



MEMORANDUM

To: Board of Administration,
San Jose Federated City Employees' Retirement System

From: Laura Wirick, Hannah Schriner, Chris Theodor,
Meketa Investment Group

Date: April 16, 2019

Re: Investment Policy Statement Re-Write

In order to craft the Investment Policy Statement ("IPS") that is currently under consideration for the San Jose Federated City Employees' Retirement System, Meketa Investment Group combined policies developed by governance consultant Cortex and risk consultant Verus, then combined them with language developed by Meketa. The previous Investment Policy Statement had been in place for many years, and was not reflective of current practices or the work done by the Plan's advisers and Staff, so it was most appropriate to do a complete re-write of the document. Some major changes are outlined below.

- **Asset Allocation Process and Targets** – The proposed IPS includes an asset allocation process from Cortex's work, which involves a greater focus on preferred risk level and the output from a quantitative optimization process (pages 6-9). It also includes the asset allocation targets and ranges that were approved by the Board in June 2018 (Appendix A, page 25), and organizes asset classes according to functional categories (pages 3-5).
- **Benchmarking** – The proposed IPS includes revised benchmarks and the addition of a Liability Benchmark Portfolio (a portfolio of long-term Treasuries with a duration close to that of the Plan's liabilities) and a Low Cost Passive Portfolio Benchmark (a portfolio that would not require significant staff or consulting resources). These sections are on pages 10-11 and in Appendix A on page 25.
- **Manager Selection, Retention, Evaluation & Termination** – The proposed IPS delegates authority for manager selection and termination (subject to certain limits, shown on page 14) to Staff, and has significantly enhanced language on the topic (pages 11-17). It also allows Staff to select their own consultants, whose contracts are subject to Board approval.
- **Risk Policy** – The proposed IPS includes significantly enhanced risk-related language (pages 18-25) and parameters (Appendix B, page 26).

We look forward to discussing this recommendation in person at the upcoming Board Meeting. Please feel free to contact us at (760) 795-3450 with any questions.

LBW/ HS/ CT/ bmc