax Data Breach</a>	September 2017
<a href="#">BDO Knows Cybersecurity: Petya Cyber Attack</a>	June 2017
<a href="#">BDO Highlights Important DHS - FBI Cyber Alert on North Korea - Hidden Cobra</a>	June 2017
<a href="#">Introducing SOC for Cybersecurity: Translating Cyber Risk For Every Stakeholder</a>	June 2017

# The RAPID – Interurban Transit Admin Pension Plan

## Investment Policy Statement

### I. PURPOSE OF INVESTMENT POLICY STATEMENT

The Rapid Interurban Transit Admin Pension Plan (Retirement System or Plan) is a defined benefit plan.

The Board of Trustees (Board), as the investment trustee of the assets of the Plan, has the full power and authority to invest and reinvest the assets of the Retirement System in accordance with Michigan Public Act 314 of 1965, as amended, ("Act 314). The Board has the responsibility to adopt a written statement of investment objectives, policies, and strategies with clearly defined accountability and responsibility for implementing and executing the Retirement System's investments. The pension investment program must operate in compliance with all applicable State and Federal laws and regulations.

The Board of Trustees is responsible for overseeing the administration of the Retirement System. The purpose of this document is to detail the procedures for managing the Plan's assets, including the investment objectives, the asset allocation policy, the investment guidelines, and the investment performance standards. The guidelines also incorporate the requirements of the Public Employees Retirement System Investment Act - Michigan Public Act 314 of 1965, MCL § 38.1132 *et seq.*, as amended (Act 314).

Investment objectives are formulated in response to the financial needs of the Plan. Financial needs are influenced by benefit policies, funding objectives, Plan liabilities, and the successful management of Plan's assets. Therefore, investment objectives consider the Plan's financial and liquidity needs and the Board's risk tolerances and inflation expectations. The asset allocation policy is developed 1) to attempt to achieve the investment objectives, 2) to maximize expected investment returns with a prudent amount of investment risk, and 3) in recognition that the capital markets may behave differently over any time period, throughout the life of the Plan.

Investment guidelines are established for each manager, consistent with their investment style and Plan return/risk objectives. The guidelines also incorporate state and local investment regulations.

Performance standards are developed as a means of independently determining whether or not investment objectives are being achieved. Each manager has specific performance standards based on their investment style, which incorporate return, risk and time horizon. Conformance to these standards and policies is closely monitored and evaluated in an unbiased analysis each quarter. This analysis includes an evaluation of each manager's contribution to the achievement of overall Plan investment objectives.

### II. DELEGATION OF RESPONSIBILITIES

#### A. Board of Trustees

The Board of Trustees acknowledges its responsibility as a fiduciary to the Retirement System. In this regard, the Board must act prudently and for the exclusive interest of the Retirement System's participants and beneficiaries.

More specifically, the Board's responsibilities include:

1. Comply with the provisions of pertinent federal, state, and local laws and regulations, including Act 314.
2. Establish and develop an Investment Policy Statement, which includes the strategic investment policy for the Retirement System (asset allocation). The Trustees will periodically review these policies in light of any changes in actuarial variables and market conditions.
3. With the advice of the Investment Consultant, select qualified investment managers and consultants to manage and advise on the System's assets.
4. With the advice of the Investment Consultant, monitor and review the investment performance of the System to determine achievement of goals and compliance with policy guidelines.
5. With the advice of the Investment Consultant, monitor and evaluate manager performance.
6. Conduct manager searches when needed for policy implementation.
7. When the Board is considering the engagement of a new investment manager, the Board may perform due diligence site visits to the offices of the interview candidates.

#### **B. Investment Consultant**

The investment consultant's (Consultant) role is that of an advisor to the Retirement System, enabling the Board of Trustees to make well-informed and timely decisions regarding the investment of the Retirement System's assets. The investment consultant acknowledges its responsibilities as a fiduciary under Act 314 and must act in the exclusive interest of the Retirement System.

More specifically, the Consultant's responsibilities include:

1. Assist the Board in strategic planning for the Retirement System. Provide objective advice and counsel that will enable the Board to make well-informed and well-educated decisions regarding the investment of the Retirement System's assets.
2. Assist the Board in the development and periodic review of a policy statement that properly reflects the Board's tolerance for risk, and that best assists the Board in meeting its rate-of-return, funded status, administrative expense objectives, and overall investment policies associated with administering this retirement fund.
3. Assist the Board in the development and periodic review of the asset allocation policy and investment manager structure that provides adequate diversification with respect to the number and types of asset classes and investment managers to be retained.
4. Determine the Retirement System's capacity to add new investments, participate in cash flow/liquidity forecasting for the Retirement System's needs, and advise on general compliance requirements.
5. Review, monitor, and advise the Board on the current asset allocation to determine whether the Retirement System complies with asset limitations under PA 314 (as amended) and the Board's investment objectives and guidelines.
6. Assist the Board in its due diligence and search for new investment manager(s) utilizing the appropriate data bases, both externally and proprietary.
7. Assist the Board in the development and review of performance standards and guidelines with which the Board can measure each investment manager's progress. These performance standards and guidelines will be outlined in each separate investment manager's addendum.

8. To provide to the Board quarterly performance measurement reports on each of the investment managers and on the Retirement System as a whole, and to assist the Board in interpreting the results.
9. Monitor and review monthly statements, review and advise the Board on information sent by the investment managers, review investment managers as necessary (based on the guidelines set forth in this IPS and the consultant's internal research policies; including but not limited to legal and financial information provided by the managers).
10. The Consultant's report will be the main report the Board utilizes when evaluating the overall investment results of the Retirement System and individual managers. The Consultant will reconcile performance, holdings, and security pricing data with the Retirement System's custodian bank and when necessary staff reports/data. In the event of a discrepancy, the custodian's values will be used.
11. Provide general consulting services as requested by the Board and as deemed appropriate by the Investment Consultant. Attend necessary meetings as requested by the Board. Act as a liaison between investment managers and the Retirement System, and thereby facilitate the communication of important information in the management of the Retirement System.
12. Shall acknowledge in writing that they are a prudent expert for the Retirement System with all attendant duties and responsibilities, including without limitation, fiduciary responsibility.
13. Shall conduct themselves in accordance with this Investment Policy Statement.
14. Provide annual or such other periodic review of separately managed brokerage reports and, if relevant, commission recapture reports.
15. Such other duties as may be mutually agreed upon in writing.

### **C. Investment Managers**

The investment managers (Managers) will acknowledge their responsibility as an investment fiduciary under Act 314. Each investment manager will have full discretion to make all investment decisions for the assets placed under their control, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement.

More specifically, the Managers' responsibilities include:

1. Manage the System's assets under its supervision in accordance with the guidelines and objectives contained in this Investment Policy Statement.
2. Exercise investment discretion in regard to buying, managing, and selling assets held in the portfolio, subject to any limitations contained in this Investment Policy Statement.
3. Perform its investment management duties with respect to the assets with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with such matters would use in the conduct of a similar enterprise with similar aims.
4. Seek to obtain "best execution" with respect to portfolio transactions.
5. Vote all proxies consistent with the guidelines contained in the Manager's Investment Management Agreement or similar document. Investment managers shall provide documentation regarding the disposition of proxy solicitations to the Board upon request.
6. Comply with the reporting requirements outlined in Section VIII – Investment Manager Reporting of the Investment Policy Statement.

7. Acknowledge and agree in writing as to their fiduciary responsibility to comply fully with the entire Investment Policy Statement set forth herein.
8. Report to the Board and Consultant quarterly regarding the status of the portfolio and its performance for various time periods and meet with the Board as requested to report on their performance and compliance with goals and objectives.
9. Promptly inform the Board and Investment Consultant regarding all significant matters pertaining to the investment of the Retirement System's assets. The Board shall be notified in writing of any material change in ownership, organizational structure, financial condition, senior staffing and management, or the management of the investment manager's portfolio.
10. Investment managers must acknowledge receipt and acceptance of this IPS by signing their specific Addendum A.
11. Michigan law shall apply to all investment manager contracts where individual investment manager agreements are negotiated.

**D. Custodian**

The custodian (Custodian) will provide safekeeping and accounting services for the Retirement System.

More specifically, the Custodian's responsibilities include:

1. Provide adequate safekeeping services.
2. Upon receipt of proper, executable trade instructions, custodian shall seek to settle trades in a timely manner.
3. Collect interest and dividend income when due.
4. Notify investment managers of corporate actions, including mergers, tender offers, stock splits and capital changes that require a decision.
5. Sweep daily cash balances into appropriate investment funds.
6. Accept instructions from the designated individuals.
7. Disburse funds as directed.
8. Provide monthly statements by investment managers' accounts and a consolidated statement of all assets.
9. To perform other services for the Board as are customary and appropriate for custodians.

**E. Actuary**

The Actuary (Actuary) provides an accounting of the assets and liabilities of the Retirement System.

More specifically, the Actuary's responsibilities include:

1. Perform periodic actuarial valuations to determine liability and funding requirements for the System.
2. Calculate the benefits for the participants.
3. Monitor the funding progress of the System over time.
4. Make appropriate recommendations regarding actuarial assumptions to be used for valuations.

### III. INVESTMENT OBJECTIVES

The objectives of the Retirement System have been established in conjunction with the periodic review of the current and projected financial requirements of the Retirement System and as recommended by the Retirement System’s Actuary, Investment Consultant, and other service providers. The objectives include:

- To have the ability to pay all benefit and expense obligation when due.
- The Plan’s overall investment objective is to earn an average, annual return of 6.5% over five year rolling periods.
- To maintain the purchasing power of the current assets and all future contributions by producing positive real rates of return on System assets.
- To achieve and maintain a fully funded status with regard to the accumulated benefit obligation.
- To control costs of administering the System and managing the investments.
- To meet all statutory requirements of the State of Michigan.

The Plan's objectives are based on the expected returns under the strategic asset allocation policy, which follows. This asset allocation policy should result in normal fluctuation in the Plan's actual return, year to year. The expected level of volatility (return fluctuation) is appropriate given the Plan's current and expected tolerance for short-term return fluctuations. Appropriate diversification of Plan assets will reduce the Plan's investment return volatility. All aspects of this statement should be interpreted in a manner consistent with the System’s objectives.

### IV. TARGET ALLOCATIONS

This strategic asset allocation policy is consistent with the achievement of the Plan's financial needs and overall investment objectives. Asset classes are selected based on their expected long-term returns, individual reward/risk characteristics, correlation with other asset classes, manager roles, and fulfillment of the Plan's long-term financial needs. Conformance with statutory investment guidelines is also considered.

The Board of Trustees established an allocation range for each asset class in recognition of the need to vary exposure within and among different asset classes, based on investment opportunities and changing capital market conditions. The Board selected the target allocation for each asset class based on the Plan's current investments and present market conditions. The Board intends to review these allocation targets at least annually, focusing on changes in the Plan's financial needs, investment objectives and asset class performance.

<b>Asset Class</b>	<b>Target</b>	<b>Range</b>	<b>Benchmark Index</b>
Domestic Equity	50.0%	40% - 60%	Russell 3000
International Equity	10.0%	0% - 20%	MSCI ACWI ex US
Core Fixed Income	27.5%	20% - 35%	BB US Aggregate
Non-Core Fixed Income	7.5%	0% - 10%	Based on Strategy
Cash	5.0%	0% - 10%	90 Day T-Bill

*Targets and ranges above are based on the total market value of Plan assets.*

The Board's attitude regarding the System's assets combines both the preservation of capital and moderate risk-taking. The Board recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the potential of loss in purchasing power (due to inflation) are present to some degree with all types of investment vehicles. While high levels of risk are to be avoided, the assumption of a moderate level of risk is warranted and encouraged in order to allow the opportunity to achieve satisfactory results consistent with the objectives and character of the System. The policies and restrictions contained in this statement should not impede the investment manager to attain the overall System objectives, nor should they exclude the investment manager from appropriate investment opportunities.

The Board recognizes that from time to time the asset mix will deviate from the targeted percentages due to market conditions. A range has been established for each asset class to control the risk and maximize the effectiveness of the System's asset allocation strategy, while avoiding unnecessary turnover at the security level. The Investment Consultant will monitor the aggregate asset allocation of the portfolio and notify the Board of Trustees to rebalance to the target asset allocations based on market conditions. To minimize turnover, an asset class that is outside of its allowable range, will be rebalanced towards its target allocation in a prudent manner. When possible, contributions and distributions will be utilized to maintain allocations within policy ranges and reduce transaction costs. The Board does not intend to exercise short-term changes to the target allocations.

## **V. INVESTMENT PERFORMANCE OBJECTIVES**

The following performance measures will be used as objective criteria for evaluating the effectiveness of the Investment Managers.

### **A. Total Portfolio Performance**

1. The Plan's overall performance will be compared to the return of a policy index over rolling three (3) and five (5) year periods. The policy index is constructed using the Plan's target asset class allocations and market indices representing those asset classes (see Appendix A).
2. On a relative basis, it is expected that the total portfolio performance will rank in the top 50<sup>th</sup> percentile of the appropriate peer universe over three (3) and five (5) year time periods.
3. On an absolute basis, the objective is that the return of the total portfolio will equal or exceed the actuarial earnings assumption of 6.5%. This absolute return objective will be evaluated in the context of the prevailing market conditions.

### **B. Asset Class / Composite Performance**

The combined segments within an asset class will be compared to the return of a policy index over rolling (3) and five (5) year periods. The policy indices are constructed using the Plan's target segment allocations within the asset class and market indices representing those segments (see Appendix A). All Composites are expected to rank in the top 50th percentile of the appropriate peer universe over rolling three (3) and five (5) year periods.

### **C. Manager Performance**

Individual managers will be compared to a benchmark based on their investment strategy. All portfolios are expected to rank in the top 50th percentile of the appropriate peer universe over three (3) and five (5) year time periods. (Each separate account manager's performance objectives are included within their addendum to this IPS.)

## **VI. INVESTMENT GUIDELINES**

### **A. Overall**

All investment guidelines and restrictions of the State of Michigan are incorporated by reference, including, but not limited to: Michigan Public Act 314 of 1965, as amended.

### **B. Pooled Funds**

Investments made by the Fund may include pooled funds. For purposes of this policy pooled funds may include, but are not limited to, mutual funds, commingled funds, exchange-traded funds, limited partnerships and limited liability corporations. Pooled funds may be governed by separate documents which may include investments not expressly permitted in this IPS. In the event of investment by the Retirement System into a pooled fund, the Retirement System will adopt the prospectus or governing policy of that fund as that manager's addendum to this Investment Policy Statement.

### **C. Alternative Investments**

The Retirement System may invest in investments that would otherwise not be qualified under these Investment policies, to the extent permitted under MCL Section 38.1140d (informally referred to as the "basket clause").

### **D. Collective Investment Restrictions and Correcting Excess/Deficient Investments**

All Managers are restricted individually, and collectively, by this IPS. The Managers shall coordinate periodically with the Consultant, who shall (among other things) assure collective compliance with this IPS. In the event any investment based on changes in the market value of the Retirement System assets, causes the Retirement System to exceed or fall short of any range prescribed in this IPS, the assets may be reallocated in a prudent manner to comply with PA 314 and the strategic allocation and ranges outlined in this IPS.

### **E. Guidelines for Equity Investments**

1. Not more than 70% of the Retirement System's assets may be invested in global stocks.
2. The Retirement System shall not invest more than 5% of their assets in any one corporation.
3. Additional guidelines will be outlined for separate account managers in addendums to this Investment Policy Statement. For mutual funds and collective trusts guidelines will be outlined in their prospectus or offering document.

### **F. Guideline for Fixed Income Investments**

1. Not more than 15% of the Retirement System's assets may be invested in below investment grade bonds. Investment grade is defined as securities graded in the top 4 major grades as determined by 2 national rating services.
2. Additional guidelines will be outlined for separate account managers in addendums to this Investment Policy Statement. For mutual funds and collective trusts guidelines will be outlined in their prospectus or offering document.

## **VII. COMMUNICATIONS**

### **A. Monthly**

On a monthly basis, the Custodian shall supply an accounting statement that will include a summary of all receipts and disbursements and the cost and the market value of all assets.

**B. Quarterly**

On a quarterly basis, the Investment Managers shall provide a written report affirming compliance with the security restrictions outlined in their Investment Manager Addendum. In addition, the Investment Managers shall deliver a report each quarter detailing the Plan's performance, forecast of the market and economy, portfolio analysis and current assets of their portfolio. Written reports shall be available for public inspection. The Investment Managers will provide immediate written and telephone notice to the Board of any significant market related or non-market related event, specifically including, but not limited to, any deviation from the standards set forth in Section IV or their Investment Manager addendum.

The Investment Consultant shall evaluate and report on a quarterly basis the rate of return and relative performance of the Plan on a gross and net of fee basis. The report shall also include the performance for the underlying investment managers with comparisons to their benchmark and peer group.

**C. As Necessary**

If an Investment Manager holds securities, that complied with section VI at the time of purchase, which subsequently exceed the applicable limit or do not satisfy the applicable investment standard, such excess or noncompliant investments may be continued until it is economically feasible to dispose of such investment in accordance with the prudent person standard of care, but no additional investment may be made unless authorized by law or ordinance. In addition, an action plan outlining the investment 'hold or sell' strategy shall be provided to the Board immediately.

The Board will meet periodically to review the Investment Consultant's performance report. The Board will meet with the Investment Managers and appropriate outside consultants to discuss performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the Plan on a periodic basis.

**VIII. COMPLIANCE**

It is the direction of the Board that the Plan assets are held by a third party Custodian, and that all securities purchased by, and all collateral obtained by the Plan shall be properly designated as Plan assets. No withdrawal of assets, in whole or in part, shall be made from safekeeping except by an authorized member of the Board or their designee.

At the direction of the Board, operations of the Plan shall be reviewed by independent certified public accountants as part of any financial audit periodically required. Compliance with the Board's internal controls shall be verified. These controls have been designed to prevent losses of assets that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the Board or employees of the Plan sponsor, to the extent possible.

The proxy votes must be exercised for the exclusive benefit of the participants of the Plan. Each Investment Manager shall provide the Board with a copy of their proxy voting policy for approval. On a regular basis, at least annually, each manager shall report a record of their proxy vote. Additionally, any proxy votes required for plan assets, such as commingled funds, collective trusts or mutual funds, shall be voted upon by the Treasurer/Finance Officer after consultation with the Investment Consultant and or the Board of Trustees.

## **IX. CRITERIA FOR INVESTMENT MANAGER REVIEW**

The Investment Consultant will monitor the performance for each component of the Retirement System on a monthly basis utilizing a time-weighted rate of return calculation. Certain managers, based on their individual investment mandates, may report results using an internal rate of return calculation. The Investment Consultant will review investment manager information monthly and will provide updates to the Board as necessary. No investment manager will make a presentation to the Board unless requested by the Investment Consultant due to probationary status as outlined below or any other extenuating circumstance where the Investment Consultant deems it appropriate that the Board receives such presentation from the investment manager.

The Investment Consultant will evaluate each investment manager as outlined in this IPS along with each investment manager's Addendum A, and will then report to the Board.

The Board may initiate a change in investment manager at any time based upon performance results, a change in investment needs, a lack of confidence based upon the evaluation of the investment manager's results, or for any other or no reason at all.

The Board wishes to adopt standards by which judgments of the ongoing performance of a Manager may be made. The Board will rely on the Investment Consultant to carefully monitor the Retirement System's investment managers on several key indicators outlined below:

- Style consistency or purity drift from the mandate.
- Management turnover in portfolio team or senior management.
- Investment process change, including varying the index or benchmark.
- Failure to adhere to the Investment Policy Statement, Investment Manager Addendum or other compliance issues.
- Investigation of the firm by the Securities and Exchange Commission (SEC) or other regulatory agency.
- Significant asset flows into or out of the company or strategy.
- Merger or sale of firm.
- Fee increases outside of the competitive range.
- Servicing issues – key personnel stop servicing the account without proper notification.
- Failure to attain a majority vote of confidence by the Board.

Nothing in this section shall limit or diminish the Board's right to terminate the Manager at any time.

## **X. REVIEW AND AMENDMENTS**

It is the Board's intention to review this document at least annually subsequent to the actuarial report and to amend this statement to reflect any changes in philosophy, objectives, or guidelines. In this regard, the Investment Manager's interest in consistency in these matters is recognized and will be taken into account when changes are being considered. If, at any time, the Investment Manager feels that the specific objectives defined herein cannot be met, or the guidelines constrict performance, the Board should be notified through their consultant after the Investment Manager discusses the issues with the investment consultant. By signing this document, the Chairperson attests that this policy has

been recommended by the Investment Consultant, reviewed by the Plan’s legal counsel for compliance with applicable law, and approved by the Board.

**The RAPID Interurban Transit Admin Pension Plan**

\_\_\_\_\_  
Chairperson

\_\_\_\_\_  
Date

## APPENDIX A

**Total Fund Policy Index:** 35% S&P 500 Index, 7.5% CRSP US Mid Cap Index, 7.5% CRSP US Small Cap Index, 10.0% MSCI ACWI ex US Index, 27.5% Bloomberg Barclays US Aggregate Bond Index, 7.5% Bloomberg Barclays Global Multiverse Index, and 5% 90 Day T-Bill (allocations to the S&P 500 Index and the Bloomberg Barclays Aggregate Index may be increased until all of the other asset classes are fully funded).

**Total Equity Policy Index:** 60% S&P 500 Index, 12.5% CRSP US Mid Cap Index, 12.5% CRSP US Small Cap Index, and 15% MSCI ACWI ex US Index.

**Total Fixed Income Policy Index:** 100% Bloomberg Barclays US Aggregate Bond Index.

*Other composites may be used to evaluate segments for the Total Fund; policy indexes for these composites will be constructed using this format and will be expected to performance in a similar fashion.*

# The RAPID – Interurban Transit Union Pension Plan

## Investment Policy Statement

### I. PURPOSE OF INVESTMENT POLICY STATEMENT

The Rapid Interurban Transit Union Pension Plan (Retirement System or Plan) is a defined benefit plan.

The Board of Trustees (Board), as the investment trustee of the assets of the Plan, has the full power and authority to invest and reinvest the assets of the Retirement System in accordance with Michigan Public Act 314 of 1965, as amended, ("Act 314). The Board has the responsibility to adopt a written statement of investment objectives, policies, and strategies with clearly defined accountability and responsibility for implementing and executing the Retirement System's investments. The pension investment program must operate in compliance with all applicable State and Federal laws and regulations.

The Board of Trustees is responsible for overseeing the administration of the Retirement System. The purpose of this document is to detail the procedures for managing the Plan's assets, including the investment objectives, the asset allocation policy, the investment guidelines, and the investment performance standards. The guidelines also incorporate the requirements of the Public Employees Retirement System Investment Act - Michigan Public Act 314 of 1965, MCL § 38.1132 *et seq.*, as amended (Act 314).

Investment objectives are formulated in response to the financial needs of the Plan. Financial needs are influenced by benefit policies, funding objectives, Plan liabilities, and the successful management of Plan's assets. Therefore, investment objectives consider the Plan's financial and liquidity needs and the Board's risk tolerances and inflation expectations. The asset allocation policy is developed 1) to attempt to achieve the investment objectives, 2) to maximize expected investment returns with a prudent amount of investment risk, and 3) in recognition that the capital markets may behave differently over any time period, throughout the life of the Plan.

Investment guidelines are established for each manager, consistent with their investment style and Plan return/risk objectives. The guidelines also incorporate state and local investment regulations.

Performance standards are developed as a means of independently determining whether or not investment objectives are being achieved. Each manager has specific performance standards based on their investment style, which incorporate return, risk and time horizon. Conformance to these standards and policies is closely monitored and evaluated in an unbiased analysis each quarter. This analysis includes an evaluation of each manager's contribution to the achievement of overall Plan investment objectives.

### II. DELEGATION OF RESPONSIBILITIES

#### A. Board of Trustees

The Board of Trustees acknowledges its responsibility as a fiduciary to the Retirement System. In this regard, the Board must act prudently and for the exclusive interest of the Retirement System's participants and beneficiaries.

More specifically, the Board's responsibilities include:

1. Comply with the provisions of pertinent federal, state, and local laws and regulations, including Act 314.
2. Establish and develop an Investment Policy Statement, which includes the strategic investment policy for the Retirement System (asset allocation). The Trustees will periodically review these policies in light of any changes in actuarial variables and market conditions.
3. With the advice of the Investment Consultant, select qualified investment managers and consultants to manage and advise on the System's assets.
4. With the advice of the Investment Consultant, monitor and review the investment performance of the System to determine achievement of goals and compliance with policy guidelines.
5. With the advice of the Investment Consultant, monitor and evaluate manager performance.
6. Conduct manager searches when needed for policy implementation.
7. When the Board is considering the engagement of a new investment manager, the Board may perform due diligence site visits to the offices of the interview candidates.

#### **B. Investment Consultant**

The investment consultant's (Consultant) role is that of an advisor to the Retirement System, enabling the Board of Trustees to make well-informed and timely decisions regarding the investment of the Retirement System's assets. The investment consultant acknowledges its responsibilities as a fiduciary under Act 314 and must act in the exclusive interest of the Retirement System.

More specifically, the Consultant's responsibilities include:

1. Assist the Board in strategic planning for the Retirement System. Provide objective advice and counsel that will enable the Board to make well-informed and well-educated decisions regarding the investment of the Retirement System's assets.
2. Assist the Board in the development and periodic review of a policy statement that properly reflects the Board's tolerance for risk, and that best assists the Board in meeting its rate-of-return, funded status, administrative expense objectives, and overall investment policies associated with administering this retirement fund.
3. Assist the Board in the development and periodic review of the asset allocation policy and investment manager structure that provides adequate diversification with respect to the number and types of asset classes and investment managers to be retained.
4. Determine the Retirement System's capacity to add new investments, participate in cash flow/liquidity forecasting for the Retirement System's needs, and advise on general compliance requirements.
5. Review, monitor, and advise the Board on the current asset allocation to determine whether the Retirement System complies with asset limitations under PA 314 (as amended) and the Board's investment objectives and guidelines.
6. Assist the Board in its due diligence and search for new investment manager(s) utilizing the appropriate data bases, both externally and proprietary.
7. Assist the Board in the development and review of performance standards and guidelines with which the Board can measure each investment manager's progress. These performance standards and guidelines will be outlined in each separate investment manager's addendum.

8. To provide to the Board quarterly performance measurement reports on each of the investment managers and on the Retirement System as a whole, and to assist the Board in interpreting the results.
9. Monitor and review monthly statements, review and advise the Board on information sent by the investment managers, review investment managers as necessary (based on the guidelines set forth in this IPS and the consultant's internal research policies; including but not limited to legal and financial information provided by the managers).
10. The Consultant's report will be the main report the Board utilizes when evaluating the overall investment results of the Retirement System and individual managers. The Consultant will reconcile performance, holdings, and security pricing data with the Retirement System's custodian bank and when necessary staff reports/data. In the event of a discrepancy, the custodian's values will be used.
11. Provide general consulting services as requested by the Board and as deemed appropriate by the Investment Consultant. Attend necessary meetings as requested by the Board. Act as a liaison between investment managers and the Retirement System, and thereby facilitate the communication of important information in the management of the Retirement System.
12. Shall acknowledge in writing that they are a prudent expert for the Retirement System with all attendant duties and responsibilities, including without limitation, fiduciary responsibility.
13. Shall conduct themselves in accordance with this Investment Policy Statement.
14. Provide annual or such other periodic review of separately managed brokerage reports and, if relevant, commission recapture reports.
15. Such other duties as may be mutually agreed upon in writing.

### **C. Investment Managers**

The investment managers (Managers) will acknowledge their responsibility as an investment fiduciary under Act 314. Each investment manager will have full discretion to make all investment decisions for the assets placed under their control, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement.

More specifically, the Managers' responsibilities include:

1. Manage the System's assets under its supervision in accordance with the guidelines and objectives contained in this Investment Policy Statement.
2. Exercise investment discretion in regard to buying, managing, and selling assets held in the portfolio, subject to any limitations contained in this Investment Policy Statement.
3. Perform its investment management duties with respect to the assets with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with such matters would use in the conduct of a similar enterprise with similar aims.
4. Seek to obtain "best execution" with respect to portfolio transactions.
5. Vote all proxies consistent with the guidelines contained in the Manager's Investment Management Agreement or similar document. Investment managers shall provide documentation regarding the disposition of proxy solicitations to the Board upon request.
6. Comply with the reporting requirements outlined in Section VIII – Investment Manager Reporting of the Investment Policy Statement.

7. Acknowledge and agree in writing as to their fiduciary responsibility to comply fully with the entire Investment Policy Statement set forth herein.
8. Report to the Board and Consultant quarterly regarding the status of the portfolio and its performance for various time periods and meet with the Board as requested to report on their performance and compliance with goals and objectives.
9. Promptly inform the Board and Investment Consultant regarding all significant matters pertaining to the investment of the Retirement System's assets. The Board shall be notified in writing of any material change in ownership, organizational structure, financial condition, senior staffing and management, or the management of the investment manager's portfolio.
10. Investment managers must acknowledge receipt and acceptance of this IPS by signing their specific Addendum A.
11. Michigan law shall apply to all investment manager contracts where individual investment manager agreements are negotiated.

**D. Custodian**

The custodian (Custodian) will provide safekeeping and accounting services for the Retirement System.

More specifically, the Custodian's responsibilities include:

1. Provide adequate safekeeping services.
2. Upon receipt of proper, executable trade instructions, custodian shall seek to settle trades in a timely manner.
3. Collect interest and dividend income when due.
4. Notify investment managers of corporate actions, including mergers, tender offers, stock splits and capital changes that require a decision.
5. Sweep daily cash balances into appropriate investment funds.
6. Accept instructions from the designated individuals.
7. Disburse funds as directed.
8. Provide monthly statements by investment managers' accounts and a consolidated statement of all assets.
9. To perform other services for the Board as are customary and appropriate for custodians.

**E. Actuary**

The Actuary (Actuary) provides an accounting of the assets and liabilities of the Retirement System.

More specifically, the Actuary's responsibilities include:

1. Perform periodic actuarial valuations to determine liability and funding requirements for the System.
2. Calculate the benefits for the participants.
3. Monitor the funding progress of the System over time.
4. Make appropriate recommendations regarding actuarial assumptions to be used for valuations.

### III. INVESTMENT OBJECTIVES

The objectives of the Retirement System have been established in conjunction with the periodic review of the current and projected financial requirements of the Retirement System and as recommended by the Retirement System’s Actuary, Investment Consultant, and other service providers. The objectives include:

- To have the ability to pay all benefit and expense obligation when due.
- The Plan’s overall investment objective is to earn an average, annual return of 6.5% over five year rolling periods.
- To maintain the purchasing power of the current assets and all future contributions by producing positive real rates of return on System assets.
- To achieve and maintain a fully funded status with regard to the accumulated benefit obligation.
- To control costs of administering the System and managing the investments.
- To meet all statutory requirements of the State of Michigan.

The Plan's objectives are based on the expected returns under the strategic asset allocation policy, which follows. This asset allocation policy should result in normal fluctuation in the Plan's actual return, year to year. The expected level of volatility (return fluctuation) is appropriate given the Plan's current and expected tolerance for short-term return fluctuations. Appropriate diversification of Plan assets will reduce the Plan's investment return volatility. All aspects of this statement should be interpreted in a manner consistent with the System’s objectives.

### IV. TARGET ALLOCATIONS

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The Board of Trustees established an allocation range for each asset class in recognition of the need to vary exposure within and among different asset classes, based on investment opportunities and changing capital market conditions. The Board selected the target allocation for each asset class based on the Plan's current investments and present market conditions. The Board intends to review these allocation targets at least annually, focusing on changes in the Plan's financial needs, investment objectives and asset class performance.

Asset Class	Target	Range	Benchmark Index
Domestic Equity	50.0%	40% - 60%	Russell 3000
International Equity	15.0%	0% - 20%	MSCI ACWI ex US
Core Fixed Income	18.0%	12% - 24%	BB US Aggregate
Non-Core Fixed Income	5.0%	0% - 10%	Based on Strategy
Real Estate	10.0%	0% - 15%	NCREIF ODCE Index
Cash	2.0%	0% - 10%	90 Day T-Bill

*Targets and ranges above are based on the total market value of Plan assets.*

The Board's attitude regarding the System's assets combines both the preservation of capital and moderate risk-taking. The Board recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the potential of loss in purchasing power (due to inflation) are present to some degree with all types of investment vehicles. While high levels of risk are to be avoided, the assumption of a moderate level of risk is warranted and encouraged in order to allow the opportunity to achieve satisfactory results consistent with the objectives and character of the System. The policies and restrictions contained in this statement should not impede the investment manager to attain the overall System objectives, nor should they exclude the investment manager from appropriate investment opportunities.

The Board recognizes that from time to time the asset mix will deviate from the targeted percentages due to market conditions. A range has been established for each asset class to control the risk and maximize the effectiveness of the System's asset allocation strategy, while avoiding unnecessary turnover at the security level. The Investment Consultant will monitor the aggregate asset allocation of the portfolio and notify the Board of Trustees to rebalance to the target asset allocations based on market conditions. To minimize turnover, an asset class that is outside of its allowable range, will be rebalanced towards its target allocation in a prudent manner. When possible, contributions and distributions will be utilized to maintain allocations within policy ranges and reduce transaction costs. The Board does not intend to exercise short-term changes to the target allocations.

## **V. INVESTMENT PERFORMANCE OBJECTIVES**

The following performance measures will be used as objective criteria for evaluating the effectiveness of the Investment Managers.

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1. The Plan's overall performance will be compared to the return of a policy index over rolling three (3) and five (5) year periods. The policy index is constructed using the Plan's target asset class allocations and market indices representing those asset classes (see Appendix A).
2. On a relative basis, it is expected that the total portfolio performance will rank in the top 50<sup>th</sup> percentile of the appropriate peer universe over three (3) and five (5) year time periods.
3. On an absolute basis, the objective is that the return of the total portfolio will equal or exceed the actuarial earnings assumption of 6.5%. This absolute return objective will be evaluated in the context of the prevailing market conditions.

### **B. Asset Class / Composite Performance**

The combined segments within an asset class will be compared to the return of a policy index over rolling (3) and five (5) year periods. The policy indices are constructed using the Plan's target segment allocations within the asset class and market indices representing those segments (see Appendix A). All Composites are expected to rank in the top 50th percentile of the appropriate peer universe over rolling three (3) and five (5) year periods.

### **C. Manager Performance**

Individual managers will be compared to a benchmark based on their investment strategy. All portfolios are expected to rank in the top 50th percentile of the appropriate peer universe over three (3) and five (5) year time periods. (Each separate account manager's performance objectives are included within their addendum to this IPS.)

## **VI. INVESTMENT GUIDELINES**

### **A. Overall**

All investment guidelines and restrictions of the State of Michigan are incorporated by reference, including, but not limited to: Michigan Public Act 314 of 1965, as amended.

### **B. Pooled Funds**

Investments made by the Fund may include pooled funds. For purposes of this policy pooled funds may include, but are not limited to, mutual funds, commingled funds, exchange-traded funds, limited partnerships and limited liability corporations. Pooled funds may be governed by separate documents which may include investments not expressly permitted in this IPS. In the event of investment by the Retirement System into a pooled fund, the Retirement System will adopt the prospectus or governing policy of that fund as that manager's addendum to this Investment Policy Statement.

### **C. Alternative Investments**

The Retirement System may invest in investments that would otherwise not be qualified under these Investment policies, to the extent permitted under MCL Section 38.1140d (informally referred to as the "basket clause").

### **D. Collective Investment Restrictions and Correcting Excess/Deficient Investments**

All Managers are restricted individually, and collectively, by this IPS. The Managers shall coordinate periodically with the Consultant, who shall (among other things) assure collective compliance with this IPS. In the event any investment based on changes in the market value of the Retirement System assets, causes the Retirement System to exceed or fall short of any range prescribed in this IPS, the assets may be reallocated in a prudent manner to comply with PA 314 and the strategic allocation and ranges outlined in this IPS.

### **E. Guidelines for Equity Investments**

1. Not more than 70% of the Retirement System's assets may be invested in global stocks.
2. The Retirement System shall not invest more than 5% of their assets in any one corporation.
3. Additional guidelines will be outlined for separate account managers in addendums to this Investment Policy Statement. For mutual funds and collective trusts guidelines will be outlined in their prospectus or offering document.

### **F. Guideline for Fixed Income Investments**

1. Not more than 15% of the Retirement System's assets may be invested in below investment grade bonds. Investment grade is defined as securities graded in the top 4 major grades as determined by 2 national rating services.
2. Additional guidelines will be outlined for separate account managers in addendums to this Investment Policy Statement. For mutual funds and collective trusts guidelines will be outlined in their prospectus or offering document.

## **VII. COMMUNICATIONS**

### **A. Monthly**

On a monthly basis, the Custodian shall supply an accounting statement that will include a summary of all receipts and disbursements and the cost and the market value of all assets.

## **B. Quarterly**

On a quarterly basis, the Investment Managers shall provide a written report affirming compliance with the security restrictions outlined in their Investment Manager Addendum. In addition, the Investment Managers shall deliver a report each quarter detailing the Plan's performance, forecast of the market and economy, portfolio analysis and current assets of their portfolio. Written reports shall be available for public inspection. The Investment Managers will provide immediate written and telephone notice to the Board of any significant market related or non-market related event, specifically including, but not limited to, any deviation from the standards set forth in Section IV or their Investment Manager addendum.

The Investment Consultant shall evaluate and report on a quarterly basis the rate of return and relative performance of the Plan on a gross and net of fee basis. The report shall also include the performance for the underlying investment managers with comparisons to their benchmark and peer group.

## **C. As Necessary**

If an Investment Manager holds securities, that complied with section VI at the time of purchase, which subsequently exceed the applicable limit or do not satisfy the applicable investment standard, such excess or noncompliant investments may be continued until it is economically feasible to dispose of such investment in accordance with the prudent person standard of care, but no additional investment may be made unless authorized by law or ordinance. In addition, an action plan outlining the investment 'hold or sell' strategy shall be provided to the Board immediately.

The Board will meet periodically to review the Investment Consultant's performance report. The Board will meet with the Investment Managers and appropriate outside consultants to discuss performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the Plan on a periodic basis.

## **VIII. COMPLIANCE**

It is the direction of the Board that the Plan assets are held by a third party Custodian, and that all securities purchased by, and all collateral obtained by the Plan shall be properly designated as Plan assets. No withdrawal of assets, in whole or in part, shall be made from safekeeping except by an authorized member of the Board or their designee.

At the direction of the Board, operations of the Plan shall be reviewed by independent certified public accountants as part of any financial audit periodically required. Compliance with the Board's internal controls shall be verified. These controls have been designed to prevent losses of assets that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the Board or employees of the Plan sponsor, to the extent possible.

The proxy votes must be exercised for the exclusive benefit of the participants of the Plan. Each Investment Manager shall provide the Board with a copy of their proxy voting policy for approval. On a regular basis, at least annually, each manager shall report a record of their proxy vote. Additionally, any proxy votes required for plan assets, such as commingled funds, collective trusts or mutual funds, shall be voted upon by the Treasurer/Finance Officer after consultation with the Investment Consultant and or the Board of Trustees.

## **IX. CRITERIA FOR INVESTMENT MANAGER REVIEW**

The Investment Consultant will monitor the performance for each component of the Retirement System on a monthly basis utilizing a time-weighted rate of return calculation. Certain managers, based on their individual investment mandates, may report results using an internal rate of return calculation. The Investment Consultant will review investment manager information monthly and will provide updates to the Board as necessary. No investment manager will make a presentation to the Board unless requested by the Investment Consultant due to probationary status as outlined below or any other extenuating circumstance where the Investment Consultant deems it appropriate that the Board receives such presentation from the investment manager.

The Investment Consultant will evaluate each investment manager as outlined in this IPS along with each investment manager's Addendum A, and will then report to the Board.

The Board may initiate a change in investment manager at any time based upon performance results, a change in investment needs, a lack of confidence based upon the evaluation of the investment manager's results, or for any other or no reason at all.

The Board wishes to adopt standards by which judgments of the ongoing performance of a Manager may be made. The Board will rely on the Investment Consultant to carefully monitor the Retirement System's investment managers on several key indicators outlined below:

- Style consistency or purity drift from the mandate.
- Management turnover in portfolio team or senior management.
- Investment process change, including varying the index or benchmark.
- Failure to adhere to the Investment Policy Statement, Investment Manager Addendum or other compliance issues.
- Investigation of the firm by the Securities and Exchange Commission (SEC) or other regulatory agency.
- Significant asset flows into or out of the company or strategy.
- Merger or sale of firm.
- Fee increases outside of the competitive range.
- Servicing issues – key personnel stop servicing the account without proper notification.
- Failure to attain a majority vote of confidence by the Board.

Nothing in this section shall limit or diminish the Board's right to terminate the Manager at any time.

## **X. REVIEW AND AMENDMENTS**

It is the Board's intention to review this document at least annually subsequent to the actuarial report and to amend this statement to reflect any changes in philosophy, objectives, or guidelines. In this regard, the Investment Manager's interest in consistency in these matters is recognized and will be taken into account when changes are being considered. If, at any time, the Investment Manager feels that the specific objectives defined herein cannot be met, or the guidelines constrict performance, the Board should be notified through their consultant after the Investment Manager discusses the issues with the investment consultant. By signing this document, the Chairperson attests that this policy has

been recommended by the Investment Consultant, reviewed by the Plan’s legal counsel for compliance with applicable law, and approved by the Board.

**The RAPID Interurban Transit Union Pension Plan**

\_\_\_\_\_  
Chairperson

\_\_\_\_\_  
Date

**APPENDIX A**

**Total Fund Policy Index:** 35% S&P 500 Index, 7.5% S&P 400 CRSP US Mid Cap Index, 7.5% CRSP US Small Cap Index, 15.0% MSCI ACWI ex US Index, 18% Bloomberg Barclays U.S. Aggregate Bond Index, 5% Bloomberg Barclays Global Multiverse Index, 10% NCREIF ODCE, and 2% 90 Day T-Bill (allocations to the S&P 500 Index and the Bloomberg Barclays US Aggregate Bond Index may be increased until all of the other asset classes are fully funded).

**Total Equity Policy Index:** 55% S&P 500 Index, 10% CRSP US Mid Cap Index, 10% CRSP US Small Cap Index, and 25% MSCI ACWI ex US Index.

**Total Fixed Income Policy Index:** 100% Bloomberg Barclays U.S. Aggregate Bond Index.

*Other composites may be used to evaluate segments for the Total Fund; policy indexes for these composites will be constructed using this format and will be expected to performance in a similar fashion.*



**2020 MEETING SCHEDULE**

**RAPID BOARD MEETING**

Location: Rapid Central Station Conference Room  
Time: 4 p.m. – 5:30 p.m. (Wednesdays)  
January 29 (Annual Meeting / Election of Officers)  
March 25  
April 22  
June 24  
August 26  
September 23  
October 28  
December 2

**RAPID BOARD SPECIAL MEETINGS**

**Board Planning Meeting**

May 6, 2020  
Location: Rapid Central Station Conference Room  
Time: 1 p.m. – 3:30 p.m.

**Board Budget Meeting**

July 29, 2020  
Location: Rapid Central Station Conference Room  
Time: 3 p.m. – 5 p.m.

**FUTURE PLANNING & TECHNOLOGY COMMITTEE**

Location: Rapid Ellsworth Conference Room  
Time: 8:30 a.m. – 9:30 a.m. (Mondays)  
February 17  
May 18  
August 17  
November 9

**PRESENT PERFORMANCE & SERVICE COMMITTEE**

Location: Rapid Ellsworth Conference Room  
Time: 4 p.m. – 5 p.m. (Tuesdays)  
February 18  
May 19  
August 18  
November 10

**FINANCE COMMITTEE**

Location: Rapid Ellsworth Conference Room  
Time: 4 p.m. – 5 p.m. (Wednesdays)  
February 12  
May 6  
November 4

**CONSUMER ADVISORY COMMITTEE FOR SENIORS & PERSONS WITH DISABILITIES**

Location: Rapid Ellsworth Conference Room  
Time: 3 p.m. – 4 p.m. (Tuesdays)  
January 7  
March 3  
May 5  
September 1  
November 3

**MEETING LOCATIONS:**

Rapid Central Station Conference Room: 250 Grandville Avenue, SW; Grand Rapids, MI 49503  
Rapid Ellsworth Conference Room: 300 Ellsworth Avenue, SW; Grand Rapids, MI 49503  
Note: The Rapid reserves the right to move the location of the meetings listed above between these two locations if that is deemed necessary.