

GENERAL EMPLOYEES' RETIREMENT SYSTEM EMERGING MANAGER PROGRAM

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GENERAL EMPLOYEES' RETIREMENT SYSTEM EMERGING MANAGER PROGRAM

I. SCOPE

This policy statement outlines and defines goals and objectives for the City of Pontiac General Employees Retirement System's (the "System") Emerging Manager Program (the "Program"). This document is intended to supplement the System's Investment Policy Statement (the "IPS") and provide additional guidelines for managing the System's assets.

The policy will outline the Program, define the objective and goals and describe the evaluation process for measuring the performance of the Program.

- Objectives and Goals of Emerging Manager Program
- Emerging Manager Definition and Selection
- Roles and Responsibilities
- Performance Review and Evaluation

In addition to this policy statement, the Emerging Manager Program is subject to all provisions of applicable law and the guidelines, limitations and requirements of System's IPS.

II. OBJECTIVE AND GOALS OF THE EMERGING MANAGER PROGRAM

The Board of Trustees (the "Board"), may, when possible and consistent with its' fiduciary duties imposed by law, including its obligation to invest and manage the Fund for the exclusive benefit of the members of the System in the most prudent manner, invest with minority-, women-, Michigan-based and/or disabled veteran-owned small and/or recently established firms, defined in Section III as "Emerging Managers", provided that the overall investment return shall not be compromised when considering net return.

The objective and goals of the Emerging Manager Program shall be consistent with the System's IPS and shall serve to complement the portfolio. The Board has adopted an overall investment objective for the System's assets. That objective is to earn a long-term return comprised of capital appreciation and current income sufficient to fund current benefit payments and other disbursements and maximize the assets while attempting to control the volatility of the return, without sacrificing returns.

Objective

Within the framework of the System's overall investment objective, to identify and select Emerging Managers that can add long-term value to the System through excess risk-adjusted returns as well as to provide Emerging Managers equal opportunities as to provide investment management services to the System.

Goals

The goals of the Program are:

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1. To supplement the System's overall goal of protecting the assets in real terms such that the assets are preserved for providing benefits to participants and their beneficiaries by identifying Emerging Managers that can generate for the System excess returns versus their peers and benchmark;
2. To provide Emerging Managers with equal opportunities to provide investment management services to the System.
3. To diversify the System's pool of investment managers to be inclusive of qualified – yet under-represented – Emerging Manager firms.
4. To select qualified Emerging Managers who demonstrate their ability to provide excess returns and a mutually beneficial relationship with the System over the long-term.

III. EMERGING MANAGER DEFINITION AND SELECTION

For the purposes of this policy, an Emerging Manager shall be defined as an investment manager who meets (all of) the following criteria:

- Assets under management of at least \$50 million but less than \$2 billion;
- Proposed investment strategy assets of at least \$25 million; and
- Is 51% or more minority-, female- or disabled veteran-owned; and
- The firm, current investment management team and product have been in existence at least 4 years; and
- Must be registered under the Investment Advisors Act of 1940

Emerging Managers will be evaluated and selected using the same rigorous standards as the System's non-Emerging Managers: attractive track record, stable portfolio management teams, understandable investment process, high peer group rankings and an established asset allocation process.

Emerging Managers must have a verifiable, historical performance record for the product under consideration. The investment track records of the firms' investment teams will be verified prior to any commitment. This and all other reporting required under this Program shall be prepared in accordance with GIPS.

IV. ROLES AND RESPONSIBILITIES

A. Board of Trustees

The Board of Trustees (the "Board") is responsible for defining and implementing the investment objectives and policies for the System. The Board has the responsibility for adopting and amending this Emerging Manager Program Policy and implementing the approved guidelines and objectives. In addition to its role and responsibilities described in the IPS, the Board is responsible for:

1. Monitoring and evaluating the Emerging Managers' performance and program costs
2. Selecting and terminating Emerging Managers and Other Program Advisors (with the assistance of the Consultant)

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3. Evaluating and approving proposals for modifications to this Program
4. Periodically reviewing and evaluating the results of the Program at least annually

B. Executive Director

The Executive Director has been delegated the following responsibilities for the coordination of the Emerging Manager program:

1. Acting as contact between the Board and the Consultants and Other Program Advisors.
2. Keeping the Board informed and recommending changes to the policy, as necessary
3. Such other duties as may be delegated by the Board of Trustees.

C. Consultant

For the purposes of the Program, the System's Consultant shall have all of those obligations and responsibilities as described in the IPS, the GERS Ethics Policy as well as the following:

1. Acting as primary liaison between the Board and the Emerging Managers and Other Program Advisors.
2. Making recommendations to the Board with respect to asset classes and amounts to be allocated to the Program.
3. Identifying and continually searching for eligible Emerging Managers and making recommendations for inclusion in the Program.
4. Ensure inclusion of eligible Emerging Managers in the System's investment services RFP processes.
3. Monitoring the Program on an ongoing basis and providing the Board quarterly performance measurement reports on each of the Emerging Managers as well as annual comprehensive data of the Program as a whole. Additional reporting will be provided as requested by the Board.
4. Assisting the Board in evaluating the performance of the Program and making recommendations for changes to the policy, Emerging Managers and Other Program Advisors.
5. Reporting to the Board any violations of this Program.
6. Providing written disclosure of all fees or other compensation associated with its involvement with the Program.
7. Such other duties as may be mutually agreed.

D. Investment Type/Other Program Advisors

The Board may utilize either a direct investment and/or Other Program Advisors such as a manager-of-managers ("MOMs") platform to invest with Emerging Managers. Both methods of investment will be analyzed for suitability for each new investment mandate and the consultant will provide such data as the Board may require for analysis. The specific terms of each mandate shall be negotiated directly with the Manager or Advisor. In each case, the Board shall make the final decision of which investment method is most efficient for the particular mandate as well as the specific contract terms.

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Direct Investment

For the purposes of this policy, an Emerging Manager with whom the System directly invests shall have all of those obligations and responsibilities as described in the IPS for an investment manager of like asset class as well as all other obligations described in the GERS Ethics Policy.

Other Program Advisors

For the purposes of this policy, an Other Program Advisor hired to oversee the Program shall – in addition to their obligations, responsibilities and disclosures pursuant to the GERS Ethics Policy – be responsible for:

1. Acknowledging in writing that they are a fiduciary to the System with all attendant duties and responsibilities.
2. Acting as primary liaison between the Consultant and the Emerging Managers.
3. Providing the Consultant such monthly, quarterly and annual performance, Directed Broker and Commission Recapture and Soft Dollar data for the Emerging Managers as may be requested by the Consultant.
4. Providing to the Consultant such other data as may be requested for proper monitoring and evaluation of the Program.
5. Keeping the Board informed of significant events related to the Emerging Managers.
6. Recommending for graduation or termination any of the Emerging Managers
7. Making recommendations for modifications to the Program
8. Providing written disclosure of all fees or other compensation associated with its involvement with the Program.
9. Coordinating with the Executive Director the rebalancing of any of the underlying portfolios for strategic realignment, cash-raising or any other purpose.
10. Such other duties as may be mutually agreed.

The specific qualifications of directly-hired Emerging Managers and/or Other Program Advisor, consistent with the objective and goals of the Program, will be determined by the Board at the time of an investment management services search with input and recommendations from the Consultant.

The Consultant will conduct a comprehensive due diligence review process for each directly-hired Emerging Manager and/or Other Program Advisor. The specific search criteria and due diligence procedures for directly-hired Emerging Managers and/or Other Program Advisors will be established by the Board at the time of the search with input and recommendations the Consultant.

In the case where the Consultant is either temporarily or permanently appointed to oversee the Program, the Consultant shall have all of the responsibilities of an “Other Program Advisor” *in addition to* their obligations and responsibilities as Consultant.

V. PERFORMANCE REVIEW AND EVALUATION

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The Board will monitor the Program's performance on a quarterly basis with "...the goal of achieving returns higher than the Policy Index and ranking in the top half of the appropriate public funds universe." pursuant to the IPS. The Board, with the assistance of the consultant, will evaluate each Manager's contribution toward meeting the investment objectives outlined in the IPS on a quarterly basis. On annual basis, the Consultant shall provide a comprehensive report on the Emerging Manager Program which shall provide the Board with such data as is necessary to evaluate each Emerging Manager and to ensure that the Program is accomplishing its goals.

The net return after considering fees should be evaluated on a quarterly basis and compared to alternative methods.

If any Emerging Manager ceases to be eligible for the Program based on the definition above, a comprehensive evaluation shall be conducted the Consultant. The Other Program Advisor shall assist the consultant by providing such information as may be requested. The Consultant shall present to the Board the results of the evaluation as well as a recommendation for the Managers' continued inclusion in the Program.

Other Program Advisors Performance

The Board – with the advice of its Consultant - will evaluate the Other Program Advisors based on the performance of the total manager-of-managers portfolios themselves and not based on the performance of each underlying Emerging Manager in the portfolios.

VI. APPROVAL

It is understood that this Emerging Manager Program is to be reviewed periodically, but at least annually, by the Board to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, changes in the System or changes involving the Emerging Managers

Adopted: February 28, 2018