Investment Policy Statement
for the
Other Post-Employment Benefits Fund

Government of the District of Columbia
Office of the Chief Financial Officer
Office of Finance and Treasury

This document replaces the previous Investment Policy Statement, dated August 6, 2018.

I. INTRODUCTION

The Government of the District of Columbia (the "District") established the Annuitants' Health and Life Insurance Employer Contribution Plan pursuant to the Annuitants' Health and Life Insurance Employer Contribution Amendment Act of 1999 (D.C. Law 13-054; DC Official Code §1-621.09) (the "Act"). In 2014, the name of the Plan was changed to the Other Post-Employment Benefits Plan (the "OPEB Plan" or the "Plan") pursuant to the Other Post-Employment Benefits Fund Amendment Act of 2014 (D.C. Law 20-151) (the "OPEB Amendment Act").

The Plan is a single employer defined benefit plan that provides health and life insurance benefits to retired eligible District employees. The Plan includes a trust fund, the Other Post-Employment Benefits Fund (the "OPEB Fund" or the "Fund"), that is required for the deposit of District contributions. These contributions, along with investment earnings, are used to pay future benefits on behalf of qualified participants.

II. THE INVESTMENT POLICY STATEMENT

This Investment Policy Statement (the "IPS") outlines the Office of the Chief Financial Officer ("OCFO") investment philosophy and practices; formalizes the OCFO's investment objectives and policies; serves as a governing document for the management of the assets of the Fund; and defines the duties and responsibilities of the individuals and entities involved in the investment process.

III. RESPONSIBILITIES

A. The OCFO and the District's Office of Human Resources ("DCHR") are jointly responsible for the administration of the OPEB Plan.

B. The Chief Financial Officer of the District ("CFO") has delegated authority for the administration of the OPEB Fund to the Deputy Chief Financial Officer and Treasurer ("Deputy CFO/Treasurer") pursuant to the Financial Management and Control Order No. 21-02. The Office of Finance and Treasury ("OFT") is responsible for the oversight and management of the Fund's investments.

C. Section 2151 of the OPEB Amendment Act established the OPEB Fund Advisory Committee ("Advisory Committee"). The Advisory Committee is statutorily responsible for advising the CFO (or such other position(s) as the CFO may designate) on the general administration of the OPEB Fund, investment objectives, asset allocation, establishment of assumptions, selection of OPEB consultants and other professionals, whether the OPEB Fund is employing best practices, and reviewing the investment performance of the OPEB Fund.

D. The Deputy CFO/Treasurer is a fiduciary, responsible for administering the Fund solely in the interest of participants and beneficiaries and for the exclusive purpose of providing benefits and defraying reasonable expenses of the Fund. The Deputy CFO/Treasurer has designated the Associate Treasurer for Asset Management ("Associate Treasurer") to be responsible for day-to-day oversight of the Fund. The Deputy CFO/Treasurer may, at their discretion, retain the services of consultants and other service providers to assist in discharging its obligations for the Plan.

Responsibilities of the Deputy CFO/Treasurer include:

   a. Working with its advisors to establish a framework for the management of the OPEB Fund;
   b. Approval of the IPS;
   c. Reviewing annually, and revising as appropriate, the provisions of this IPS;
   d. Periodically reviewing the performance of the Fund's investments; and
   e. Retaining and replacing consultants, including the actuarial consultants, the Outsourced Chief Investment Officer ("OCIO"), legal counsel, master custodian and other service providers to the Fund.

E. The Deputy CFO/Treasurer will retain an investment consultant to serve as OCIO and co-fiduciary. The OCIO has limited, delegated authority to enter, execute, negotiate, implement, modify, and terminate contracts in conjunction with the Deputy CFO/Treasurer and Associate Treasurer.

   1. The responsibilities of the OCIO include:
      a. Conducting an annual asset liability study;
      b. Recommending and implementing the asset allocation and necessary rebalancing;
      c. Regular reporting of Plan assets and liabilities. Reporting responsibilities may require the OCIO to prepare the Plan's Annual Report, which will include providing copy layout, editorial support, and publishing services;
      d. Advising the Deputy CFO/Treasurer, Associate Treasurer, and OFT staff on proposed modifications and revisions to the IPS and/or asset allocation;
      e. Recommending investment manager structure relative to the asset allocation recommendations;
      f. Conducting investment manager searches and recommending manager. With the Deputy CFO/Treasurer's approval, appointing and terminating managers;
      g. Establishing criteria for investment manager performance measurements, monitoring manager performance, and providing OFT quarterly performance reports;
      h. Performing any necessary portfolio/investment manager transition responsibilities; and
      i. Meeting periodically with the Deputy CFO/Treasurer, the Associate Treasurer, OFT staff, and the Advisory Committee.

   2. The OCIO agrees that in carrying out its responsibilities it will:
      a. Act only within the authority established by the Deputy CFO/Treasurer and outlined in this IPS; and
      b. Promptly inform the Deputy CFO/Treasurer and Associate Treasurer, through agreed upon channels, of any recommended changes to the asset allocation or investment strategies outlined in this IPS.

F. Investment managers (managers) invest assets in accordance with their written contracts and guidelines. Generally, managers execute investment transactions on behalf of the Plan in a manner that maximizes the risk-adjusted, investment value of their mandate from the Funds' viewpoint.

G. The master custodian holds and safeguards the assets of the Fund and serves as an additional layer of risk control in the safekeeping of assets of the Funds by jointly monitoring the portfolio and investment manager guidelines. The master custodian maintains the official books and records, forwards proxies to OFT, the OCIO, or appropriate investment manager, and prepares and delivers securities for settlement. The custodian provides individual plan level accounting and pension processing and as such is responsible for maintaining records, performance reporting, and other services as defined in the custodian contract.

H. The actuary performs an annual valuation based on the entry age normal actuarial cost method and in accordance with generally accepted actuarial principles and practices with respect to the Plan and the Fund. Every two years, OFT will request the actuary conduct an experience study, examining the economic and demographic experience of the Plan to assess the reasonableness of the actuarial assumptions.

IV. INVESTMENT OBJECTIVES

The assets of the Fund are managed with the primary objective of ensuring the level of assets adequately covers the accumulated liabilities of the Fund. Therefore, OCFO must adopt a long-term strategy by which the assets of the Fund will achieve a net investment return with acceptable risk considerations and sufficient liquidity to preserve capital and maintain the fully funded status of the Fund. Capital preservation can be achieved through diversification of the Fund's investments across various asset classes. Within each asset group, further diversification can be achieved through investment in securities across numerous industries and sectors as determined by the OCIO in accordance with this IPS and the specific manager mandates.

V. ASSET ALLOCATION

A. Asset Allocation

OFT engages the OCIO to conduct an asset liability study upon appointment, and annually thereafter. Based on the study and other analysis of the Fund's projected actuarial liabilities, funding practices, and expected market conditions over an appropriate time horizon, a strategic asset allocation is established that identifies the percentage of the Fund's assets to be invested across various asset classes.

The OCIO should consider many factors in developing this asset allocation, including:

1. Goals and objectives of the District, the Plan and OCFO;
2. Macro-economic conditions;
3. Historical and prospective information regarding capital market performance;
4. Investment strategies available to a fund of this size;
5. The current regulatory environment; and
6. The Fund's actuarial valuation.

The following table outlines the Fund's current target asset allocation.

Asset Class	Minimum	Long-Term Target	Maximum
Public Equity	**30%**	**40%**	**65%**
Fixed Income	**26%**	**38%**	**65%**
Private Equity	**0%**	**9%**	**14%**
Private Debt	**0%**	**3%**	**8%**
Real Asset	**0%**	**10%**	**20%**

B. Monitoring of Asset Allocation

The OCIO will monitor the Fund's strategy vis-à-vis the capital markets, regulatory environment, and long-term investment objectives on an ongoing basis. Along with the annual asset liability study, the OCIO will evaluate the asset allocation in the context of projected actuarial liabilities and funding practices. When factors suggest the Fund's strategy should be changed, the OCIO will present and discuss these proposed changes with the Deputy CFO/Treasurer and Associate Treasurer. Until the Deputy CFO/Treasurer has approved any suggested changes, the OCIO will continue to manage the OPEB Fund in accordance with the asset allocation guidelines approved by the Deputy CFO/Treasurer.

Alternative (private equity, private debt, and real asset) investment target allocations have a long-term investment ramp-up period. Thus, pending capital contributions, specific allocations may be temporarily invested in other assets. The target allocation and allowable ranges of the affected asset classes may be temporarily altered as a result.

C. Rebalancing

OFT and the OCIO establish allowable ranges within which an asset allocation can move without explicitly requiring rebalancing transactions. The allowable ranges guide asset class and manager rebalancing decisions made by OFT and the OCIO. When changes in market value occur and result in target allocations outside established ranges, rebalancing may be necessary to bring target allocations to within an appropriate range. The OCIO notifies OFT and execute rebalancing rebalance after receiving approval from the Deputy CFO/Treasurer.

Execution of the rebalancing may be implemented through any combination of actions: a) purchase and sale of securities or b) allocation of contributions and/or benefit payments. Portfolios will be liquidated (and funded) in a manner that allows for the orderly transition of asset allocation in the most efficient means possible. The OCIO will be charged with the responsibility of determining if portfolio rebalancing actions are necessary to move the asset allocation to the appropriate targets indicated by the rebalancing bands.

The OCIO will consider a variety of factors when rebalancing the portfolio that include the following:

1. Changing market dynamics resulting in asset class correlations performing outside their historical norms;
2. The potential cost of transacting to achieve a partial or total rebalancing;

3. The prevailing market volatility;
4. Liquidity available in the market for rebalancing;
5. The disruption to the underlying managers that a rebalancing would cause; and
6. Near-term cash flows pending to/from the portfolio.

OFT recognizes that rapid unanticipated market shifts or changes in economic conditions may lead to wide deviations from the target allocation and approved ranges. Generally, these divergences should be the result of fluctuating market environments of a short-term or tactical nature in response to fluctuating market environments. Should deviations persist longer than three calendar quarters, a review of the asset allocation and potential actions will be conducted to determine next steps.

VI. ASSET CLASSES

The primary objective of the OPEB Fund investment portfolio is to accumulate assets and provide a reliable source of funds to supplement the District's payment of the costs of other post-employment benefits for eligible retirees. The OPEB Fund's investment objectives are based on a comprehensive review of capital markets, as well as its underlying current and projected funding policy. Allocating funds to various asset classes is critical to structuring an optimal diversified portfolio expected to meet the investment objectives.

A. Fixed Income

U.S. fixed income will primarily serve as the capital preservation component of the OPEB Fund through preserving the principal value of assets and generating returns at significantly lower absolute volatility relative to other OPEB Fund assets. Assets can include but would not be limited to: Treasuries, investment grade corporate bonds, and federal government agency bonds.

Fixed income derivative contracts may be used by active fixed income portfolio managers to achieve general portfolio objectives, according to risk management and internal control procedures agreed between manager, the OCIO, and OFT.

The OCIO will monitor factors such as diversification, quality, liquidity, and counterparty exposure (if applicable) to reduce unnecessary risk.

B. Public Equity

The primary objective of investing in long only equities is to capture the long-term growth opportunities offered by this asset class. However, this opportunity does not come without significant short- and intermediate-term downside risk. To dampen this risk, the OPEB Fund's long only equity strategy in aggregate will be well diversified by market capitalization, investment style and geography. Investments may be either actively or passively managed.

Various hedging techniques may be employed to limit downside risk to either portions or the aggregate long equity exposure. Passive strategies should track their respective benchmarks within an acceptable range based on the ease/difficulty of tracking the specific benchmark and on the level of fees. Active equity strategies are expected to add value, net of fees, over a full market cycle which is typically measured over intermediate (3 to 5 years) and longer (more than 5 years) periods. The OCIO will set guidelines with managers including, but not limited to, out-of-benchmark exposure.

External managers may be permitted to utilize derivatives to implement their investment strategies. Derivative exposure may be employed as a hedging technique to limit downside risk or to access return opportunity. Each individual manager's policy shall specify guidelines regarding derivatives usage. Derivative usage by managers should not introduce leverage to the Fund. Under no circumstances may derivatives or leverage be used to circumvent the intent or limits otherwise prescribed by this policy.

C. Private Debt

Private debt includes debt held by or extended to privately held companies and can include investment strategies such as (but not limited to) direct lending, real estate debt and opportunistic credit. The goal of the private debt allocation is to generate a source of diversified income and earn a return premium over more liquid traditional investments. Private debt investments can range from open-end, quasi-illiquid (quarterly or annual liquidity) to closed end, less liquid strategies (typically 5-7 years). Performance should be evaluated over a full market cycle, typically 5 or more years.

D. Real Assets

Real assets include investments in real estate, infrastructure, and natural resources. The objective of the real asset allocation is to diversify the equity beta in the return-seeking portfolio and to provide a return above that of the risk-reducing assets.

It is expected that at least 50% of the real asset portfolio will be invested in core real estate investments - REITs, core real estate funds, or other non-core and opportunistic real estate holdings. The strategy will be actively managed and evaluated over a full market cycle which is typically measured over intermediate (3 to 5 years) and longer (more than 5 years) periods.

Infrastructure is broadly defined as the essential assets a society requires to facilitate the orderly operation of its economy. Typically, they are long-lived assets with low growth, similar volatility to real estate, and have an income stream tied to GDP/inflation that is greater than bonds or core real estate. Infrastructure investments are very long-term in nature and therefore should be evaluated over longer-term time periods (i.e., 7 -10-years or longer).

E. Private Equity

Private equity is equity capital that is not quoted on a public exchange. Strategies include, but are not limited to, leveraged buyouts, venture capital, mezzanine, distressed investments, and special situations. The goal of the private equity allocation is to earn enhanced investment returns, specifically above public markets, through both investment and illiquidity risk. Private equity investments are long-term in nature and therefore should be evaluated over longer-term time periods (i.e., 5 or 10-years).

VIII. PERFORMANCE MONITORING AND REPORTNG

A. Performance Monitoring

The OPEB Fund's performance shall be measured against the actuarial assumed rate of return, a custom performance benchmark/policy portfolio, a universe of other peer funds, or other appropriate measurements. Given the Plan's long-term nature, the OPEB Fund will be evaluated over a 20–30-year time horizon, as well as over full market cycles which can range from three to seven years.

The table below indicates the benchmarks for the asset classes within the long-term asset allocation:

Asset Class*	**Benchmark**
Public Equity	MSCI All Country World Investable Markets Index (ACWI IMI)
U.S. Fixed Income	Bloomberg Barclays Aggregate Bond Index
Private Debt	Weighted average of underlying strategies
Real Asset	Core: NCREIF Fund Index – Open End Diversified Core Equity Index (NFI-ODCE) Non-Core: NFI-ODCE + 100 bps Infrastructure: CPI + 500 bps
Private Equity	Primary: MSCI All Country World Investable Market Index + 200 bps Secondary: Burgiss Peer Benchmark

* Uninvested private equity, private debt, and real asset allocations are invested in fixed income.

To assist in achieving the investment objective, it is the goal of the OPEB Fund to earn a net-of-fee return in excess of the Total Fund Policy Benchmark over the long-term. The Total Fund Benchmark shall represent a weighted average of the individual asset class benchmarks based on the strategic target weights noted in the Asset Allocation Table in Section V. OFT recognizes that private market allocations (private debt, real estate, private equity, and infrastructure) take time to become fully funded. During the transition to the Target Allocation, the Total Fund Benchmark will reflect the weighted average of the asset class benchmarks based on the actual invested capital.

Managers will be measured against stated objectives, an appropriate market index, and a universe of portfolios managed by a similar investment style. Active managers should exceed their respective benchmark, net-of-fees, over a full market cycle. Typically, public markets are best evaluated over a three to seven-year period and more illiquid, private market investments are evaluated over a longer period, such as ten to fifteen years. Additionally, managers will be reviewed on a continuous basis by the OCIO based on custodial holding reports, monthly and quarterly performance, manager announcements, staff or business changes, compliance reports and other inputs. Should the OCIO determine an investment management change is necessary, the OCIO will promptly notify the Deputy CFO/Treasurer and Associate Treasurer and recommend appropriate changes to the investment portfolio.

Quarterly performance will be evaluated to test progress toward attainment of longer-term goals. It is understood that there are likely to be short-term periods during which performance deviates from market indices, and during such times, greater emphasis shall be placed on performance comparisons with the peer universe. Investment performance will be calculated and measured on a net-of-fee basis.

Additionally, annual pacing analyses will be conducted for the private market asset classes to ensure sound management towards and maintenance of long-term targets.

B. Fund Reporting

Total Fund performance reports from the OCIO shall be provided on a quarterly basis to the Deputy CFO/Treasurer and Associate Treasurer and are to include at a minimum:

1. Asset allocation relative to Policy, serving as certification of compliance with the investment policy
2. Net-of-fee time-weighted performance of the Fund in aggregate, asset class composites, and managers relative to designated benchmarks
3. Attribution of performance
4. Performance compared to appropriate peer universes

C. Plan Reporting

OFT may require the OCIO to assist with the publication of the Plan's Annual Report. The OCIO will provide copy layout, editorial support, and publishing both digital and hard copy reports.

In addition, the OCIO will certify on an annual basis compliance with this IPS.

VII. SELECTION AND RETENTION CRITERIA FOR INVESTMENT MANAGERS OR FUNDS

All assets in the Fund are managed by external managers. Managers are prohibited from entering into any transactions that are not expressly authorized by the IPS or by specific guidelines in the individual manager's contract.

A. Selection, Retention, and Termination

The OCIO will make recommendations to the Deputy CFO/Treasurer and Associate Treasurer regarding retention, replacement, or elimination of managers, funds, or investment strategies for the OPEB Fund. The OCIO will notify the Deputy CFO/Treasurer and Associate Treasurer and act on agreed upon changes to any planned investment lineup changes to the OPEB Fund. There may be rare circumstances where changes must be made to the OPEB Fund in an expedited time frame. In those instances, the Deputy CFO/Treasurer and Associate Treasurer will make every effort to accommodate swift execution.

B. Criteria for Making Changes

The OCIO recognizes that decisions regarding managers are always prospective. As such, a variety of factors will be considered when making decisions regarding the investment manager structure, including, but not limited to, the firm's business structure and/or outlook, the investment's portfolio management team and/or supporting staff, investment process, consistency of investment style, net of fees performance results, and investment management fees.

C. Diversity, Equity, and Inclusion

OCFO believes that diversity, equity, and inclusion are key drivers of value within an investment portfolio, powering differentiated returns, portfolio diversification, risk mitigation and sustainable investment outcomes. OCFO also believes that professionals and decision-makers who come from diverse backgrounds contribute different points of view that enhance organizational quality and economic performance.

As such, diversity, equity, and inclusion are significant considerations in selecting and retaining managers across all asset classes. It is the goal of OCFO to allocate at least 10% of the total OPEB investment portfolio to qualified minority managers, within the bounds of financial and fiduciary prudence. OFT and the OCIO will seek qualified minority managers that are 51% owned by one or more underrepresented demographic groups. The term “underrepresented demographic groups" is defined to include (but not limited to): African Americans, Asian Americans, Hispanic or Latino, Native Americans, Native Hawaiian, Pacific Islander, and disabled persons. The OCIO will report progress towards these goals on a quarterly basis. OFT recognizes the importance of diverse representation across investment management decision makers and thus the OCIO will seek to collect and report on these statistics as well.

By encouraging and monitoring diversity and inclusion efforts, OFT can ensure that the investment program will be exposed to and informed by a wide range of perspectives, ideas, and opinions. OFT expects external asset managers and other third-party providers to respect and reflect OFT’s value of diversity, equity, and inclusion.

IX. PROXY VOTING

OFT requires managers to exercise their authority regarding proxy voting, in accordance with their fiduciary duty. OFT grants managers the authority to execute and vote all proxies in the best interests of Plan participants. Managers shall issue semi-annual reports to the OCIO and OFT on the proxy voting actions taken, including:

- Affirmation that all stock holdings with votes due have, in fact, been voted;
- Description of any proposed changes in proxy voting policies or procedures;
- Confirmation that all votes cast were consistent with established policy;
- Explanation of any votes not cast or of any votes cast that were not consistent with established policy; and
- Summary listing of all votes cast.

X. BROKERAGE AND OTHER INVESTMENT-RELATED EXPENSES

Brokerage commissions, incurred in the normal course of trading securities, are expenses of the OPEB Fund. Brokerage commissions must be managed in the best interest of the Plan’s beneficiaries.

The OPEB Fund’s managers will have discretion to select brokers and negotiate commissions. In executing this responsibility, the managers should seek “best execution” services.

The administrative expenses of the OPEB Fund, including expenses reasonably related to the operation of the OPEB Fund, will be paid solely from OPEB Fund assets, subject to appropriation in accordance with D.C. Code §1-621.09(d-3). Reasonable expenses include but are not limited to actuarial fees, audit fees, consulting fees, the District’s portion of insurance premiums and other administrative costs.

XI. INVESTMENT POLICY CHANGES

The Deputy CFO/Treasurer will review this IPS annually to ensure that it continues to reflect the Plan's objectives. This IPS may be modified or terminated, in whole or in part, by the Deputy CFO/Treasurer at any time as the Deputy CFO/Treasurer deems appropriate.